

# TEXTRON INC

## FORM 10-K (Annual Report)

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# SECURITIES AND EXCHANGE COMMISSION

## WASHINGTON, D.C. 20549

### Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 3, 1998  
Commission File Number 1-5480

## Textron Inc.

(Exact name of registrant as specified in charter)

Delaware	05-0315468
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

40 Westminster Street, Providence, R.I. 02903  
(401) 421-2800  
(Address and telephone number of principal executive offices)

#### Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
Common Stock - par value \$.125; (163,142,742 shares outstanding at March 6, 1998); Preferred Stock Purchase Rights	New York Stock Exchange Pacific Stock Exchange Chicago Stock Exchange
\$2.08 Cumulative Convertible Preferred Stock, Series A - no par value	New York Stock Exchange

\$1.40 Convertible Preferred Dividend Stock, Series B New York Stock Exchange  
(preferred only as to dividends) - no par value

**8.75% Debentures due July 1, 2022 New York Stock Exchange**

**7.92% Trust Preferred Securities of Subsidiary Trust New York Stock Exchange**  
(and Textron Guaranty with respect thereto)

#### Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1)

has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X. No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of voting stock held by non-affiliates of the registrant is \$12,025,454,250 as of March 6, 1998.

Portions of Textron's Annual Report to Shareholders for the fiscal year ended January 3, 1998 are incorporated by reference in Parts I and II of this Report. Portions of Textron's Proxy Statement for its Annual Meeting of Shareholders to be held on April 22, 1998 are incorporated by reference in Part III of this Report.

## PART I

### ITEM 1. BUSINESS OF TEXTRON

Textron is a global multi-industry company with operations in four business segments - Aircraft, Automotive, Industrial and Finance. Included within the business segments are operations that are unincorporated divisions of Textron and others that are separately incorporated subsidiaries. A listing of the operations within each business segment, including a description of the product lines of each business segment, is incorporated herein by reference to pages 58 and 59 of Textron's 1997 Annual Report to Shareholders. Financial information by business segment and geographic area is incorporated herein by reference to pages 24 and 55 of Textron's 1997 Annual Report to Shareholders. Additional information regarding each business segment and Textron in general is set forth below.

#### Business Segments

**Aircraft.** The Aircraft segment consists of Bell Helicopter Textron and The Cessna Aircraft Company. Textron Lycoming was included in the Aircraft segment's 1997 financial results, but was transferred for operational purposes to the Industrial segment in January 1998, and its business is described under Industrial below.

Based on unit sales, Bell is the largest supplier of helicopters, spare parts and helicopter-related services in the world. Since it was founded in 1946, Bell has delivered over 33,000 aircraft to military and civilian customers. Bell has three military and six civilian helicopter models in current production. Its aircraft are turbine powered, and range in size from the five-place Bell Model 206 series to the Bell Model 412EP aircraft, which carries up to fifteen people. Revenues of Bell accounted for approximately 15%, 16%, and 18% of Textron's total revenues in 1997, 1996 and 1995, respectively.

Bell's military business includes both U.S. Government and non-U.S. Government customers. There are more helicopters manufactured by Bell in field service in the inventory of the U.S. Government than manufactured by any other helicopter company. Currently, Bell is supplying advanced military helicopters, spare parts and product support to the U.S. and Canadian Governments and to the governments of several countries in the Pacific Rim, Middle East and Europe. Military sales to non-U.S. customers are made only with the concurrence of the U.S. Government.

Bell is also a leading supplier of commercially certified helicopters to charter, offshore, utility, corporate, police, fire, rescue and emergency medical helicopter operators. Bell's non-U.S. Government business (including non-U.S. military customers) typically represents 40% to 60% of its annual sales. In 1997, such sales accounted for approximately 60% of Bell's business.

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Bell is teamed with the Helicopter Division of The Boeing Company ("Boeing Helicopters") in the development of the V-22 Osprey tiltrotor aircraft for the U.S. Department of Defense. Tiltrotor aircraft are designed to utilize the benefits of both helicopters and fixed-wing aircraft. Production of V-22 aircraft was started in 1996 upon award of a contract for the first four aircraft. In 1996, Bell and Boeing Helicopters entered into a joint venture to develop a commercial tiltrotor aircraft designated the Model 609. In February 1998, Bell and Boeing announced that the joint venture will be dissolved and Bell will assume complete control of the Model 609 program, although Boeing will continue to work as a major program subcontractor.

In February 1998, Textron's Board of Directors approved a plan to acquire a substantial portion of Boeing's commercial helicopter business. Under the terms of the proposed sale, Bell will acquire the Boeing MD 500 and MD 600 series product lines, assuming responsibility for the manufacture, marketing and services/support of these single engine, turbine-powered light helicopters. Boeing's MD Explorer helicopter line is not included in the proposed sale, but Bell has agreed to provide spare parts and support for the MD Explorer after the sale is completed. The proposed sale is subject to satisfactory due diligence and governmental approvals.

Bell is developing a new light twin engine helicopter, designated the Model 427, in collaboration with Samsung Aerospace Industries Ltd. of South Korea. The first delivery of this eight place aircraft is scheduled for the first quarter of 1999.

In the light and medium helicopter market, Bell has two major U.S. competitors (including Boeing) and one major European competitor. Certain of its competitors are substantially larger and more diversified aircraft manufacturers. Bell markets its products worldwide through its own sales force and through independent representatives. Price, financing terms, aircraft performance, reliability and product support are significant factors in the sale of helicopters. Bell has developed the world's largest distribution system to sell and support helicopters, serving customers in over 120 countries.

Based on unit sales, The Cessna Aircraft Company is the world's largest manufacturer of light and mid-size business jets, single engine utility turboprop aircraft, and single engine piston aircraft. Cessna also designs, manufactures and sells general aviation aircraft propellers and related accessories worldwide. Cessna currently has three major aircraft product lines: Citation business jets, single engine turboprop Caravans and Cessna single engine piston aircraft. Revenues of Cessna accounted for approximately 14%, 12% and 10% of Textron's total revenues in 1997, 1996 and 1995, respectively.

Cessna currently produces a family of Citation business jets including the CitationJet, the Citation Bravo, the Citation Ultra, the Citation VII, and the Citation X. The Citation X is the world's fastest business jet with a maximum operating speed of Mach .92. Cessna placed 28 Citation

Xs in service in 1997. Certification was completed and

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customer deliveries of the Citation Bravo began in 1997. Cessna is scheduled to certify and begin deliveries of the Citation Excel business jet in 1998.

The Cessna Caravan is the world's best selling utility turboprop. More than 850 Caravans have been sold by Cessna since the first Caravan was delivered in 1985. Caravans are offered in four distinct models including the Grand Caravan, Super Cargomaster, Caravan Floatplane, and the Caravan 675. Caravans are used in the United States primarily to carry overnight express package shipments. International uses of Caravans include commuter flights, relief flights, tourism and freight.

Cessna re-entered the single engine piston aircraft market in 1996. In 1997, Cessna made deliveries of the 172 Skyhawk and the 182 Skylane, which are four-place single engine piston aircraft. In 1998, Cessna is scheduled to certify and begin deliveries of two six-place aircraft models, the 206 Stationair and the T206 Turbo Stationair.

Cessna markets its products worldwide primarily through its own sales force as well as through a network of authorized independent sales representatives. Cessna has four major competitors for its business jet products, two U.S. and two foreign. Cessna's aircraft compete with other aircraft that vary in size, speed, range, capacity, handling characteristics, and price. Reliability and product support are significant factors in the sale of these aircraft. The Citation family of aircraft is supported by ten Cessna owned and operated Citation Service Centers, along with Authorized Service Stations in more than 15 countries throughout the world.

Cessna provides its business jet operators with factory- direct customer support offering 24 hour a day service and maintenance. More than 40% of the worldwide Citation fleet of more than 2,500 aircraft receive service through Cessna- owned service centers. Cessna Caravan and piston customers receive product support through independently owned service stations and 24 hour a day spare parts support through Cessna.

Cessna's McCauley Propeller Systems unit provides new propellers directly to original equipment manufacturers ("OEMs") and spare parts for service and repairs worldwide. All new Cessna single engine piston aircraft built in 1997 used McCauley propellers.

Automotive. The Automotive segment, organized under an umbrella organization called Textron Automotive Company ("TAC"), consists of Textron Automotive Trim Operations, CWC Castings Textron, Kautex Textron, McCord Winn Textron, Micromatic Textron and Randall Textron. These operations sell primarily to automotive OEMs and their suppliers operating in North America and Europe, and, to a lesser extent, South America and Asia. TAC is headquartered in Troy, Michigan and has over fifty facilities located in the United States, Argentina, Belgium, Brazil, Canada, China, Czech Republic, Germany, Mexico, the Netherlands, Portugal, Spain, and the United Kingdom.

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Through its Textron Automotive Trim Operations, TAC is a leading worldwide supplier of automotive interior and exterior plastic components. Interior trim products include instrument panels, door and sidewall trim, airbag doors, consoles, trim components, armrests and headliner systems. In addition, TAC's Trim facilities manufacture exterior decorative components including painted bumpers and fascia, body side moldings and claddings, fender liners, decorative wheel trim, signal lighting and structural composite bumper beams. Many of these products are shipped just-in-time as fully integrated systems. Revenues of Textron Automotive Trim Operations accounted for 13%, 15% and 15% of Textron's total revenues in 1997, 1996 and 1995 respectively.

In January 1997, Textron completed the acquisition of Kautex Werke Reinold Hagen AG of Bonn, Germany and the assets of its North American affiliate, Kautex North America, Inc. (collectively "Kautex"). Kautex is a leading manufacturer of blow-molded plastic fuel tank systems and other blow-molded technical parts for OEMs throughout Europe, North America, Brazil and Argentina. Kautex supplies Volkswagen in China through a joint venture with Changchun Junzilan Industrial Group. Kautex established a manufacturing plant in Puebla, Mexico in 1997. This facility will supply all of Volkswagen's and Chrysler's plastic fuel tank requirements for their Mexican production.

CWC Castings designs and manufactures engine camshafts and vibration damper components for OEMs and the aftermarket. In July 1997, Textron acquired Kaywood Products Corporation, a manufacturer of precision machined parts and components for assembled camshafts. Kaywood operates as the Kaywood Products operation of CWC.

McCord Winn manufactures seating comfort systems, windshield and headlamp washer systems, and armatures for precision DC motors. In September 1997, Textron acquired the General Rubber Goods division of Pirelli Tyres Limited, based in Burton-on-Trent, England, a manufacturer of seat comfort systems products for automotive and home/office applications. The combination makes McCord Winn Textron a leader in both the North American and European automotive seat comfort markets. In September 1997, McCord introduced its ASCTec™, (Active Surface Control Technology) seating comfort system, which blends microprocessor-based electronics and a pneumatically-controlled air support system. Potential applications include automobiles, airline seating, office/home furniture and bedding products.

Micromatic manufactures machine tools used for precision bore and surface finishing of automobile engines. In addition, Micromatic produces equipment for spline rolling and gear production. Randall produces fuel filler systems.

More than 70 models currently carry parts made by TAC including Chrysler's Jeep Grand Cherokee, Voyager and Caravan mini-vans; Ford's Mondeo, Lincoln Town Car and Windstar mini-van; General Motors' Cadillac Seville, newly restyled Corvette, and Venture, Transport, Silhouette and Sintra mini-vans; and Volkswagen's new concept

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Beetle. TAC continues its strong position on Chrysler's LH series of cars that were redesigned for the 1998 model year.

TAC's manufacturing operations are supported by a staff of research and design specialists at TAC's Automotive Technology Center. These specialists have developed new processes and products, many of which are patented, that allow TAC to offer its customers technology driven products and processes. In the plastics and coatings area, TAC is a recognized leader in alternative skin materials (including non-PVC materials), spray urethane and cloth integration, energy management foam (including head impact and knee bolsters), the development of modular integrated assemblies and vertical body panels, and High Crystalline Polypropylene material for complete mold-in-color interior components. CWC Castings is a leader in the design and manufacture of automotive castings. It has developed a selective austempering heat treatment process for ductile camshafts. McCord Winn is working with OEMs worldwide to develop advanced technologies in areas such as "intelligent" comfort seating systems, brushless motors and carbon commutation for flexible fuel applications. Micromatic machine tools are used for cylindrical form generation and surface finishing.

In the automotive business, there is often a long lead time from the time a supplier is selected to supply components on a new car model to the time the supplier can begin shipping production parts. During this period, the supplier incurs engineering and development costs. Until recently, the OEMs reimbursed the supplier for these costs as incurred. Within the last few years, the OEMs have begun to require that these costs be recovered in the piece prices charged by the suppliers as the goods are shipped. In addition, automotive OEMs often require "just-in-time" delivery, requiring the manufacturer to plan shipments in advance and hold inventory.

Automotive OEMs and their suppliers are the principal customers of TAC. The loss of the U.S. and Europe-based automotive OEM customers and their first-tier suppliers would have a material adverse effect on TAC. However, because of the broad range of products sold to such customers, it is unlikely that they would cease all purchases from TAC.

Each of TAC's businesses faces competition from a number of other manufacturers based primarily on price, quality, reputation and delivery. Although TAC is one of the largest manufacturers offering its range of products and services, it faces strong competition in all of its market segments. Because of the diversity of products and services offered, no single company is a competitor in all market segments. In certain markets, TAC also competes for business with the OEMs' own operations.

Industrial. The Industrial segment consists of four major product groups: Fastening Systems, Golf and Turf Care Equipment, Fluid and Power Systems and Industrial Components. The Fluid and Power Systems group and

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Industrial Components group consist of operations that previously constituted the Engineered Products group and the Systems and Components segment.

Textron Fastening Systems ("TFS") manufactures and sells fasteners, fastening systems and installation tools to the aerospace, appliance, automotive, business equipment, construction, do-it-yourself, general industrial and transportation markets. TFS sells to a wide range of customers throughout the world, including OEMs, distributors and consumers. Fasteners manufactured by TFS include rivets, threaded and non-threaded fasteners, cold-formed components, metal stampings, plastic components and assemblies that incorporate such products. Revenues of TFS accounted for approximately 14%, 15% and 9% of Textron's total revenues in 1997, 1996 and 1995, respectively.

In August 1997, Textron formed Textron Logistics Corporation ("TLC") by combining certain existing fastener operations. TLC provides full-range fastener inventory management programs for OEMs and for retailers (such as Sears and Home Depot), supplying TFS products and products from other sources, thus offering its customers the ability to obtain all of their fastener requirements from a single source. In December 1997, Textron acquired Brazaco Mapri Industrias Metalurgicas S.A. ("Mapri"), the largest manufacturer of fasteners in Brazil, which is the primary supplier to automotive OEMs in Brazil such as Fiat, Ford, General Motors, Mercedes, and Volkswagen. Mapri, which will operate as a unit of the Camcar operation of TFS, will also serve as a lower-cost supplier of fasteners for the other TFS operations.

Although TFS is one of the world's largest providers of fastener products and services, there are hundreds of competitors of TFS, ranging from small proprietorships to large multi-national companies. Competition is based primarily on price, quality, reputation and delivery. In addition, larger customers of fastening systems tend to procure products and services from the larger suppliers, except for "niche" products which may be sourced from smaller companies. Only the loss of the major OEM automotive customers and their first-tier suppliers would have a material adverse effect on TFS. However, because of the broad range of products sold to such customers, it is unlikely that they will cease all purchases from TFS.

The Golf and Turf Care Equipment group consists of E-Z- GO Textron, which manufactures and sells electric powered and gasoline powered golf cars and multipurpose utility vehicles, Jacobsen Textron, which manufactures and sells professional mowing and turf maintenance equipment, and Ransomes plc, a multi-national engineering group that specializes in the design, manufacture and marketing of grass care

machinery and specialized industrial vehicles. Textron acquired Ransomes in January 1998.

The customers of the Golf and Turf Care Equipment group consist primarily of golf courses, resort communities and commercial and industrial users such as airports and factories. Sales are made directly through factory branches, through a network of distributors and directly to end-users. Many sales of golf and turf care

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equipment (both at the distributor and end-user level) are financed through Textron Financial Corporation, both for marketing purposes and as an additional source of revenue to Textron.

There are two major competitors and a number of smaller competitors for golf cars, multipurpose utility vehicles and turf maintenance equipment for golf courses. Competition is based primarily on price, quality, product support, performance, reliability and reputation.

The Fluid and Power Systems group consists of Cone Drive Textron, HR Textron, Maag Pump Systems Textron (Switzerland) and Textron Systems. The Fluid and Power Systems group operations face competition from other manufacturers based primarily on price, quality, product support, performance, delivery and reputation.

Cone Drive, which includes Textron Industrial SpA (formerly Maag Italia), designs and manufactures double enveloping worm gear speed reducers, gear motors and gear sets, including gear systems primarily for railroad applications. Maag Pump Systems manufactures gears, gear pumps and gear systems. In December 1997, Textron acquired the assets of Vernon Engineering Company Limited, the long-standing distributor of the products of Maag Pump Systems in the U.K. Cone Drive and Maag Pump Systems sell their products to a variety of customers, including OEMs, distributors and end-users.

HR Textron designs and manufactures control systems and components for aircraft, armored vehicles and commercial applications. HR Textron is in the process of diversifying its business base by adapting aerospace technology to servovalves used in industrial and automotive applications. HR Textron's aerospace and defense products are marketed directly to the U.S. Government and OEMs and, in the aftermarket, both directly and through service centers.

Textron Systems manufactures "smart" munitions, airborne surveillance systems, automatic aircraft landing systems and advanced composite materials for the U.S. Department of Defense. Once exclusively a supplier to the Department of Defense, Textron Systems now applies its technologies to non-defense and international markets. Current commercial products include laser ultrasonic systems for industrial control, infrared sensors for medical, industrial and agribusiness applications, and fire protection and insulating materials for oil and chemical companies. While Textron Systems sells most of its products directly to customers, it also sells some products through a growing, global network of sales representatives and distributors.

The Industrial Components group consists of Fuel Systems Textron, Greenlee Textron, Textron Lycoming, Textron Marine & Land Systems and Turbine Engine Components Textron, each of which is a leading company in its industry. Products of this group are sold to a wide variety of customers, including OEMs, distributors and end users, including the military. The principal competitive factors affecting sales of the products of the Industrial Components

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group are price, quality, customer service, performance, reliability, reputation and existing product base. The Speidel operation, a manufacturer of watch attachments and fashion jewelry, was sold to Herman Hirsch USA, Inc. at the end of 1997.

Fuel Systems designs, manufactures and overhauls gas turbine engine injection and metering devices, fuel distribution valves, and afterburner fuel injection systems for commercial and military aircraft, and industrial, marine, and vehicular markets. Fuel Systems invests in the design and development of innovative, proprietary products, with on-site engineering support at customer facilities and an advanced product development facility to extend the customers' own design activities.

Greenlee is a worldwide market leader in powered equipment, electrical test instruments and hand tools. The principal applications of these products are electrical construction and maintenance, power generation, transmission and distribution, telecommunications, electronics, plumbing and the mechanical trades.

Textron Lycoming is the world leader in the design, manufacture and overhaul of reciprocating piston aircraft engines serving the worldwide general aviation market. Textron Lycoming sells new products directly to general aviation airframe manufacturers, including Piper Aircraft, Robinson Helicopter, and SOCATA, a division of Aerospatiale, and is the exclusive supplier of engines for Cessna's new product line of single engine aircraft. Aftermarket sales are made to the more than 180,000 existing owners of Textron Lycoming products through a worldwide network of independently owned distributors.

Textron Marine & Land Systems is a world leader in the design and construction of advanced technology air cushion vehicles, surface effect

ships, high performance search and rescue vessels, Cadillac Gage light armored combat vehicles, suspension systems, turrets and artillery systems. Textron Marine & Land Systems has products operating in over 35 countries.

Turbine Engine Components is one of the world's largest independent suppliers of internal components for gas turbine engines for aircraft and industrial applications. Its products include fan and compressor blades, vanes, shafts, disks, rotors, blisks and other rotating components; the forgings from which those products are machined; and stationary components of turbine engines, such as frames, diffusers, and air collectors. Turbine Engine Components manufactures its products to the specifications of its customers.

Finance. The Finance segment consists of Avco Financial Services ("AFS") and Textron Financial Corporation ("TFC"). AFS is engaged in consumer finance, insurance services related to consumer finance, and commercial finance. TFC is engaged in commercial finance.

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AFS's consumer finance activities consist primarily of the following: (i) loans which are unsecured or secured by personal property for relatively small amounts and short periods; (ii) real estate loans secured by real property for larger amounts and for considerably longer periods; (iii) auto financing of pre-owned autos; and (iv) retail installment contracts, principally covering personal property. AFS, through various insurance subsidiaries, also offers a variety of insurance products to its consumer loan customers and to consumer loan customers of unrelated financial institutions. AFS's insurance products include credit life, credit disability and casualty insurance.

AFS's consumer loan business is conducted through a network of branch offices. At December 31, 1997, AFS operated approximately 1,200 consumer finance offices located in the United States, Australia, Canada, Hong Kong, India, Ireland, New Zealand, Spain, Sweden and the United Kingdom. Revenues of AFS's consumer lending business (including insurance products sold to its loan customers) accounted for approximately 14%, 16% and 17% of Textron's total revenues in 1997, 1996 and 1995, respectively.

The consumer finance business is highly competitive, with price and service being the principal competitive factors. AFS's competitors include not only other companies operating under consumer loan laws, but also other types of lending institutions not so regulated and usually not limited in the size of their loans, such as companies which finance the sale of their own merchandise or the merchandise of others, industrial banks, the personal loan departments of commercial banks and credit unions. AFS's strongest competition is from commercial banks and credit unions. The interest rates charged by these lenders are usually lower than the rates charged by AFS. AFS's insurance businesses, to the extent not related to AFS's finance activities, compete with many other insurance companies offering similar products.

AFS's consumer finance business is regulated by laws that, among other things, can limit maximum charges for loans and the maximum amount and term thereof. Such laws also require disclosure to customers of the interest rate and other basic terms of most credit transactions and give customers a limited right to cancel certain loans and retail installment contracts without penalty. AFS's insurance business is subject to licensing and regulation by state authorities.

AFS's commercial business focuses primarily on equipment leasing and inventory financing outside the United States. During 1996 and 1997, AFS acquired or opened commercial financing operations in Australia, Canada, France, India, and the United Kingdom. These operations were added to AFS's commercial businesses already being conducted in Australia and Hong Kong. AFS's commercial business portfolio grew to over \$900 million at December 31, 1997, from approximately \$300 million at December 31, 1996.

TFC is a diversified commercial finance company specializing in aircraft finance, golf finance, vendor and middle market equipment finance, and revolving credit arrangements. TFC originates and syndicates a wide variety of

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secured loan and lease transactions, selectively invests in leveraged lease transactions and provides third-party portfolio servicing. TFC provides commercial financing for a wide range of customers, including those who purchase or lease Textron products and certain suppliers to Textron operations. TFC presently offers its services primarily in the United States and, to a lesser extent, in Europe and Canada. Each TFC business unit has a discrete market focus and specific profit objectives and is staffed to provide responsive services to its market.

The commercial finance businesses in which AFS and TFC operate are highly competitive. AFS and TFC are subject to competition from various types of financing institutions, including banks, leasing companies, insurance companies, independent finance companies associated with manufacturers and finance companies that are subsidiaries of banking institutions. Competition within the commercial finance industry is primarily focused on price and service.

## Finance Receivables

The following table presents the Finance segment's outstanding finance receivables by country:

December 31,	
1997	1996
(In millions)	

United States	\$6,626	\$6,925
Canada	1,239	1,079
Australia	1,174	1,067
United Kingdom	857	692
Other countries	916	659
	\$10,812	\$10,422

At December 31, 1997, finance receivables in the United States represented 61% of Textron's total finance receivables outstanding. At such date, no receivables outstanding in any one state other than California exceeded 8% of the United States portfolio. In California, outstanding receivables represented 15% of the United States portfolio and 9% of the consolidated portfolio.

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The following table presents accruing commercial loans and all consumer loans on which one or more installments were more than 60 days past due on a contractual basis (expressed as a percentage of the related gross receivables outstanding):

Years ended December 31	Consumer* loans	Commercial loans	Total loans
1997	3.42%	0.37%	2.30%
1996	3.25%	0.21%	2.32%

\*Excludes commercial loans that are subject to recourse to other Textron operating units.

The following table shows gross and net write-offs, the percentages which that those amounts bear to average finance receivables, and the amount of the provision for losses charged to income:

Years ended December 31, (In millions)	Gross write-offs Amount	Percentage of average finance receivables	Recoveries from receivables previously written off	net write-offs		Provision for losses
				Amount	Percentage of average finance receivables	
1997						
Consumer	267	3.9%	48	219	3.2%	229
Commercial	32	0.9%	10	22	0.6%	27
	299	2.8%	58	241	2.3%	256
1996						
Consumer	\$230	3.3%	\$36	\$194	2.8%	\$203
Commercial	30	1.0%	3	27	0.9%	27
	\$260	2.6%	\$39	\$221	2.2%	\$230
1995						
Consumer	\$177	2.6%	\$33	\$144	2.1%	\$149
Commercial	25	0.9%	4	21	0.7%	20
	\$202	2.1%	\$37	\$165	1.7%	\$169

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### Backlog

Information regarding Textron's backlog of government and commercial orders at the end of the past two fiscal years is contained on page 32 of Textron's 1997 Annual Report to Shareholders, which page is incorporated herein by reference.

Approximately 39% of Textron's total backlog of \$6.3 billion at January 3, 1998, represents orders which are not expected to be filled within the 1998 fiscal year. At January 3, 1998, approximately 96% of the total government backlog of \$2.2 billion was funded.

### Government Contracts

In 1997, 20% and 14% of the revenues of the Aircraft and the Industrial segments, respectively, constituting in the aggregate 10% of Textron's consolidated revenues, were generated by or resulted from contracts with the U.S. Government. U.S. Government business is subject to competition, changes in procurement policies and regulations, the continuing availability of Congressional appropriations, world events, and the size and timing of programs in which Textron may participate.

A substantial portion of Textron's government contracts are fixed-price or fixed-price incentive contracts. Contracts that contain incentive pricing terms provide for upward or downward adjustments in the prices paid by the U.S. Government upon completion of the contract or any agreed portion thereof, based on cost or other performance factors. U.S. Government contracts generally may be terminated in whole or in part at the convenience of the U.S. Government or if the contractor is in default. Upon termination of a contract for the convenience of the U.S. Government, the contractor is normally entitled to reimbursement for allowable costs incurred (up to a maximum equal to the contract price)



and an allowance for profit or adjustment for loss if the contractor would have incurred a loss had the entire contract been completed. If, however, a contract is terminated for default: (i) the contractor is paid such amount as may be agreed upon for manufacturing materials and partially completed products accepted by the U.S. Government; (ii) the U.S. Government is not liable for the contractor's costs with respect to unaccepted items and is entitled to repayment of advance payments and progress payments, if any, related to the terminated portions of the contract; and (iii) the contractor may be liable for excess costs incurred by the U.S. Government in procuring undelivered items from another source.

#### Research and Development

Information regarding Textron's research and development expenditures is contained on page 51 of Textron's 1997 Annual Report to Shareholders, which page is incorporated herein by reference.

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#### Patents and Trademarks

Textron owns, or is licensed under, a number of patents and trademarks throughout the world relating to products and methods of manufacturing. Patents and trademarks have been of value in the past and are expected to be of value in the future; however, the loss of any single patent or group of patents would not, in the opinion of Textron, materially affect the conduct of its business.

#### Environmental Considerations

Textron's operations are subject to numerous laws and regulations designed to protect the environment. Compliance with such laws and expenditures for environmental control facilities have not had, and are not expected to have, a material effect on capital expenditures, earnings or the competitive position of Textron. Additional information regarding environmental matters is contained on pages 31 and 54 of Textron's 1997 Annual Report to Shareholders, which pages are incorporated herein by reference.

#### Employees

At January 3, 1998, Textron had approximately 64,000 employees.

### ITEM 2. PROPERTIES

At January 3, 1998, Textron operated a total of 139 plants located throughout the United States and 45 plants outside the United States. Of the total of 184 plants, Textron owned 114 and the balance were leased. In the aggregate, the total manufacturing space was approximately 34 million square feet.

In addition, Textron owns or leases offices, warehouse and other space at various locations throughout the United States and outside the United States. Textron considers the productive capacity of the plants operated by each of its business segments to be adequate. In general, Textron's facilities are in good condition, are considered to be adequate for the uses to which they are being put, and are substantially in regular use.

### ITEM 3. LEGAL PROCEEDINGS

Textron is subject to a number of lawsuits, investigations and claims arising out of the conduct of its business, including those relating to commercial transactions, government contracts, product liability, and environmental, safety and health matters. Some seek compensatory, treble or punitive damages in substantial amounts; fines, penalties or restitution; or remediation of contamination; and some are or purport to be class actions. Under federal government procurement regulations, some could result in suspension or debarment of Textron or its subsidiaries from U.S. Government contracting for a period of time. On the basis of information presently available, Textron believes

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that any liability for these suits and proceedings would not have a material effect on Textron's net income or financial condition.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of Textron's security holders during the last quarter of the period covered by this Report.

### EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information concerning the executive officers of Textron as of March 6, 1998. Unless otherwise indicated, the employer is Textron.

Name	Age	Position
James F. Hardymon	63	Chairman since 1993, and Chief Executive Officer since 1992; formerly President, 1989 to 1993; Director since 1989.
Lewis B. Campbell	51	President and Chief Operating Officer since 1994; formerly Executive Vice President and

		Chief Operating Officer, 1992 to 1993; Director since 1994.
John D. Butler	50	Executive Vice President Administration and Chief Human Resources Officer since July 1997; formerly Vice President Personnel of General Motors International Operations (Zurich, Switzerland), 1993 to June 1997.
Mary L. Howell	45	Executive Vice President Government and International since 1995; formerly Senior Vice President Government and International Relations, 1993 to 1995; Vice President Government Affairs, 1985 to 1993.
Wayne W. Juchatz	51	Executive Vice President and General Counsel since 1995; formerly Executive Vice President and General Counsel of R.J. Reynolds Tobacco Company, 1994 to 1995; Senior Vice President, General Counsel and Secretary of R.J. Reynolds Tobacco Company, 1987 to 1994.
Stephen L. Key	54	Executive Vice President and Chief Financial Officer since 1995; formerly Executive Vice President and Chief Financial Officer of ConAgra, Inc., 1992 to 1995.
<page 15>		
Herbert L. Henkel	49	President, Textron Industrial Products since 1995; formerly Group Vice President of Textron Inc., 1993 to 1995; President of the Greenlee Textron Division, 1987 to 1993.
Edward C. Arditte	42	Vice President and Treasurer since May 1997; formerly Vice President Finance and Business Development of Textron Fastening Systems, 1995 to May 1997; Vice President Communications and Risk Management of Textron Inc., 1994 to 1995; Vice President Investor Relations and Risk Management, 1993 to 1994.
Frederick K. Butler	46	Vice President and Secretary since January 1997; formerly Group General Counsel Financial Services, 1995 to 1996; Assistant General Counsel, 1994 to 1995; Vice President and General Counsel of Paul Revere Investment Management Company, 1993 to 1994; Senior Vice President/Law of Textron Investment Management Company, 1991 to 1993.
Peter B. S. Ellis	44	Vice President Strategic Planning since 1995; formerly Managing Director Telecommunications Practice of Arthur D. Little, Inc., 1991 to 1995.
Douglas A. Fahlbeck	52	Vice President Mergers and

		Acquisitions since 1995; formerly Executive Vice President and Chief Financial Officer of Textron Financial Corporation, 1994 to 1995; Senior Vice President and Chief Financial Officer of Textron Financial Corporation, 1985 to 1994.
Arnold M. Friedman	55	Vice President and Deputy General Counsel since 1984.
William B. Gauld	44	Vice President Corporate Information Management and Chief Information Officer since 1995; formerly Staff Vice President, Corporate Information Management and Chief Information Officer, 1994 to 1995; Chief Information Officer of General Electric (Electrical Distribution and Control business) 1992 to 1994.
Carol J. Grant	44	Vice President Human Resources since February 1997; formerly Vice President of NYNEX (Rhode Island Strategic Business Unit), 1993 to January 1997; Vice President Public Affairs and Communications of NYNEX - Rhode Island, 1991 to 1993.
Gregory E. Hudson	51	Vice President Taxes since 1987.
William P. Janovitz	55	Vice President Financial Management since January 1997; formerly Vice President Financial Reporting, 1995 to January 1997; Vice President and Controller, 1983 to 1995.
Mary F. Lovejoy	42	Vice President Communications and Investor Relations since 1996; formerly Vice President Investor Relations, 1995 to 1996; Director Investor Relations, 1993 to 1995; Vice President and Senior Corporate Banker of The First National Bank of Chicago, 1991 to 1993.
John W. Mayers, Jr.	44	Vice President Risk Management since January 1997; formerly Director Risk Management, 1993 to January 1997; Vice President and Treasurer of Textron Financial Corporation, 1990 to 1993.
Frank W. McNally	58	Vice President Employee Relations and Benefits since 1995; formerly Staff Vice President, Employee Relations and Benefits, 1993 to 1995; Staff Vice President Employee Relations, 1992 to 1993.
Gero K. H. Meyersiek	50	Vice President International since 1996; formerly Vice President of Textron International Inc., 1995 to 1996; Vice President International Business Development of GE Financial Services, 1991 to 1994.

Freda M. Peters	56	Vice President Executive Development and Human Resource Policy and Compliance since February 1997; formerly Director Management/Organization Development, 1996 to January 1997; Vice President Human Resources of Branson Ultrasonics Corporation (subsidiary of Emerson Electric Company), 1985 to 1996.
Daniel L. Shaffer	61	Vice President Audit and Business Ethics since 1994; formerly President of Textron's Aircraft Engine Components Division, 1992 to 1994.
Richard F. Smith	58	Vice President Government Affairs since 1995; formerly Staff Vice President Government Affairs, March 1995 to August 1995; Director Government Affairs, 1985 to March 1995.
Richard L. Yates	47	Vice President and Controller since 1995; formerly Executive

Vice President, Chief Financial Officer and Treasurer of The Paul Revere Corporation, 1993 to 1995; Senior Vice President, Chief Financial Officer and Treasurer of The Paul Revere Corporation, 1991 to 1993.

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John F. Zugschwert	64	Vice President Government Marketing since 1995; formerly Staff Vice President Government Marketing, 1993 to 1995; Vice President Washington Operations of Bell Helicopter Textron, 1991 to 1993.
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Textron's Board of Directors has approved a management succession plan in which Mr. Campbell will become chief executive officer on July 1, 1998. Mr. Hardyman will remain chairman of Textron's Board of Directors until his retirement at year-end 1999 at age 65.

## PART II

### ITEM 5. MARKETS FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Textron's Common Stock is traded on the New York, Chicago and Pacific Stock Exchanges. At January 3, 1998, there were approximately 24,000 holders of Textron Common Stock. The information on the price range of Textron's Common Stock and dividends paid per share appearing under "Common Stock Information" on page 56 of Textron's 1997 Annual Report to Shareholders is incorporated herein by reference.

### ITEM 6. SELECTED FINANCIAL DATA

The information appearing under "Selected Financial Information" on page 57 of Textron's 1997 Annual Report to Shareholders is incorporated herein by reference.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

"Management's Discussion and Analysis," appearing on pages 25 through 32 of Textron's 1997 Annual Report to Shareholders, is incorporated

herein by reference.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The consolidated financial statements and supplementary information contained in Textron's 1997 Annual report to Shareholders and the Financial Statement schedules, as listed in the accompanying Index to Financial Statements and Financial Statement Schedules, are incorporated herein by reference.

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#### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

### **PART III**

#### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information appearing under "Nominees for Director" on pages 2 through 6 of Textron's Proxy Statement for the Annual Meeting of Shareholders to be held on April 22, 1998, is incorporated herein by reference.

Information regarding Textron's executive officers is included on pages 15 through 18 of Part I of this Report.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information appearing under "Report of the Organization and Compensation Committee on Executive Compensation, Executive Compensation and Performance Graph" on pages 10 through 20 of Textron's Proxy Statement for the Annual Meeting of Shareholders to be held on April 22, 1998, is incorporated herein by reference.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information appearing under "Security Ownership of Certain Beneficial Holders" and "Security Ownership of Management," on pages 8 through 10 of Textron's Proxy Statement for the Annual Meeting of Shareholders to be held on April 22, 1998, is incorporated herein by reference.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information appearing under "Transactions with Management" on page 19 of Textron's Proxy Statement for the Annual Meeting of Shareholders to be held on April 22, 1998, is incorporated herein by reference.

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### **PART IV**

#### **ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K**

(a) Financial Statements and Schedules The consolidated financial statements, supplementary information and financial statement schedules listed in the accompanying Index to Financial Statements and Financial Statement Schedules are filed as part of this Report.

Exhibits

3.1	Restated Certificate of Incorporation of Textron as filed January 29, 1998.
3.2	By-Laws of Textron, restated December

10, 1992. Incorporated by reference to Exhibit 3.2 to Textron's Annual Report on Form 10-K for the fiscal year ended January 2, 1993.

NOTE: Exhibits 10.1 through 10.21B below are management contracts or compensatory plans, contracts or agreements.

10.1 Annual Incentive Compensation Plan For Textron Employees. Incorporated by reference to Exhibit 10.1 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1995.

10.2 Deferred Income Plan For Textron Key Executives. Incorporated by reference to Exhibit 10.2 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1995.

10.3 Severance Plan For Textron Key Executives. Incorporated by reference to Exhibit 10.3 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1995.

10.4 Special Benefits for Textron Key Executives. Incorporated by reference to Exhibit 10.4 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1995.

10.5 Supplemental Benefits Plan For Textron Key Executives with Market Square Profit Sharing Plan Schedule. Incorporated by reference to Exhibit 10.5 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1995.

10.6 Supplemental Retirement Plan For Textron Key Executives. Incorporated by reference to Exhibit 10.6 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1995.

10.7 Survivor Benefit Plan For Textron Key Executives. Incorporated by reference to Exhibit 10.7 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1995.

10.8A Textron 1987 Long-Term Incentive Plan ("1987 Plan"). Incorporated by reference to Exhibit 10.6 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1989.

10.8B First Amendment to 1987 Plan.

Incorporated by reference to Exhibit 10.6(b) to Textron's Annual Report on Form 10-K for the fiscal year ended December 28, 1991. <page 20>

10.9A Textron 1990 Long-Term Incentive Plan ("1990 Plan"). Incorporated by reference to Exhibit 10.7 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1989.

10.9B First Amendment to 1990 Plan.

Incorporated by reference to Exhibit 10.7(c) to Textron's Annual Report on Form 10-K for the fiscal year ended December 28, 1991. 10.9C Second Amendment to 1990 Plan.

Incorporated by reference to Exhibit 10.7(c) to Textron's Annual Report on Form 10-K for the fiscal year ended January 2, 1993.

10.10 Textron 1994 Long-Term Incentive Plan. Incorporated by reference to Exhibit 10 to Textron's Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 1994.

10.11 Form of Indemnity Agreement between Textron and its directors and executive officers. Incorporated by reference to Exhibit A to Textron's Proxy Statement for its Annual Meeting of Shareholders on April 29, 1987. 10.12A Pension Plan for Directors as amended by a First Amendment (discontinued as of September 30, 1996). Incorporated by reference to Exhibit 10.14 to Textron's

Annual Report on Form 10-K for the fiscal year ended December 31, 1988.  
10.12B Second Amendment to Pension Plan for Directors (discontinued as of September 30, 1996). Incorporated by reference to Exhibit 10.16(b) to Textron's Annual Report on Form 10-K for the fiscal year ended December 29, 1990.  
10.13 Deferred Income Plan for Non-Employee

Directors. Incorporated by reference to Exhibit 10.14 to Textron's Annual Report on Form 10-K for the fiscal year ended December 28, 1996.

10.14A Employment Agreement between Textron and James F. Hardyman dated November 24, 1989 ("Employment Agreement"). Incorporated by reference to Exhibit 10.9 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1989.  
10.14B Amendment dated as of December 15, 1994, to Employment Agreement. Incorporated by reference to Exhibit 10.10B to Textron's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.  
10.15A Employment Agreement between Textron and Lewis B. Campbell dated September 22, 1992. Incorporated by reference to Exhibit 10.9 to Textron's Annual Report on Form 10-K for the fiscal year ended January 2, 1993.  
10.15B Retention Award granted to Lewis B. Campbell on December 14, 1995. Incorporated by reference to Exhibit 10.16B to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1995.  
10.16 Employment Agreement between Textron and John D. Butler dated June 10, 1997. Incorporated by reference to Exhibit 10 to Textron's Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 1997.  
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10.17 Retention Award granted to Herbert L. Henkel on December 12, 1996.  
10.18 Employment Agreement between Textron and

Mary L. Howell dated May 4, 1993. Incorporated by reference to Exhibit 10.11 to Textron's Annual Report on Form 10-K for the fiscal year ended January 1, 1994.

10.19A Employment Agreement between Textron and Wayne W. Juchatz dated November

1, 1995. Incorporated by reference to Exhibit 10.18 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1995.

10.19B Description of modified pension arrangement.

10.20A Employment Agreement between Textron and Stephen L. Key dated November 1, 1995. Incorporated by reference to Exhibit 10.19 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1995.

10.20B Description of stock equivalent grant.

10.21A Employment Agreement between Textron and William F. Wayland dated January 1, 1989 ("WFW Agreement"). Incorporated by reference to Exhibit 10.12 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1989.

10.21B Supplement to WFW Agreement dated May 1, 1997.

10.22A Credit Agreement dated as of November 1, 1993, among Textron, the Lenders listed therein and Bankers Trust Company as Administrative Agent ("Credit Agreement"). Incorporated by reference to Exhibit 10.20A to Textron's Annual Report on Form 10-K for the fiscal year ended January 1, 1994.

10.22B First Amendment dated as of October 30, 1994, to Credit Agreement. Incorporated by reference to Exhibit 10.22B to Textron's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.

10.22C Second Amendment to Credit Agreement dated as of July 1, 1995. Incorporated by reference to Exhibit (b) (3) to Schedule 14D-1 filed by Textron on September 19, 1995.

10.22D Third Amendment to Credit Agreement dated as of July 1, 1996. Incorporated by reference to Exhibit 10.21D to Textron's Annual Report on Form 10-K for the fiscal year ended December 28, 1996.

12.1 Computation of ratio of income to combined fixed charges and preferred stock dividends of the Parent Group.

12.2 Computation of ratio of income to combined fixed charges and preferred stock dividends of Textron Inc. including all majority-owned subsidiaries.

13 A portion (pages 24 through 59) of Textron's 1997 Annual Report to Shareholders.

21 Certain subsidiaries of Textron. Other subsidiaries, which considered in the aggregate do not constitute a significant subsidiary, are omitted from such list.

23 Consent of Independent Auditors.

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24.1 Power of attorney.

24.2 Certified copy of a resolution of the Board of Directors of Textron.

27 Financial Data Schedule.

(b) Reports on Form 8-K No reports on Form 8-K were filed during the quarter ended January 3, 1998.

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## SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized on this 16th day of March 1998.

**TEXTRON INC.**  
**Registrant**

By: /s/Michael D. Cahn  
Michael D. Cahn  
Attorney-in-fact

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on this 16th day of March 1998, by the following persons on behalf of the registrant and in the capacities indicated:

**NAME TITLE**

\* Chairman and Chief Executive Officer, James F. Hardymon Director (principal executive officer)

\* President and Chief Operating Officer, Lewis B. Campbell Director

\* Director H. Jesse Arnelle

\* Director Teresa Beck

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\* Director R. Stuart Dickson

\* Director Paul E. Gagne

\* Director John D. Macomber

\* Director Dana G. Mead

\* Director Barbara Scott Preiskel

\* Director Brian H. Rowe

\* Director Sam F. Segnar

\* Director Jean Head Sisco

\* Director John W. Snow

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\* Director Martin D. Walker

\* Director Thomas B. Wheeler

\*  
Stephen L. Key

Executive Vice President and  
Chief Financial Officer  
(principal financial officer)

\* Vice President and Controller Richard L. Yates (principal accounting officer)

\*By: /s/Michael D. Cahn  
Michael D. Cahn  
Attorney-in-fact

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**TEXTRON INC.  
INDEX TO FINANCIAL STATEMENTS  
AND FINANCIAL STATEMENT SCHEDULES  
Item 14(a)**



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All other schedules are omitted because the conditions requiring the filing thereof do not exist or because the information required is included in the financial statements and notes thereto.

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## TEXTRON INC.

### SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT

For each of the three years in the period ended January 3, 1998

Financial information of the Registrant is omitted because condensed financial information of the Parent Group, which includes the Registrant and all of its majority-owned subsidiaries other than its finance subsidiaries (Finance Group), is shown on pages 34 through 39 of Textron's 1997 Annual Report to Shareholders. Management believes that the disclosure of financial information on the basis of the Parent Group results in a more meaningful presentation, since this group constitutes the Registrant's basic borrowing entity and the only restrictions on net assets of Textron's subsidiaries relate to its Finance Group. The Registrant's investment in its Finance Group is shown on pages 36 and 37 of Textron's 1997 Annual Report to Shareholders under the caption "Investments in Finance Group."

The Parent Group received dividends of \$221 million, \$124 million and \$117 million from its Finance Group in 1997, 1996 and 1995, respectively. The portion of the net assets of Textron's Finance Group available for cash dividends and other payments to the Parent Group is restricted by the terms of lending agreements and insurance statutory requirements. As of January 3, 1998, approximately \$475 million of their net assets of \$1.6 billion was available to be transferred to the Parent Group pursuant to these restrictions.

The Parent Group's credit agreements contain provisions requiring it to maintain a minimum level of shareholders' equity and a minimum interest coverage ratio. For additional information concerning the Parent Group's long-term debt, see Note 9 to the consolidated financial statements appearing on pages 46 and 47 of Textron's 1997 Annual Report to Shareholders.

For information concerning Textron-obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Textron Junior Subordinated Debt Securities, see Note 11 to the consolidated financial statements appearing on page 48 of Textron's 1997 Annual Report to Shareholders.

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## TEXTRON INC.

### SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

For each of the three years in the period ended January 3, 1998

(In millions)

Allowance for credit losses

Changes in the allowance for credit losses for the years indicated were as follows:

	1997	1996	1995
Balance of the allowance for credit losses at the beginning of the year	\$293	\$270	\$250
Add - charged to income:			
Consumer	229	203	149
Commercial	27	27	20
	256	230	169
Deduct - balances charged off:			
Gross charge offs:			
Consumer	(267)	(230)	(177)
Commercial	(32)	(30)	(25)
	(299)	(260)	(202)
Recoveries:			
Consumer	48	36	33
Commercial	10	3	4
	58	39	37
Net charge offs	(241)	(221)	(165)
Other	7	14	16
Balance of the allowance for credit losses at the end of the year	\$315	\$293	\$270
Balance of the allowance for credit losses at the end of the year applicable to:			
Consumer	\$236	\$218	\$195
Commercial	79	75	75
	\$315	\$293	\$270

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**EXHIBIT LIST**

Exhibits

- 3.1 Restated Certificate of Incorporation of Textron as filed January 29, 1998.
- 3.2 By-Laws of Textron, restated December

10, 1992. Incorporated by reference to Exhibit 3.2 to Textron's Annual Report on Form 10-K for the fiscal year ended January 2, 1993.

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10.8B First Amendment to 1987 Plan.

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10.9A Textron 1990 Long-Term Incentive Plan ("1990 Plan"). Incorporated by reference to Exhibit 10.7 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1989.

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10.14A Employment Agreement between Textron and James F. Hardyman dated November 24, 1989 ("Employment Agreement"). Incorporated by reference to Exhibit 10.9 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1989.

10.14B Amendment dated as of December 15, 1994, to Employment Agreement. Incorporated by reference to Exhibit 10.10B to Textron's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.

10.15A Employment Agreement between Textron and Lewis B. Campbell dated September 22, 1992. Incorporated by reference to Exhibit 10.9 to Textron's Annual Report on Form 10-K for the fiscal year ended January 2, 1993.

10.15B Retention Award granted to Lewis B. Campbell on December 14, 1995. Incorporated by reference to Exhibit 10.16B to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1995.

- 10.16 Employment Agreement between Textron and John D. Butler dated June 10, 1997. Incorporated by reference to Exhibit 10 to Textron's Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 1997.
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- 10.18 Employment Agreement between Textron and Mary L. Howell dated May 4, 1993. Incorporated by reference to Exhibit 10.11 to Textron's Annual Report on Form 10-K for the fiscal year ended January 1, 1994.
- 10.19A Employment Agreement between Textron and Wayne W. Juchatz dated November

1, 1995. Incorporated by reference to Exhibit 10.18 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1995.

- 10.19B Description of modified pension arrangement.
- 10.20A Employment Agreement between Textron and Stephen L. Key dated November 1, 1995. Incorporated by reference to Exhibit 10.19 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1995.
- 10.20B Description of stock equivalent grant
- 10.21A Employment Agreement between Textron and William F. Wayland dated January 1, 1989 ("WFW Agreement"). Incorporated by reference to Exhibit 10.12 to Textron's Annual Report on Form 10-K for the fiscal year ended December 30, 1989.
- 10.21B Supplement to WFW Agreement dated May 1, 1997.
- 10.22A Credit Agreement dated as of November 1, 1993, among Textron, the Lenders listed therein and Bankers Trust Company as Administrative Agent ("Credit Agreement"). Incorporated by reference to Exhibit 10.20A to Textron's Annual Report on Form 10-K for the fiscal year ended January 1, 1994.
- 10.22B First Amendment dated as of October 30, 1994, to Credit Agreement. Incorporated by reference to Exhibit 10.22B to Textron's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.
- 10.22C Second Amendment to Credit Agreement dated as of July 1, 1995. Incorporated by reference to Exhibit (b) (3) to Schedule 14D-1 filed by Textron on September 19, 1995.
- 10.22D Third Amendment to Credit Agreement dated as of July 1, 1996. Incorporated by reference to Exhibit 10.21D to Textron's Annual Report on Form 10-K for the fiscal year ended December 28, 1996.
- 12.1 Computation of ratio of income to combined fixed charges and preferred stock dividends of the Parent Group.
- 12.2 Computation of ratio of income to combined fixed charges and preferred stock dividends of Textron Inc. including all majority-owned subsidiaries.

13	A portion (pages 24 through 59) of Textron's 1997 Annual Report to Shareholders.
21	Certain subsidiaries of Textron. Other subsidiaries, which considered in the aggregate do not constitute a significant subsidiary, are omitted from such list.
23	Consent of Independent Auditors.
24.1	Power of attorney.
24.2	Certified copy of a resolution of the Board of Directors of Textron.
27	Financial Data Schedule.

**Exhibit 3.1**  
**TEXTRON INC.**

A Delaware Corporation  
Incorporated 1967

(Successor to Rhode Island Corporation Incorporated 1928)

---

**RESTATED CERTIFICATE OF INCORPORATION**

**As Filed January 29, 1998**

**RESTATED CERTIFICATE OF INCORPORATION**

**OF**

**TEXTRON INC.**

\* \* \* \* \*

**UNDER SECTION 245 OF THE GENERAL CORPORATION LAW**

\* \* \* \* \*

TEXTRON INC., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The name of the corporation is **TEXTRON INC.** The name under which it was originally incorporated is American Textron Inc.
2. The original Certificate of Incorporation of the corporation was filed with the Secretary of State on July 31, 1967.
3. This Restated Certificate of Incorporation was duly adopted by the Board of Directors in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware and only restates and integrates and does not further amend the provisions of the corporation's Certificate of Incorporation as heretofore amended or supplemented. There is no discrepancy between those provisions and the provisions of this Restated Certificate of Incorporation.
4. The text of the Certificate of Incorporation of said **TEXTRON INC.**, as heretofore amended or supplemented, is hereby restated and integrated, without further amendment, to read as follows:

**FIRST:** The name of the corporation (hereinafter called the "Corporation") is

**TEXTRON INC.**

**SECOND:** The respective names of the county and of the city within the county in which the registered office of the Corporation is to be located in the State of Delaware are the County of New Castle and the City of Wilmington. The name of the registered agent of the Corporation is The Corporation Trust Company. The street and number of said principal office and the address by street and number of said registered agent is No. 1209 Orange Street, in the City of Wilmington, State of Delaware.

**THIRD:** The nature of the business of the Corporation and the objects or purposes to be transacted, promoted or carried on by it are as follows:

1. To make, manufacture, produce, prepare, process, purchase or otherwise acquire, and to hold, use, sell, import, export or otherwise trade or deal in and with goods, wares, products, merchandise, machines, machinery, appliances and apparatus, of every kind, nature and description, and, in general, to engage or participate in any manufacturing or other business of any kind or character whatsoever, including, but not by way of limitation, importing, exporting, mining, quarrying, producing, farming, agriculture, forestry, construction, management, advisory, mercantile, financial or investment business, any business engaged in rendering any manner of services and any business of buying, selling, leasing or dealing in properties of any and all kinds, whether any such business is located in the United States of America or any foreign country, and whether or not related to, conducive to, incidental to, or in any way connected with, the foregoing business.
2. To engage in research, exploration, laboratory and development work relating to any material, substance, compound or mixture now known or which may hereafter be known, discovered or developed and to perfect, develop, manufacture, use, apply and generally to deal in and with any such material, substance, compound or mixture.



3. To purchase, lease or otherwise acquire, to hold, own, use, develop, maintain, manage and operate, to sell, transfer, lease, assign, convey, exchange or otherwise turn to account or dispose of, and generally, to deal in and with, personal and real property, tangible or intangible, of every kind and description, wheresoever situated, and any and all rights, concessions, interests and privileges therein.
4. To adopt, apply for, obtain, register, purchase, lease or otherwise acquire, to maintain, protect, hold, use, own, exercise, develop, manufacture under, operate and introduce and to sell and grant licenses or other rights in respect of, assign or otherwise dispose of, turn to account, or in any manner deal with and contract with reference to, any trademarks, trade names, patents, patent rights, concessions, franchises, designs, copyrights and distinctive marks and rights analogous thereto and inventions, devices, improvements, processes, recipes, formulae and the like, including, but not by way of limitation, such thereof as may be covered by, used in connection with, or secured or received under, Letters Patent of the United States of America or elsewhere, and any licenses and rights in respect thereof, in connection therewith or appertaining thereto.
5. To purchase or otherwise acquire and to hold, pledge, sell, exchange or otherwise dispose of securities (which term includes any shares of stock, bonds, debentures, notes, mortgages or other obligations and any certificates, receipts or other instruments representing rights to receive, purchase or subscribe for the same or representing any other rights or interests therein or in any property or assets) created or issued by any person, firm, association, corporation (including, to the extent permitted by the laws of the State of Delaware, the Corporation) or government or subdivision, agency or instrumentality thereof; to make payment therefor in any lawful manner; and to exercise, as owner or holder thereof, any and all rights, powers and privileges in respect thereof (to the extent aforesaid).
6. To make, enter into, perform and carry out contracts of every kind and description with any person, firm, association, corporation or government or subdivision, agency or instrumentality thereof; to endorse or guarantee the payment of principal, interest or dividends upon, and to guarantee the performance of sinking fund or other obligations of, any securities or the payment of a certain amount per share in liquidation of the capital stock of any other corporation; and to guarantee in any way permitted by law the performance of any of the contracts or other undertakings of any person, firm, association, corporation or government or subdivision, agency or instrumentality thereof.
7. To acquire by purchase, exchange or otherwise, all, or any part of, or any interest in, the properties, assets, business and good will of any one or more persons, firms, associations or corporations heretofore or hereafter engaged in any business whatsoever; to pay for the same in cash, property or its own or other securities; to hold, operate, lease, reorganize, liquidate, sell or in any manner dispose of the whole or any part thereof; to assume or guarantee, in connection therewith, the performance of any liabilities, obligations or contracts of such persons, firms, associations or corporations; and to conduct the whole or any part of any business thus acquired.
8. To lend its uninvested funds from time to time to such extent, to such persons, firms, associations, corporations or governments or subdivisions, agencies or instrumentalities thereof, and on such terms and on such security, if any, as the Board of Directors of the Corporation (hereinafter called the "Board of Directors") may determine.
9. To borrow money for any of the purposes of the Corporation, from time to time, and without limit as to amount; to issue and sell from time to time, its own securities in such amounts, on such terms and conditions, for such purposes and for such consideration, as may now be or hereafter shall be permitted by the laws of the State of Delaware; and to secure such securities by mortgage upon, or the pledge of, or the conveyance or assignment in trust of, the whole or any part of the properties, assets, business and good will of the Corporation then owned or thereafter acquired.
10. To promote, organize, manage, aid or assist, financially or otherwise, persons, firms, associations or corporations engaged in any business whatsoever; and to assume or underwrite the performance of all or any of their obligations.
11. To organize or cause to be organized under the laws of the State of Delaware, any other state or states of the United States of America, the District of Columbia, any territory, dependency, colony or possession of the United States of America or of any foreign country, a corporation or corporations for the purpose of transacting, promoting or carrying on any or all objects or purposes for which the Corporation is organized; to dissolve, wind up, liquidate, merge or consolidate any such corporation or corporations or to cause the same to be dissolved, wound up, liquidated, merged or consolidated; and, subject to the laws of the State of Delaware, to consolidate or merge with or into one or more other corporations organized under the laws of the State of Delaware or under the laws of any other state or states in the United States of America, the District of Columbia, any territory, dependency, colony or possession of the United States of America or of any foreign country if the laws under which said other corporation or corporations are formed shall permit such consolidation or merger.

12. To conduct its business in any and all of its branches and maintain offices both within and without the State of Delaware in any and all states of the United States of America, in the District of Columbia, in any or all territories, dependencies, colonies or possessions of the United States of America and in foreign countries.

13. To such extent as a business corporation organized under the laws of the State of Delaware may now or hereafter lawfully do, to do, either as principal or agent and either alone or through subsidiaries or in connection with other persons, firms, associations or corporations, all and everything necessary, suitable, convenient or proper for, or in connection with, or incident to, the accomplishment of any of the purposes or the attainment of any one or more of the objects herein enumerated or designed directly or indirectly to promote the interests of the Corporation or to enhance the value of its properties; and in general to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware and to do any and all things and exercise any and all powers, rights and privileges which a business corporation may now or hereafter be organized or authorized to do or to exercise under the laws of the State of Delaware.

14. Whenever the context permits, the following provisions shall govern the construction of the paragraphs of these purposes; no specified enumeration shall be construed as restricting in any way any general language; any word, whether in the singular or plural shall be construed to mean both the singular and the plural; any phrase in the conjunctive or in the disjunctive shall include both the conjunctive and disjunctive; the mention of the whole shall include any part or parts; any one or more or all of the purposes set forth may be pursued from time to time and whenever deemed desirable; verbs in the present or future tense shall be construed to include both the present and future tenses or either of them.

FOURTH: The total number of shares of all classes of stock which the Corporation shall have authority to issue is 515,000,000 of which 15,000,000 shares, without par value, are to be of a class designated "Preferred Stock" and 500,000,000 shares of the par value of \$.125 each are to be of a class designated "Common Stock".

The voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the classes of stock of the Corporation which are fixed by this Certificate of Incorporation, and the authority vested in the Board of Directors to fix by resolution or resolutions providing for the issue of Preferred Stock the voting powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the shares of Preferred Stock which are not fixed by this Certificate of Incorporation are as follows:

(a) The Preferred Stock may be issued from time to time in one or more series of any number of shares; provided that the aggregate number of shares issued and not canceled of any and all such series shall not exceed the total number of shares of Preferred Stock hereinabove authorized. Each series of Preferred Stock shall be distinctively designated by letter or descriptive words. All series of Preferred Stock shall rank equally and be identical in all respects except as permitted by the provisions of paragraphs (b) and (f) of this Article FOURTH.

(b) Authority is hereby vested in the Board of Directors from time to time to issue the Preferred Stock as Preferred Stock of any series and in connection with the creation of each such series to fix by resolution or resolutions providing for the issue of shares thereof the voting powers, if any, the designation, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of such series to the full extent now or hereafter permitted by this Certificate of Incorporation and the laws of the State of Delaware, in respect of the matters set forth in the following subparagraphs (1) to (8), inclusive:

(1) The distinctive designation of such series and the number of shares which shall constitute such series, which number may be increased or decreased (but not below the number of shares thereof then outstanding) from time to time by action of the Board of Directors;

(2) The dividend rate of such series, any preferences to or provisions in relation to the dividends payable on any other class or classes or of any other series of stock, and any limitations, restrictions or conditions on the payment of dividends;

(3) The price or prices at which, and the terms and conditions on which, the shares of such series may be redeemed by the Corporation;

(4) The amount or amounts payable upon the shares of such series in the event of any liquidation, dissolution or winding up of the Corporation;

(5) Whether or not the shares of such series shall be entitled to the benefit of a sinking fund to be applied to the purchase or redemption of shares of such series and, if so entitled, the amount of such fund and the manner of its application;

(6) Whether or not the shares of such series shall be made convertible into, or exchangeable for, shares of any other class or classes of stock of the Corporation or shares of any other series of Preferred Stock, and, if made so convertible or exchangeable, the conversion price or prices, or the rate or rates of exchange, and the adjustments thereof, if any, at which such conversion or exchange may be made, and any other terms and conditions of such conversion or exchange;

(7) Whether or not the shares of such series shall have any voting powers and, if voting powers are so granted, the extent of such voting powers; and

(8) Whether or not the issue of any additional shares of such series or of any future series in addition to such series shall be subject to restrictions in addition to the restrictions, if any, on the issue of additional shares imposed in the resolution or resolutions fixing the terms of and outstanding series of Preferred Stock theretofore issued pursuant to this Article FOURTH and, if subject to additional restrictions, the extent of such additional restrictions.

(c) The holders of Preferred Stock of each series shall be entitled to receive, when and as declared by the Board of Directors, dividends in cash at the rate for such series fixed by the Board of Directors as provided in paragraph (b) of this Article FOURTH, and no more, payable quarterly on the first days of January, April, July and October or of such other months as may be designated by the Board of Directors (each of the quarterly periods ending on the first day of January, April, July and October in each year, or on the first days of such other months, respectively, being hereinafter called a dividend period), in each case from the date of cumulation (as defined in paragraph (h) of this Article FOURTH) of such series. Except as may otherwise be provided in the resolution or resolutions providing for the issue of any given series of Preferred Stock, dividends on Preferred Stock shall be cumulative (whether or not there shall be net profits or net assets of the Corporation legally available for the payment of such dividends), so that, if at any time full cumulative dividends (as defined in paragraph (h) of this Article FOURTH) upon the Preferred Stock of all series to the end of the last completed dividend period shall not have been paid or declared and a sum sufficient for payment thereof set apart, the amount of the deficiency shall be fully paid, but without interest, or dividends in such amount shall have been declared on each such series and a sum sufficient for the payment thereof shall have been set apart for such payment, before any sum or sums shall be set aside for or applied to the purchase or redemption of Preferred Stock of any series (either pursuant to any applicable sinking fund provisions or any redemptions authorized pursuant to paragraph (g) of this Article FOURTH or otherwise) or set aside for or applied to the purchase of Common Stock and before any dividend shall be declared or paid or any other distribution ordered or made upon the Common Stock (other than a dividend payable in Common Stock); provided, however, that any moneys deposited in the sinking fund provided for any series of Preferred Stock in the resolution or resolutions providing for the issue of shares of said series, in compliance with the provisions of such sinking fund and of this paragraph

(c), may thereafter be applied to the purchase or redemption of Preferred Stock in accordance with the terms of such sinking fund whether or not at the time of such application full cumulative dividends upon the outstanding Preferred Stock of all series to the end of the last completed dividend period shall have been paid or declared and set apart for payment. All dividends declared upon the Preferred Stock of the respective series outstanding shall be declared pro rata, so that the amounts of dividends declared per share on the Preferred Stock of different series shall in all cases bear to each other the same ratio that accrued dividends per share on the shares of such respective series bear to each other.

(d) Before any sum or sums shall be set aside for or applied to the purchase of Common Stock and before any dividends shall be declared or paid or any distribution ordered or made upon the Common Stock (other than a dividend payable in Common Stock), the Corporation shall comply with the sinking fund provisions, if any, of any resolution or resolutions providing for the issue of any series of Preferred Stock any shares of which shall at the time be outstanding.

(e) Subject to the provisions of paragraphs (c) and (d) of this Article FOURTH, the holders of Common Stock shall be entitled, to the exclusion of the holders of Preferred Stock of any and all series, to receive such dividends as from time to time may be declared by the Board of Directors.

(f) In the event of any liquidation, dissolution or winding up of the Corporation, the holders of Preferred Stock of each series then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders, whether from capital, surplus or earnings, before any payment shall be made to the holders of Common Stock, an amount determined as provided in paragraph (b) of this Article FOURTH for every share of their holdings of Preferred Stock of such series. If upon any liquidation, dissolution or winding up of the Corporation the assets of the Corporation available for distribution

to its stockholders shall be insufficient to pay the holders of Preferred Stock of all series the full account to which they respectively shall be entitled, the holders of Preferred Stock of all series shall share ratably in any distribution of assets according to the respective amounts which would be payable in respect of the shares of Preferred Stock held by them upon such distribution if all amounts payable on or with respect to Preferred Stock of all series were paid in full. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, after payment shall have been made to the holders of Preferred Stock of the full amount to which they shall be entitled as aforesaid, the holders of Common Stock shall be entitled, to the exclusion of the holders of Preferred Stock of any and all series, to share, ratably according to the number of shares of Common Stock held by them, in all remaining assets of the Corporation available for distribution to its stockholders. Neither the merger or consolidation of the Corporation into or with another corporation nor the merger or consolidation of any other corporation into or with the Corporation, nor the sale, transfer or lease of all or substantially all the assets of the Corporation, shall be deemed to be a liquidation, dissolution or winding up of the Corporation. Notwithstanding the foregoing provisions of this paragraph (f), it may be provided as to any one or more series of Preferred Stock that upon liquidation, dissolution or winding up of the Corporation the shares of such series shall not have any preference, other than to be paid out of the assets of the Corporation available for distribution to its stockholders, an amount equal to accrued dividends

[as defined in paragraph (h) hereof] and thereafter to share ratably with the holders of Common Stock (and any other class or series having a similar right) in all distributions of assets as they would have shared if all of the shares of such series had been converted into Common Stock immediately before such distribution or to share, in such event, upon such other terms and conditions as may be provided.

(g) Subject to any requirements which may be applicable to the redemption of any given series of Preferred Stock as provided in any resolution or resolutions providing for the issue of such series of Preferred Stock, the Preferred Stock of all series, or of any series thereof, or any part of any series thereof, at any time outstanding, may be redeemed by the Corporation, at its election expressed by resolution of the Board of Directors, at any time or from time to time, upon not less than 30 days, but not more than 90 days, previous notice to the holders of record of Preferred Stock to be redeemed, given by mail in such manner as may be prescribed by resolution or resolutions of the Board of Directors:

(1) if such redemption shall be otherwise than by the application of moneys in any sinking fund referred to in paragraph (d) of this Article FOURTH, at the redemption price, fixed as provided in paragraph (b) of this Article FOURTH, at which shares of Preferred Stock of the particular series may then be redeemed at the option of the Corporation and

(2) if such redemption shall be by the application of moneys in any sinking fund referred to in paragraph (d) of this Article FOURTH, at the redemption price, fixed as provided in paragraph (b) of this Article FOURTH, at which shares of Preferred Stock of the particular series may then be redeemed for such sinking fund;

provided, however, that, before any Preferred Stock of any series shall be redeemed at said redemption price thereof specified in clause (1) of this paragraph (g), all moneys at the time in the sinking fund, if any, for Preferred Stock of that series shall first be applied, as nearly as may be, to the purchase or redemption of Preferred Stock of that series as provided in the resolution or resolutions of the Board of Directors providing for such sinking fund. If less than all the outstanding shares of Preferred Stock of any series are to be redeemed, the redemption may be made either by lot or pro rata in such manner as may be prescribed by resolution of the Board of Directors. The Corporation may, if it shall so elect, provide moneys for the payment of the redemption price by depositing the amount thereof for the account of the holders of Preferred Stock entitled thereto with a bank or trust company doing business in the City of New York, in the State of New York, and having capital and surplus of at least \$5,000,000. The date upon which such deposit may be made by the Corporation (hereinafter called the "date of deposit") shall be prior to the date fixed as the date of redemption. In any such case there shall be included in the notice of redemption a statement of the date of deposit and of the name and address of the bank or trust company with which the deposit has been or will be made. On and after the date fixed in any such notice of redemption as the date of redemption (unless default shall be made by the Corporation in providing moneys for the payment of the redemption price pursuant to such notice) or, if the Corporation shall have made such deposit on or before the date specified therefor in the notice, then on and after the date of deposit all rights of the holders of the Preferred Stock to be redeemed as stockholders of the Corporation, except the right to receive the redemption price as hereinafter provided and, in the case of such deposit, any conversion rights not theretofore expired, shall cease and terminate. Such conversion rights, however, in any event shall cease and terminate upon the date fixed for redemption or upon any earlier date fixed by the Board of Directors pursuant to paragraph (b) of this Article FOURTH for termination of such conversion rights. Anything herein contained to the contrary notwithstanding, said redemption price shall include an amount equal to accrued dividends on the Preferred Stock to be redeemed to the date fixed for the redemption thereof and the Corporation shall not be required to declare or pay on such Preferred Stock to be redeemed, and the holders thereof shall not be entitled to receive, any dividends in addition to those thus included in the redemption price; provided, however, that the Corporation may pay in regular course any dividends thus included in the redemption price either to the holders of record on the record date fixed for the determination of stockholders

entitled to receive such dividend (in which event, anything herein to the contrary notwithstanding, the amount so deposited need not include any dividends so paid or to be paid) or as a part of the redemption price upon surrender of the certificates for the shares redeemed. At any time on or after the date fixed as aforesaid for such redemption or, if the Corporation shall elect to deposit the moneys for such redemption as herein provided, then at any time on or after the date of deposit and without awaiting the date fixed as aforesaid for such redemption, the respective holders of record of the Preferred Stock to be redeemed shall be entitled to receive the redemption price upon actual delivery to the Corporation, or, in the event of such deposit, to the bank or trust company with which such deposit shall be made, of certificates for the shares to be redeemed, such certificates, if required, to be properly stamped for transfer and duly endorsed in blank or accompanied by proper instruments of assignment and transfer thereof duly executed in blank. Any moneys so deposited which shall remain unclaimed by the holders of such Preferred Stock at the end of six years after the redemption date shall be paid by such bank or trust company to the Corporation and any interest accrued on moneys so deposited shall belong to the Corporation and shall be paid to it from time to time. Preferred Stock redeemed pursuant to the provisions of this paragraph (g) shall be canceled and shall thereafter have the status of authorized and unissued shares of Preferred Stock.

(h) The term "date of cumulation" as used with reference to any series of Preferred Stock shall be deemed to mean the date fixed by the Board of Directors as the date of cumulation of such series at the time of the creation thereof or, if no date shall have been so fixed, the date on which shares of such series are first issued. Whenever used with reference to any share of any series of Preferred Stock, the term "full cumulative dividends" shall be deemed to mean (whether or not in any dividend period, or any part thereof, in respect of which such term is used there shall have been net profits or net assets of the Corporation legally available for the payment of such dividends) that amount which shall be equal to dividends at the full rate fixed for such series as provided in paragraph (b) of this Article FOURTH for the period of time elapsed from the date of cumulation of such series to the date as of which full cumulative dividends are to be computed (including an amount equal to the dividend at such rate for any fraction of a dividend period included in such period of time); and the term "accrued dividends" shall be deemed to mean full cumulative dividends to the date as of which accrued dividends are to be computed, less the amount of all dividends paid, or deemed paid as hereinafter in this paragraph (h) provided, upon said share. In the event of the issue of additional shares of Preferred Stock of any series after the original issue of shares of Preferred Stock of such series, all dividends paid or accrued on Preferred Stock of such series prior to the date of issue of such additional Preferred Stock and all dividends declared and payable to holders of Preferred Stock of such series of record on any date prior to the issue of any such additional Preferred Stock shall be deemed to have been paid on the additional Preferred Stock so issued.

(i) No holder of stock of any class of the Corporation, whether now or hereafter authorized, shall have any preemptive, preferential or other rights to subscribe for or purchase or acquire any shares of any class or any other securities of the Corporation, whether now or hereafter authorized, and whether or not convertible into, or evidencing or carrying the right to purchase, shares of any class or any other securities now or hereafter authorized, and whether the same shall be issued for cash, services or property, or by way of dividend or otherwise.

(j) Subject to the provisions of this Certificate of Incorporation and except as otherwise provided by law, the shares of stock of the Corporation, regardless of class, may be issued for such consideration and for such corporate purposes as the Board of Directors may from time to time determine.

(k) Except as otherwise provided by law, or this Certificate of Incorporation or by the resolution or resolutions providing for the issue of any series of Preferred Stock, the holders of shares of Preferred Stock, as such holders, shall not have any right to vote, and are hereby specifically excluded from the right to vote, in the election of directors or for any other purpose. Except as aforesaid, the holders of Preferred Stock, as such holders, shall not be entitled to notice of any meeting of stockholders.

(l) Subject to the provisions of any applicable law, or of the By-laws of the Corporation as from time to time amended, with respect to the closing of the transfer books or the fixing of a record date for the determination of stockholders entitled to vote and except as otherwise provided by law, or by this Certificate of Incorporation or by the resolution or resolutions providing for the issue of any series of Preferred Stock, the holders of outstanding shares of Common Stock shall exclusively possess voting power for the election of directors and for all other purposes, each holder of record of shares of Common Stock being entitled to one vote for each share of Common Stock standing in his name on the books of the Corporation.

## \$2.08 CUMULATIVE CONVERTIBLE PREFERRED STOCK, SERIES A

RESOLVED that, pursuant to the authority expressly granted to and vested in the Board of Directors by the provisions of the Certificate of Incorporation of the Corporation, the Board of Directors hereby creates a series of the Preferred Stock of the Corporation to consist of 3,076,223 shares, and the Board of Directors hereby fixes the voting powers, designation, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, of the shares of such series (in addition to the designation, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, set forth in the Certificate of Incorporation which are applicable to the Preferred Stock of all series) as follows:

(1) Designation. The designation of said series of Preferred Stock created by this resolution shall be "\$2.08 Cumulative Convertible Preferred Stock, Series A" (hereinafter called "Series A").

(2) Dividend Rate. The dividend rate of the shares of Series A shall be \$2.08 per share per annum, cumulative (entitled to "full cumulative dividends", as defined in the Certificate of Incorporation) from January 1, 1968, payable quarterly on the first days of January, April, July and October in each year. Holders of shares of Series A shall not be entitled to any dividends, whether payable in cash, property or stock, in excess of the "full cumulative dividends" at said rate.

(3) Optional Redemption. Subject to paragraph (4) below, shares of Series A shall not be redeemable by the Corporation for any purpose until after December 31, 1972. On and after December 31, 1972, shares of Series A may be redeemed upon not less than 40 days' notice to the holders of Series A shares and otherwise on the terms and conditions specified in paragraph (g) of Article FOURTH of the Certificate of Incorporation during the following periods at the following per share redemption prices:

### Redemption

Price	Period
\$55	Calendar Year 1973
\$54	Calendar Year 1974
\$53	Calendar Year 1975
\$52	Calendar Year 1976
\$51	Calendar Year 1977
\$50	At all times after December 31, 1977

plus, in each case, an amount equal to "accrued dividends" (as defined in the Certificate of Incorporation). Any redemption after December 31, 1972 and prior to January 1, 1978 shall only be made as to all of the Series A shares outstanding. On and after January 1, 1978 redemption may be made as to all or any part of such shares from time to time outstanding.

(4) Rights on Liquidation, Dissolution, Winding Up. In the event of any liquidation, dissolution or winding up of the Corporation, the holders of shares of Series A then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders an amount equal to \$50 per share, plus an amount equal to "accrued dividends" (as defined in the Certificate of Incorporation). Notwithstanding the foregoing, in the event of any voluntary liquidation of the Corporation prior to January 1, 1978, the holders of shares of Series A shall be entitled to be paid an amount per share equal to the redemption price as set forth in paragraph 3 currently in effect at the date of such liquidation plus accrued dividends.

(5) Sinking Fund. Shares of Series A are not subject or entitled to the benefit of a sinking fund.

(6) Conversion of Convertible Preferred Stock Into Common Stock.

(a) Conversion Right. Shares of Series A shall be convertible at the option of the holder thereof at any time into shares of Common Stock at a conversion price of \$45.45 per share based upon a value of \$50.00 per share of Series A stock so that initially Series A shares shall be convertible at the rate of one and one tenth share (1.1) of Common Stock for each one (1) share of Series A stock. Such price of \$45.45 per Common share (based on \$50.00 per share of Series A stock), adjusted as hereinafter provided, is hereinafter referred to as the "Conversion Price". Such right of conversion shall cease and terminate, as to shares of Series A called for redemption, at the close of business on the tenth business day prior to the date fixed for redemption unless default shall be made in the payment of the redemption price. Upon conversion the Corporation shall make no payment or adjustment on account of dividends accrued or in arrears on shares of Series A surrendered for conversion; provided, however, that any holder who converts his shares of

Series A after the record date for any quarterly dividend payment on shares of Series A but prior to such quarterly dividend payment date shall nonetheless be entitled to receive any such quarterly dividend.

The Common Stock issuable upon conversion of shares of Series A shall be Common Stock, \$.125 par value, as constituted at the date hereof, except as otherwise provided in division (E) of subparagraph (c) of this paragraph (6).

(b) Method of Conversion. In order to convert shares of Series A into Common Stock, the holder thereof shall surrender the certificate or certificates for such shares of Series A, duly endorsed to the Corporation or in blank, at the office of any Transfer Agent for Series A (or at such other place as may be designated by the Corporation) shall give written notice to the Corporation at said office that he elects to convert said shares of Series A, and shall state in writing therein the name or names in which he wishes the certificate or certificates for shares of Common Stock to be issued. As soon as practicable thereafter, the Corporation shall issue or deliver at said office to the person for whose account such shares of Series A were so surrendered, or to his nominee or nominees, certificates for the number of full shares of Common Stock to which he shall be entitled as aforesaid, together with a cash adjustment in respect of any fraction of a share as hereinafter provided if not convertible into a number of whole shares. Subject to the following provisions of this paragraph (6), such conversion shall be deemed to have been made as of the date of such surrender of certificates for the shares of Series A to be converted; and the person or persons entitled to receive Common Stock issuable upon the conversion of such shares of Series A shall be treated for all purposes as the record holder or holders of such Common Stock on such date.

(c) Adjustments of Conversion Price. The Conversion Price of shares of Series A shall be subject to adjustment from time to time as follows:

(A) If the Corporation shall sell for cash any shares of its Common Stock or any securities convertible into Common Stock (other than Excluded Stock, as defined in division (B) of this subparagraph (c)) without consideration or for a consideration per share less than the Conversion Price in effect immediately prior to the sale of such Stock, the Conversion Price in effect immediately prior to each such sale shall forthwith (except as provided below in this division (A) and in division (K) of this subparagraph (c)) be adjusted to a price equal to a quotient obtained by dividing:

(i) an amount equal to the sum of

(x) the total number of shares of Common Stock outstanding (excluding Excluded Stock but including the shares of Common Stock deemed to have been issued pursuant to subdivision (2) of this division (A)) immediately prior to such sale multiplied by the Conversion Price in effect immediately prior to such sale, plus

(y) the consideration received by the Corporation upon such sale, plus

(z) the excess of (1) the aggregate consideration received by the Corporation upon all issuances of Common Stock after the date of first issuance of shares of Series A (other than Excluded Stock) over (2) the Conversion Price in effect at the time of the respective issuance multiplied by the number of shares so issued; provided, however, that such excess shall not be taken into account to the extent such excess has previously been taken into account in adjusting such Conversion Price pursuant hereto,

by

(ii) the total number of shares of Common Stock outstanding (excluding Excluded Stock but including the shares of Common Stock deemed to have been issued pursuant to subdivision (2) of this division (A)) immediately after the sale of such Common Stock;

provided, however, that such adjustment shall be made only if and to the extent that the aforesaid quotient shall be less than the Conversion Price in effect immediately prior to such sale.

For the purposes of any adjustment of the Conversion Price pursuant to this subparagraph (c), the following provision shall be applicable:

(1) In the case of the sale of Common Stock (or convertible or exchangeable securities referred to in subdivision (2) of this Division (A)), the consideration shall be deemed to be the amount of cash paid therefor without deduction for any discounts, commissions or other expenses allowed, paid or incurred by the Corporation for any underwriting or otherwise in connection with the issuance and sale thereof.

(2) In the case of the sale of any securities (other than shares of Series A) by their terms convertible into or exchangeable for Common Stock:

(i) the aggregate number of shares of Common Stock initially deliverable upon conversion of or in exchange for any such convertible or exchangeable securities shall be considered to have been issued at the time such securities were issued and for a consideration equal to the consideration received by the Corporation for any such securities, plus the additional consideration, if any, to be received by the Corporation upon the conversion or exchange thereof (the consideration in each case to be determined in the same manner as provided in subdivision (1) above);

(ii) in the event that, after the sale of any such securities, (x) a change shall be made in the price or rate at which such securities which remain outstanding shall be convertible or exchangeable so that the aggregate number of shares of Common Stock thereafter deliverable shall decrease and (y) such increase in price or decrease in shares deliverable is in accordance with the provisions of such securities (other than provisions designed to protect against dilution such as this subparagraph (c)), the Conversion Price shall forthwith be readjusted to such Conversion Price as would have been obtained if such decreased number of shares had been the number of shares of Common Stock initially deliverable upon the conversion or exchange of such outstanding securities; and

(iii) on the termination of such right to convert or exchange, the Conversion Price shall forthwith be readjusted to such Conversion Price as would have been obtained had the adjustment made upon the sale of such securities been made upon the basis of the issuance or sale of only the number of shares of Common Stock actually issued upon the conversion or exchange of such securities.

(B) "Excluded Stock" shall mean:

(1) Common Stock or stock convertible into Common Stock sold pursuant to any present or future stock option plan, stock purchase plan, or other benefit plan for employees (including officers) of the Corporation or of its subsidiaries or present or future agreement to substitute options for stock of the Corporation for existing stock options of a business acquired by or merged into or consolidated with the Corporation;

(2) Shares of Common Stock sold upon exercise of warrants issued pursuant to the terms of the Warrant Agreement, dated as of May 1, 1959, between the Corporation and Morgan Guaranty Trust Company.

(C) If the number of shares of Common Stock outstanding at any time is increased by a stock dividend payable in shares of Common Stock or by a subdivision or split-up of shares of Common Stock, then, on the day following the date fixed for the determination of holders of Common Stock entitled to receive such stock dividend, subdivision or split-up, the number of shares of Common Stock issuable on conversion of each share of Series A shall be increased in proportion to such increase in outstanding shares of Common Stock and the Conversion Price shall be correspondingly decreased.

(D) If the number of shares of Common Stock outstanding at any time is decreased by a combination of the outstanding shares of Common Stock, then, on the day following the effective date of such combination, the number of shares issuable on conversion of each share of Series A shall be decreased in proportion to such decrease in outstanding shares and the Conversion Price shall be correspondingly increased.

(E) In the case this Corporation shall be recapitalized or shall be consolidated with or merged into, or shall sell or transfer its property and assets as, or substantially as, an entirety, proper provisions shall be made as part of the terms of such recapitalization, consolidation, merger, sale or transfer whereby the holder of any shares of the Series A stock convertible into Common Stock outstanding immediately prior to such event shall thereafter be entitled to such conversion rights with respect to securities of the Corporation resulting from such recapitalization, consolidation or merger, or to which such sale or transfer shall be made, as shall be substantially equivalent to the conversion rights, if any, provided for with respect to such Series A stock; provided, however, that no such provisions with respect to conversion rights need be made if (i) provision is made for the redemption of such Series A stock in accordance with redemption provisions then applicable to such Series A stock, and (ii) the effect of such redemption is to terminate such conversion rights prior to such recapitalization, consolidation, merger, sale or transfer.

(F) All calculations under this paragraph (6) shall be made to the nearest cent or to the nearest one one hundredth (1/100) of a share, as the case may be.



(G) Whenever the Conversion Price shall be adjusted as in this subparagraph

(c) provided, the Corporation shall forthwith file, at each office designated for the conversion of shares of Series A as provided in this paragraph (6), a statement, signed by the Chairman of the Board, President or any Vice President of the Corporation, and by its Treasurer, Assistant Treasurer, Secretary or an Assistant Secretary, showing in detail the facts requiring such adjustment and the Conversion Price that shall be in effect after such adjustment. The Corporation shall also cause a notice setting forth any such adjustment to be sent by mail, first class, postage prepaid, to each registered holder of shares of Series A at his address appearing on the stock register.

(H) Irrespective of any adjustments in the Conversion Price, certificates representing shares of Series A theretofore or thereafter issued which express the initial Conversion Price shall nevertheless be valid for all purposes.

(I) No fraction of a share of Common Stock shall be issued upon any conversion but, in lieu thereof, there shall be paid an amount in cash equal to the same fraction of the market value of a full share of Common Stock. For such purpose, the market value of a share of Common Stock shall be the last recorded sale price of such a share on the New York Stock Exchange on the day immediately preceding the date upon which such shares are surrendered for conversion or, if there be no such recorded sale price on such day, the last quoted bid price per share on the Common Stock on such Exchange on the close of trading on such date. If the Common Stock shall not at the time be dealt in on the New York Stock Exchange, such market value shall be the prevailing market value of the Common Stock on any other securities exchange, or in the open market, as determined by this Corporation, which determination shall be conclusive.

(J) The Corporation shall at all times reserve and keep available, out of its treasury stock or authorized and unissued stock, or both, solely for the purpose of effecting the conversion of shares of Series A, such number of shares of Common Stock as shall from time to time be sufficient to effect the conversion of all shares of Series A from time to time outstanding.

(K) Anything in this paragraph (6) to the contrary notwithstanding, the Corporation shall not be required to make any adjustment of the Conversion Price in any case in which the amount by which such Conversion Price would be reduced in accordance with the foregoing provisions would be less than \$1.00 per share of Common Stock, but in such case any adjustment that would otherwise be required then to be made will be carried forward and made at the time and together with the next subsequent adjustment which, together with any and all such adjustments so carried forward, shall amount to \$1.00 or more per share of Common Stock. In the event of any stock dividend, subdivision, split-up or combination of shares of Common Stock, said amount of \$1.00 (as theretofore decreased or increased) shall be proportionately decreased or increased.

(L) No adjustment of the conversion rate shall be made by reason of the issuance of Common Stock or stock convertible into Common Stock in exchange for property or services. Any Common Stock or stock convertible into Common Stock issued in a tax free reorganization shall be deemed to be issued solely for property.

(7) Voting. Subject to the provisions of any applicable law, or of the By-laws of the Corporation as from time to time amended, with respect to the fixing of a record date for the determination of stockholders entitled to vote, at each meeting of stockholders each holder of record of shares of Series A shall be entitled to one vote per share on each matter on which the holders of record of the Common Stock shall be entitled to vote, voting together with the holders of record of the Common Stock and any other series of Preferred Stock entitled to vote with the Common Stock and not by classes, and each such record holder of shares of Series A shall be entitled to notice of any such meeting of stockholders. However, so long as any shares of Series A are outstanding, if at the time of any annual meeting of stockholders for the election of directors a default in preferred dividends (as defined in this paragraph (7)) shall exist, the holders of shares of Preferred Stock, voting separately as a class without regard to series (with each share of Preferred Stock being entitled to one vote), shall have the right to elect two members of the Board of Directors of the Corporation. The holders of Common Stock shall not be entitled to vote in the election of the two directors so to be elected by the holders of shares of Preferred Stock. Any director elected by the holders of shares of Preferred Stock, voting as a class as aforesaid, shall continue to serve as such director for the full term for which he shall have been elected notwithstanding that prior to the end of such term a default in preferred dividends shall cease to exist. If, prior to the end of the term of any director elected by the holders of the Preferred Stock, voting as a class as aforesaid, a vacancy in the office of such director shall occur by reason of death, resignation, removal or disability, or for any other cause, such vacancy shall be filled for the unexpired term in the manner provided in the By-laws of the Corporation, provided that, if such vacancy shall be filled by election by the stockholders at a meeting thereof, the right to fill such vacancy shall be vested in the holders of Preferred Stock, voting as a class as aforesaid, unless, in any such case, no default in preferred dividends shall exist at the time of such election.

For the purposes of this paragraph (7), a default in preferred dividends shall be deemed to have occurred whenever the amount of

dividends in

arrears upon any series of Preferred Stock shall be equivalent to six full quarter-yearly dividends or more and, having so occurred, such default in preferred dividends shall be deemed to exist thereafter until all accrued dividends on all shares of Preferred Stock then outstanding shall have been paid to the end of the last preceding quarterly dividend period. Nothing herein contained shall be deemed to prevent an amendment of the By-laws of the Corporation, in the manner therein provided, which shall increase the number of directors so as to provide as additional places on the Board of Directors either of or both the directorships to be filled by the two directors so to be elected by the holders of the Preferred Stock or to prevent any other change in the number of directors of the Corporation.

(8) **Reacquired Shares.** Shares of Series A which have been issued and reacquired by the Corporation through redemption or purchase, or which have been converted into shares of any other class or classes of stock of the Corporation, shall upon compliance with any applicable provision of the General Corporation Law of the State of Delaware have the status of authorized and unissued shares of Preferred Stock and may be reissued as part of the Series A or as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors.

(9) **Restricted Activities.** (a) So long as any shares of Series A are outstanding,

(A) without the written consent or affirmative vote of the holders of at least two-thirds of the aggregate number of shares of Series A at the time outstanding given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class, the Corporation shall not amend, alter or repeal the preferences, special rights or other powers of the Series A shares so as to affect the rights of the holders of Series A shares adversely (and the authorization and issuance of any class of stock prior to the Series A shares as to either dividends or liquidation preferences shall be deemed to affect the Series A shares adversely);

(B) without the written consent or affirmative vote of the holders of at least a majority of the aggregate number of shares of Preferred Stock at the time outstanding given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class, without regard to series, the Corporation will not (i) increase the authorized amount of Preferred Stock beyond the 5,000,000 shares presently authorized or (ii) create any other class or classes of stock ranking on a parity with the Preferred Stock as to either dividends or liquidation preferences; and

(C) except as expressly set forth in division (B) of this subparagraph (a), nothing in this paragraph (9) shall be deemed to restrict the issuance of any additional shares of Series A or of any series of Preferred Stock which may be issued in the future.

(b) For the purposes of this paragraph (9) any class or classes of stock of the Corporation shall be deemed to rank,

(A) prior to the Series A shares either as to dividends or upon liquidation, if the holders of such class or classes shall be entitled to the receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be, in preference or priority to the holders of the Series A shares;

(B) on a parity with the Preferred Stock either as to dividends or upon liquidation, whether or not the dividend rates, dividend payment dates, or redemption or liquidation prices per share thereof be different from those of the Preferred Stock, if the holders of such class or classes of stock shall be entitled to the receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be, in proportion to their respective dividend rates or liquidation prices, without preference or priority one over the other as between the holders of such class or classes of stock and the holders of the Preferred Stock; and

(C) junior to the Preferred Stock either as to dividends or upon liquidation if the rights of the holders of such class or classes shall be subject or subordinate to the rights of the holders of the Preferred Stock in respect of the receipt of dividends or of amounts distributable upon liquidation, dissolution or winding up, as the case may be.

## **\$1.40 CONVERTIBLE PREFERRED DIVIDEND STOCK, SERIES B**

### **(PREFERRED ONLY AS TO DIVIDENDS)**

RESOLVED that, pursuant to the authority expressly granted to and vested in the Board of Directors by the provisions of the Certificate of Incorporation of the Corporation, the Board of Directors hereby creates a series of the Preferred Stock of the Corporation to consist of 4,856,628 shares, and the Board of Directors hereby fixes the voting powers, designation, preferences and relative, participating option or other special rights, and the qualifications, limitations or restrictions thereof, of the shares of such series (in addition to the designation, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof, set forth in the Certificate of Incorporation which are applicable to the Preferred Stock of all series) as follows:

- (1) Designation. The designation of said series of Preferred Stock created by this resolution shall be "\$1.40 Convertible Preferred Dividend Stock, Series B (preferred only as to dividends)" (hereinafter called "Series B").
- (2) Dividend Rate. The dividend rate of the shares of Series B shall be \$1.40 per share per annum, cumulative (entitled to "full cumulative dividends", as defined in the Certificate of Incorporation) from July 1, 1968, payable quarterly on the first days of January, April, July and October in each year. Holders of shares of Series B shall not be entitled to any dividends, whether payable in cash, property or stock, in excess of the "full cumulative dividends" at said rate.
- (3) Optional Redemption. Subject to paragraph (4) below, shares of Series B shall not be redeemable by the Corporation for any purpose until after December 31, 1973. After December 31, 1973, shares of Series B may be redeemed upon not less than 40 days (but not more than 90 days) notice to the holders of Series B shares and otherwise on the terms and conditions specified in paragraph (g) of Article FOURTH of the Certificate of Incorporation at forty-five dollars (\$45.00) per share plus an amount equal to "accrued dividends" (as defined in the Certificate of Incorporation). After December 31, 1973, redemption may be made as to all or any part of such shares from time to time outstanding.
- (4) Rights on Liquidation, Dissolution, Winding Up. In the event of any liquidation, dissolution or winding up of the Corporation, the holders of shares of Series B then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders an amount equal to "accrued dividends" (as defined in the Certificate of Incorporation) and thereafter to share ratably with the holders of Common Stock (and any other class or series having a similar right) in all distributions of assets as they would have shared if all of the shares of Series B outstanding on the date of distribution had been converted into Common Stock immediately before such distribution.
- (5) Sinking Fund. Shares of Series B are not subject or entitled to the benefit of a sinking fund.
- (6) Conversion of Convertible Preferred Stock Into Common Stock.
  - (a) Conversion Right. Shares of Series B shall be convertible at the option of the holder thereof at any time into shares of Common Stock at a conversion price of \$50.00 per share based upon a value of \$45.00 per share of Series B stock so that initially Series B shares shall be convertible at the rate of nine tenths of one share (0.9) of Common Stock for each one (1) share of Series B stock. Such price of \$50.00 per Common share (based on \$45.00 per share of Series B stock), adjusted as hereinafter provided, is hereinafter referred to as the "Conversion Price". Such right of conversion shall cease and terminate, as to shares of Series B called for redemption, at the close of business on the tenth business day prior to the date fixed for redemption, unless default shall be made in the payment of the redemption price. Upon conversion the Corporation shall make no payment or adjustment on account of dividends accrued or in arrears on shares of Series B surrendered for conversion; provided, however, that any holder who converts his shares of Series B after the record date for any quarterly dividend payment on shares of Series B but prior to such quarterly dividend payment date shall nonetheless be entitled to receive any such quarterly dividend.

The Common Stock issuable upon conversion of shares of Series B shall be Common Stock, \$.125 par value, as constituted at the date hereof, except as otherwise provided in division (E) of subparagraph (c) of this paragraph (6).

- (b) Method of Conversion. In order to convert shares of Series B into Common Stock, the holder thereof shall surrender the certificate or certificates for such shares of Series B, duly endorsed to the Corporation or in blank, at the office of any Transfer Agent for Series B (or at such other place as may be designated by the Corporation); shall give written notice to the Corporation at said office that he elects to convert said shares of Series B, and shall state in writing therein the name or names in which he wishes the certificate or

certificates for shares of Common Stock

to be issued. As soon as practicable thereafter, the Corporation shall issue or deliver at said office to the person for whose account such shares of Series B were so surrendered, or to his nominee or nominees, certificates for the number of full shares of Common Stock to which he shall be entitled as aforesaid, together with a cash adjustment in respect of any fraction of a share as hereinafter provided if not convertible into a number of whole shares. Subject to the following provisions of this paragraph (6), such conversion shall be deemed to have been made as of the date of such surrender of certificates for the shares of Series B to be converted; and the person or persons entitled to receive Common Stock issuable upon the conversion of such shares of Series B shall be treated for all purposes as the record holder or holders of such Common Stock on such date.

(c) Adjustments of Conversion Price. The Conversion Price of shares of Series B shall be subject to adjustment from time to time as follows:

(A) If the Corporation shall sell for cash any shares of its Common Stock or any securities convertible into Common Stock (other than Excluded Stock, as defined in division (B) of this subparagraph (c)) without consideration or for a consideration per share less than the Conversion Price in effect immediately prior to the sale of such Stock, the Conversion Price in effect immediately prior to each such sale shall forthwith (except as provided below in this division (A) and in division (K) of this subparagraph (c)) be adjusted to a price equal to a quotient obtained by dividing:

(i) an amount equal to the sum of

(x) the total number of shares of Common Stock outstanding (excluding Excluded Stock but including the shares of Common Stock deemed to have been issued pursuant to subdivision (2) of this division (A)) immediately prior to such sale multiplied by the Conversion Price in effect immediately prior to such sale, plus

(y) the consideration received by the Corporation upon such sale, plus

(z) the excess of (1) the aggregate consideration received by the Corporation upon all issuances of Common Stock after the date of first issuance of shares of Series B (other than Excluded Stock) over (2) the Conversion Price in effect at the time of the respective issuance multiplied by the number of shares so issued; provided, however, that such excess shall not be taken into account to the extent such excess has previously been taken into account in adjusting such Conversion Price pursuant hereto,

by

(ii) the total number of shares of Common Stock outstanding (excluding Excluded Stock but including the shares of Common Stock deemed to have been issued pursuant to subdivision (2) of this division (A)) immediately after the sale of such Common Stock;

provided, however, that such adjustment shall be made only if and to the extent that the aforesaid quotient shall be less than the Conversion Price in effect immediately prior to such sale.

For the purposes of any adjustment of the Conversion Price pursuant to this subparagraph (c), the following provisions shall be applicable:

(1) In the case of the sale of Common Stock (or convertible or exchangeable securities referred to in subdivision (2) of this division (A)), the consideration shall be deemed to be the amount of cash paid therefor without deduction for any discounts, commissions or other expenses allowed, paid or incurred by the Corporation for any underwriting or otherwise in connection with the issuance and sale thereof.

(2) In the case of the sale of any securities (other than shares of Series A or Series B) by their terms convertible into or exchangeable for Common Stock:

(i) the aggregate number of shares of Common Stock initially deliverable upon conversion of or in exchange for any such convertible or exchangeable securities shall be considered to have been issued at the time such securities were issued and for a consideration equal to the consideration received by the Corporation for any such securities, plus the additional consideration, if any, to be received by the Corporation upon the conversion or exchange thereof (the consideration in each case to be determined in the same manner as provided in subdivision (1), above;

(ii) in the event that, after the sale of any such securities, (x) a change shall be made in the price or rate at which such securities which remain outstanding shall be convertible or exchangeable so that the aggregate number of shares of Common Stock thereafter deliverable shall decrease and (y) such increase in price or decrease in shares deliverable is in accordance with the provisions of such securities (other than provisions designed to protect against dilution such as this subparagraph

(c)), the Conversion Price shall forthwith be readjusted to such Conversion Price as would have been obtained if such decreased number of shares had been the number of shares of Common Stock initially deliverable upon the conversion or exchange of such outstanding securities; and

(iii) on the termination of such right to convert or exchange, the Conversion Price shall forthwith be readjusted to such Conversion Price as would have been obtained had the adjustment made upon the sale of such securities been made upon the basis of the issuance or sale of only the number of shares of Common Stock actually issued upon the conversion or exchange of such securities.

(B) "Excluded Stock" shall mean:

(1) Common Stock or stock convertible into Common Stock sold pursuant to any present or future stock option plan, stock purchase plan, or other benefit plan for employees (including officers) of the Corporation or of its subsidiaries or present or future agreement to substitute options for stock of the Corporation for existing stock options of a business acquired by or merged into or consolidated with the Corporation;

(2) Shares of Common Stock sold upon exercise of warrants issued pursuant to the terms of the Warrant Agreement, dated as of May 1, 1959, between the Corporation and Morgan Guaranty Trust Company.

(C) If the number of shares of Common Stock outstanding at any time is increased by a stock dividend payable in shares of Common Stock or by a subdivision or split-up of shares of Common Stock, then, on the day following the date fixed for the determination of holders of Common Stock entitled to receive such stock dividend, subdivision or split-up, the number of shares of Common Stock issuable on conversion of each share of Series B shall be increased in proportion to such increase in outstanding shares of Common Stock and the Conversion Price shall be correspondingly decreased.

(D) If the number of shares of Common Stock outstanding at any time is decreased by a combination of the outstanding shares of Common Stock, then, on the day following the effective date of such combination, the number of shares issuable on conversion of each share of Series B shall be decreased in proportion to such decrease in outstanding shares and the Conversion Price shall be correspondingly increased.

(E) In the case this Corporation shall be recapitalized or shall be consolidated with or merged into, or shall sell or transfer its property and assets as, or substantially as, an entirety, proper provisions shall be made as part of the terms of such recapitalization, consolidation, merger, sale or transfer whereby the holder of any shares of the Series B stock convertible into Common Stock outstanding immediately prior to such event shall thereafter be entitled to such conversion rights with respect to securities of the Corporation resulting from such recapitalization, consolidation or merger, or to which such sale or transfer shall be made, as shall be substantially equivalent to the conversion rights provided for with respect to such Series B stock; provided, however, that no such provisions with respect to conversion rights need be made if (i) provision is made for the redemption of such Series B stock in accordance with redemption provisions then applicable to such Series B stock, and (ii) the effect of such redemption is to terminate such conversion rights prior to such recapitalization, consolidation, merger, sale or transfer.

(F) All calculations under this paragraph (6) shall be made to the nearest cent or to the nearest one one hundredth (1/100) of a share, as the case may be.

(G) Whenever the Conversion Price shall be adjusted as in this subparagraph

(c) provided, the Corporation shall forthwith file, at each office designated for the conversion of shares of Series B as provided in this paragraph (6), a statement, signed by the Chairman of the Board, President or any Vice President of the Corporation, and by its Treasurer, Assistant Treasurer, Secretary or an Assistant Secretary, showing in detail the facts requiring such adjustment and the Conversion Price that shall be in effect after such adjustment. The Corporation shall also cause a notice setting forth any such adjustment to be sent by mail, first class, postage prepaid, to each registered holder of shares of Series B at his address appearing on the stock register.

(H) Irrespective of any adjustments in the Conversion Price, certificates representing shares of Series B theretofore or thereafter issued which express the initial Conversion Price shall nevertheless be valid for all purposes.

(I) No fraction of a share of Common Stock shall be issued upon any conversion but, in lieu thereof, there shall be paid an amount in cash equal to the same fraction of the market value of a full share of Common Stock. For such purpose, the market value of a share of Common Stock shall be the last recorded sale price of such a share on the New York Stock Exchange on the day immediately preceding the date upon which such shares are surrendered for conversion or, if there be no such recorded sale price on such day, the last quoted bid price per share on the Common Stock on such Exchange on the close of trading on such date. If the Common Stock shall not at the time be dealt in on the New York Stock Exchange, such market value shall be the prevailing market value of the Common Stock on any other securities exchange, or in the open market, as determined by this Corporation, which determination shall be conclusive.

(J) The Corporation shall at all times reserve and keep available, out of its treasury stock or authorized and unissued stock, or both, solely for the purpose of effecting the conversion of shares of Series B, such number of shares of Common Stock as shall from time to time be sufficient to effect the conversion of all shares of Series B from time to time outstanding.

(K) Anything in this paragraph (6) to the contrary notwithstanding, the Corporation shall not be required to make any adjustment of the Conversion Price in any case in which the amount by which such Conversion Price would be reduced in accordance with the foregoing provisions would be less than \$1.00 per share of Common Stock, but in such case any adjustment that would otherwise be required then to be made will be carried forward and made at the time and together with the next subsequent adjustment which, together with any and all such adjustments so carried forward, shall amount to \$1.00 or more per share of Common Stock. In the event of any stock dividend, subdivision, split-up or combination of shares of Common Stock, said amount of \$1.00 (as theretofore decreased or increased) shall be proportionately decreased or increased.

(L) No adjustment of the conversion rate shall be made by reason of the issuance of Common Stock or stock convertible into Common Stock in exchange for property or services. Any Common Stock or stock convertible into Common Stock issued in a tax free reorganization shall be deemed to be issued solely for property.

(7) Voting. Subject to the provisions of any applicable law, or of the By-laws of the Corporation as from time to time amended, with respect to the fixing of a record date for the determination of stockholders entitled to vote, at each meeting of stockholders each holder of record of shares of Series B shall be entitled to one vote per share on each matter on which the holders of record of the Common Stock shall be entitled to vote, voting together with the holders of record of the Common Stock and any other series of Preferred Stock entitled to vote with the Common Stock and not by classes, and each such record holder of shares of Series B shall be entitled to notice of any such meeting of stockholders. However, so long as any shares of Series B are outstanding, if at the time of any annual meeting of stockholders for the election of directors a default in preferred dividends (as defined in this paragraph (7)) shall exist, the holders of shares of Preferred Stock voting separately as a class without regard to series (with each share of Preferred Stock being entitled to one vote), shall have the right to elect two members of the Board of Directors of the Corporation. The holders of Common Stock shall not be entitled to vote in the election of the two directors so to be elected by the holders of shares of Preferred Stock. Any director elected by the holders of shares of Preferred Stock, voting as a class as aforesaid, shall continue to serve as such director for the full term for which he shall have been elected notwithstanding that prior to the end of such term a default in preferred dividends shall cease to exist. If, prior to the end of the term of any director elected by the holders of the Preferred Stock, voting as a class as aforesaid, a vacancy in the office of such director shall occur by reason of death, resignation, removal or disability, or for any other cause, such vacancy shall be filled for the unexpired term in the manner provided in the By-laws of the Corporation, provided that, if such vacancy shall be filled by election by the stockholders at a meeting thereof, the right to fill such vacancy shall be vested in the holders of Preferred Stock, voting as a class as aforesaid, unless, in any such case, no default in preferred dividends shall exist at the time of such election.

For the purposes of this paragraph (7), a default in preferred dividends shall be deemed to have occurred whenever the amount of dividends in arrears upon any series of Preferred Stock shall be equivalent to six full quarter-yearly dividends or more and, having so occurred, such default in preferred dividends shall be deemed to exist thereafter until all accrued dividends on all shares of Preferred Stock then outstanding shall have been paid to the end of the last preceding quarterly dividend period. Nothing herein contained shall be deemed to prevent an amendment of the By-laws of the Corporation, in the manner therein provided, which shall increase the number of directors so as to provide as additional places on the Board of Directors either of or both the directorships to be filled by the two directors so to be elected by the holders of the Preferred Stock or to prevent any other change in the number of directors of the Corporation.

(8) Recquired Shares. Shares of Series B which have been issued and reacquired by the Corporation through redemption or purchase, or which have been converted into shares of any other class or classes of stock of the Corporation, shall upon compliance with any applicable provision of the General Corporation Law of the State of Delaware have the status of authorized and unissued

shares of Preferred Stock and may be reissued as part of the Series B or as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors.

(9) Restricted Activities. (a) So long as any shares of Series B are outstanding,

(A) without the written consent or affirmative vote of the holders of at least two-thirds of the aggregate number of shares of Series B at the time outstanding given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class, the Corporation shall not amend, alter or repeal the preferences, special rights or other powers of the Series B shares so as to affect the rights of the holders of Series B shares adversely (and the authorization and issuance of any class of stock prior to the Series B shares as to dividend preference shall be deemed to affect the Series B shares adversely);

(B) without the written consent or affirmative vote of the holders of at least a majority of the aggregate number of shares of Preferred Stock at the time outstanding given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class, without regard to series, the Corporation will not (i) increase the authorized amount of Preferred Stock beyond the 15,000,000 shares presently authorized or (ii) create any other class or classes of stock ranking on a parity with the Preferred Stock as to dividend preference; and

(C) except as expressly set forth in division (B) of this subparagraph (a), nothing in this paragraph (9) shall be deemed to restrict the issuance of any additional shares of Series B or of any series of Preferred Stock which may be issued in the future.

(b) For the purposes of this paragraph (9) any class or classes of stock of the Corporation shall be deemed to rank,

(A) prior to the Series B shares as to dividends, if the holders of such class or classes shall be entitled to the receipt of dividends in preference or priority to the holders of the Series B shares;

(B) on a parity with the Series B shares as to dividends whether or not the dividend rates or dividend payment dates thereof be different from those of the Series B, if the holders of such class or classes of stock shall be entitled to the receipt of dividends in proportion to their respective dividend rates without preference or priority one over the other as between the holders of such class or classes of stock and the holders of the Series B shares; and

(C) junior to the Series B shares as to dividends if the rights of the holders of such class or classes shall be subject or subordinate to the rights of the holders of the Series B shares in respect of the receipt of dividends.

### **SERIES C JUNIOR PARTICIPATING PREFERRED STOCK**

RESOLVED, that pursuant to the authority vested in the Board of Directors of this Corporation in accordance with the provisions of its Restated Certificate of Incorporation, a series of Preferred Stock of the Corporation be and it hereby is created, and that the designation and amount thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

(1) Designation and Amount. The shares of such series shall be designated as "Series C Junior Participating Preferred Stock" ("Series C Stock") and the number of shares constituting such series shall be 2,000,000.

(2) Dividends and Distributions.

(A) Subject to the prior and superior rights of the holders of any shares of any series of Preferred Stock ranking prior and superior to the shares of Series C Stock with respect to dividends, the holders of shares of Series C Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series C Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$10.00 or (b) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock, par value \$.125 per share, of the Corporation (the "Common Stock") since the immediately preceding Quarterly Dividend Payment Date, or,

with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series C Stock. In the event the Corporation shall at any time after September 27, 1995 (the "Rights Declaration Date") (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount to which holders of shares of Series C Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on the Series C Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$10.00 per share on the Series C Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series C Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series C Stock, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series C Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series C Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series C Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

(3) Voting Rights. The holders of shares of Series C Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series C Stock shall entitle the holder thereof to 100 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the number of votes per share to which holders of shares of Series C Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein or by law, the holders of shares of Series C Stock and the holders of shares of Common Stock and any other series of Preferred Stock entitled to vote with the Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) (i) If at the time of any annual meeting of stockholders for the election of directors a default in preferred dividends (as hereinafter defined) shall exist, the holders of shares of Preferred Stock voting separately as a class without regard to series (with each share of Preferred Stock being entitled to that number of votes to which it is entitled on matters submitted to stockholders generally, or, if it is not entitled to vote with respect to such matters, to one vote), shall have the right to elect two members of the Board of Directors of the Corporation. The holders of Common Stock shall not be entitled to vote in the election of the two directors so to be elected by the holders of shares of Preferred Stock. Any director elected by the holders of shares of Preferred Stock, voting as a class as aforesaid, shall continue to serve as such director for the full term for which he shall have been elected notwithstanding that prior to the end of such term a default in preferred dividends shall cease to exist. If, prior to the end of the term of any director elected by the holders of the Preferred Stock, voting as a class as aforesaid, a vacancy in the office of such director shall occur by reason of death, resignation, removal or disability, or for any other cause, such vacancy shall be filled for the unexpired term in the manner provided in the By-laws of the Corporation, provided that, if such vacancy shall be filled by election by the stockholders at a meeting thereof, the right to fill such vacancy shall be vested in the holders of Preferred Stock, voting as a class as aforesaid, unless, in any such case, no default in preferred dividends shall exist at the time of such election.



(ii) For the purposes of paragraph (C)(i) of this Section 3, a default in preferred dividends shall be deemed to have occurred whenever the amount of dividends in arrears upon any series of Preferred Stock shall be equivalent to six full quarterly dividends or more and, having so occurred, such default in preferred dividends shall be deemed to exist thereafter until all accrued dividends on all shares of Preferred Stock then outstanding shall have been paid to the end of the last preceding quarterly dividend period. Nothing herein contained shall be deemed to prevent an amendment of the By-laws of the Corporation, in the manner therein provided, which shall increase the number of directors so as to provide as additional places on the Board of Directors either or both the directorships to be filled by the two directors so to be elected by the holders of the Preferred Stock or to prevent any other change in the number of directors of the Corporation.

(D) Except as set forth herein or required by law, holders of Series C Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

#### (4) Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series C Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series C Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series C Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series C Stock, except dividends paid ratably on the Series C Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series C Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series C Stock;

(iv) purchase or otherwise acquire for consideration any shares of Series C Stock, or any shares of stock ranking on a parity with the Series C Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

(5) Reacquired Shares. Any shares of Series C Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

(6) Liquidation, Dissolution or Winding Up. (A) Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series C Stock unless, prior thereto, the holders of shares of Series C Stock shall have received \$100.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment (the "Series C Liquidation Preference"). Following the payment of the full amount of the Series C Liquidation Preference, no additional distributions shall be made to the holders of shares of Series C Stock unless, prior thereto, the holders of shares of Common Stock (which expression shall include, for the purposes only of this Section 6, any series of the Corporation's Preferred Stock ranking on a parity with the Common Stock upon liquidation, dissolution or winding up) shall have received an amount per share (the "Common Adjustment") equal to the quotient obtained by dividing (i) the Series C Liquidation Preference by

(ii) 100 (as appropriately adjusted as set forth in subparagraph C below to reflect such events as stock splits, stock dividends and recapitalizations with respect to the Common Stock) (such number in clause (ii), the "Adjustment Number"). Following the payment of the full amount of the Series C Liquidation Preference and the Common Adjustment in respect of all outstanding shares of Series C Stock and Common Stock, respectively, holders of Series C Stock and holders of shares of Common Stock shall receive their ratable and proportionate share of the remaining assets to be distributed in the ratio of the Adjustment Number to one (1) with respect to such Series C Stock and Common Stock, on a per share basis, respectively.

(B) In the event, however, that there are not sufficient assets available to permit payment in full of the Series C Liquidation Preference and the liquidation preferences of all other series of Preferred Stock, if any, which rank on a parity with the Series C Stock, then such remaining assets shall be distributed ratably to the holders of such parity shares in proportion to their respective liquidation preferences. In the event, however, that there are not sufficient assets available to permit payment in full of the Common Adjustment, then such remaining assets shall be distributed ratably to the holders of Common Stock.

(C) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(7) Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series C Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on Common Stock payable in shares of Common Stock, (ii) subdivide the outstanding Common Stock, or (iii) combine the outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series C Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(8) Redemption. The shares of Series C Stock may be purchased by the Corporation at such times and on such terms as may be agreed to between the Corporation and the selling stockholder, subject to any limitations which may be imposed by law or this Certificate of Incorporation.

(9) Ranking. The Series C Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets, unless the terms of any such series shall provide otherwise. Notwithstanding the foregoing, upon liquidation, dissolution or winding up, the Series C Stock shall rank senior in accordance with Section 6 hereof to any series of the Corporation's Preferred Stock ranking on a parity with the Common Stock upon liquidation, dissolution or winding up.

(10) Amendment. The Certificate of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series C Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series C Stock, voting separately as a class.

(11) Fractional Shares. Series C Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series C Stock.

## SERIES D CUMULATIVE PREFERRED STOCK

RESOLVED, that pursuant to the authority vested in the Board of Directors of this Corporation in accordance with the provisions of its Restated Certificate of Incorporation, a series of Preferred Stock of the Corporation be and it hereby is created, and that the designation and amount thereof and the voting powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions thereof are as follows:

- (1) Designation and Amount. The shares of such series shall be designated as Series D Cumulative Preferred Stock ("Series D") and the number of shares constituting such series shall be 3,000.
- (2) Dividend Rate. The dividend rate of the shares of Series D shall be \$5,920 per share per annum, cumulative (entitled to "full cumulative dividends," as defined in the Certificate of Incorporation) from the date shares of Series D are first issued, payable quarterly on the first days of January, April, July and October in each year. Holders of shares of Series D shall not be entitled to any dividends, whether payable in cash, property or stock, in excess of the "full cumulative dividends" at said rate.
- (3) Optional Redemption. On and after December 31, 2017, shares of Series D may be redeemed at the election of the Corporation or at the election of any holder of shares of Series D (with respect to Series D shares owned by such holder) in all cases at a price of \$100,000 per share plus an amount equal to "accrued dividends" (as defined in the Certificate of Incorporation) (i) in the case of a redemption at the election of the Corporation, upon not less than 40 days (but not more than 90 days) notice by the Corporation to the holders of Series D shares and subject to the terms and conditions specified in paragraph (g) of Article Fourth of the Certificate of Incorporation or (ii) in the case of a redemption at the election of a holder of shares of Series D, upon not less than 40 days (but not more than 90 days) notice by such holder to the Corporation, subject to any limitations which may be imposed by law or the Certificate of Incorporation.
- (4) Rights on Liquidation, Dissolution, Winding Up. In the event of any liquidation, dissolution or winding up of the Corporation, the holders of shares of Series D then outstanding shall be entitled to be paid out of the assets of the Corporation available for distribution to its stockholders an amount equal to \$100,000 per share plus an amount equal to "accrued dividends" (as defined in the Certificate of Incorporation).
- (5) Sinking Fund. Shares of Series D are not subject or entitled to the benefit of a sinking fund.
- (6) No Conversion Rights. Shares of Series D shall not be convertible into shares of Common Stock.
- (7) Voting. Subject to the provisions of any applicable law, the holders of record of shares of Series D shall have no voting rights except as set forth in this paragraph (7) or in paragraph (9). If at the time of any annual meeting of stockholders for the election of directors a default in preferred dividends (as hereinafter defined), shall exist, the holders of shares of Preferred Stock voting separately as a class without regard to series (with each share of Preferred Stock being entitled to one vote), shall have the right to elect two members of the Board of Directors of the Corporation. The holders of Common Stock shall not be entitled to vote in the election of the two directors so to be elected by the holders of shares of Preferred Stock. Any director elected by the holders of shares of Preferred Stock, voting as a class as aforesaid, shall continue to serve as such director for the full term for which he shall have been elected notwithstanding that prior to the end of such term a default in preferred dividends shall cease to exist. If, prior to the end of the term of any director elected by the holders of the Preferred Stock, voting as a class as aforesaid, a vacancy in the office of such director shall occur by reason of death, resignation, removal or disability, or for any other cause, such vacancy shall be filled for the unexpired term in the manner provided in the By-laws of the Corporation, provided that, if such vacancy shall be filled by election by the stockholders at a meeting thereof, the right to fill such vacancy shall be vested in the holders of Preferred Stock, voting as a class as aforesaid, unless, in any such case, no default in preferred dividends shall exist at the time of such election.

For the purposes of this paragraph (7), a default in preferred dividends shall be deemed to have occurred whenever the amount of dividends in arrears upon any series of Preferred Stock shall be equivalent to six full quarter-yearly dividends or more and, having so occurred, such default in preferred dividends shall be deemed to exist thereafter until all accrued dividends on all shares of Preferred Stock then outstanding shall have been paid to the end of the last preceding quarterly dividend period. Nothing herein contained shall be deemed to prevent an amendment of the By-laws of the Corporation, in the manner therein provided, which shall increase the number of directors so as to provide as additional places on the Board of Directors either of or both the directorships to be filled by the two directors so to be elected by the holders of the Preferred Stock or to prevent any other change in the number of directors of the Corporation.

(8) Reacquired Shares. Any shares of Series D which have been purchased, redeemed or otherwise reacquired by the Corporation in any manner whatsoever, shall upon compliance with any applicable provision of the General Corporation Law of the State of Delaware have the status of authorized and unissued shares of Preferred Stock and may be reissued as part of Series D or as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors.

(9) Restricted Activities. (a) So long as any shares of Series D are outstanding, (A) without the written consent or affirmative vote of the holders of at least two-thirds of the aggregate number of shares of Series D at the time outstanding given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class, the Corporation shall not amend, alter or repeal the preferences, special rights or other powers of the Series D shares so as to affect the rights of the holders of Series D shares adversely (and the authorization and issuance of any class of stock prior to the Series D shares as to dividend preference shall be deemed to affect the Series D shares adversely);

(B) without the written consent or affirmative vote of the holders of at least a majority of the aggregate number of shares of Preferred Stock at the time outstanding given in writing or by vote at a meeting, consenting or voting (as the case may be) separately as a class, without regard to series, the Corporation will not (i) increase the authorized amount of Preferred Stock beyond the 15,000,000 shares presently authorized or (ii) create any other class or classes of stock ranking on a parity with the Preferred Stock as to dividend preference; and

(C) except as expressly set forth in division (B) of this subparagraph

(a), nothing in this paragraph (9) shall be deemed to restrict the issuance of any additional shares of Series D or of any series of Preferred Stock which may be issued in the future.

(b) For the purposes of this paragraph (9) any class or classes of stock of the Corporation shall be deemed to rank,

(A) prior to the Series D shares as to dividends, if the holders of such class or classes shall be entitled to the receipt of dividends in preference or priority to the holders of the Series D shares; and

(B) on a parity with the Series D shares as to dividends whether or not the dividend rates or dividend payment dates thereof be different from those of Series D, if the holders of such class or classes of stock shall be entitled to the receipt of dividends in proportion to their respective dividend rates without preferences or priority one over the other as between the holders of such class or classes of stock and the holders of the Series D shares.

(10) Fractional Shares. Series D may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series D.

FIFTH: The Corporation is to have perpetual existence.

SIXTH: The private property of the stockholders of the Corporation shall not be subject to the payment of corporate debts to any extent whatsoever.

SEVENTH: Notwithstanding any other provisions of this Certificate of Incorporation or the By-laws of the Corporation to the contrary, no action required to be taken or which may be taken at any annual or special meeting of stockholders of the Corporation may be taken by written consent without a meeting, except:

(a) any action which may be taken solely upon the vote or consent of holders of Preferred Stock or any series thereof, or

(b) any action taken upon the signing of a consent in writing, setting forth the action so taken, by all the stockholders of the Corporation entitled to vote thereon.

EIGHTH: The Board of Directors shall have power, without stockholder action:

1. To make By-laws for the Corporation, and to amend, alter or repeal any By-laws.

2. To set apart out of any of the funds of the Corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve or reserves.

The powers and authorities herein conferred upon the Board of Directors are in furtherance and not in limitation of those conferred by the laws of the State of Delaware. In addition to the powers and authorities herein or by statute expressly conferred upon it, the Board of Directors may exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the laws of the State of Delaware, of this Certificate of Incorporation and of the By-laws of the Corporation.

NINTH: The Corporation reserves the right at any time and from time to time to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted in this Certificate of Incorporation, in the manner now or hereafter prescribed by law; and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article NINTH.

TENTH: (a) The number of directors constituting the whole Board shall be as fixed from time to time by vote of a majority of the whole Board, provided, however, that the number of directors shall not be less than three and that the number shall not be reduced so as to shorten the term of any director at the time in office. The number of directors constituting the whole Board shall hereafter be fourteen until otherwise fixed by a majority of the whole Board in accordance with the preceding sentence.

(b) The Board of Directors shall be divided into three classes, designated Class I, Class II and Class III, as nearly equal in number as the then total number of directors constituting the whole Board permits, with the term of office of one class expiring each year. At the annual meeting of stockholders in 1984, directors of Class I shall be elected to hold office for a term expiring at the next succeeding annual meeting, directors of Class II shall be elected to hold office for a term expiring at the second succeeding annual meeting, and directors of Class III shall be elected to hold office for a term expiring at the third succeeding annual meeting. At each annual meeting of stockholders the successors to the class of directors whose term shall then expire shall be elected to hold office for a term expiring at the third succeeding annual meeting. Any vacancies in the Board of Directors for any reasons, and any newly created directorships resulting from any increase in the directors, may be filled by the Board of Directors, acting by a majority of the directors then in office, or by a sole remaining director. Any directors so chosen shall hold office until the next election of the class for which such directors shall have been chosen and until their successors shall be elected and qualified, subject, however, to prior death, resignation, retirement, disqualification or removal from office. Any newly created or eliminated directorships resulting from an increase or decrease in the authorized number of directors shall be apportioned by the Board of Directors among the three classes of directors so as to maintain such classes as nearly equal as possible. Notwithstanding any other provision of this Article TENTH, and except as otherwise required by law, whenever the holders of any one or more series of Preferred Stock shall have the right, voting separately as a class, to elect one or more directors of the Corporation, the term of office, the filling of vacancies and other features of such directorships shall be governed by the terms of this Certificate of Incorporation applicable thereto.

ELEVENTH: 1. The affirmative vote of the holders of not less than two-thirds of the outstanding shares of "Voting Stock" (as hereinafter defined) shall be required for the approval or authorization of any "Business Combination" (as hereinafter defined) of the Corporation or any subsidiary of the Corporation with any "Related Person" (as hereinafter defined), notwithstanding the fact that no vote may be required, or that a lesser percentage may be specified by law, in any agreement with any national securities exchange or otherwise; provided, however, that the two-thirds voting requirement shall not be applicable and such Business Combination shall require only such affirmative vote as is required by law, any agreement with any national securities exchange or otherwise if:

(a) The "Continuing Directors" (as hereinafter defined) of the Corporation by at least a majority vote have expressly approved such Business Combination either in advance of or subsequent to such Related Person becoming a Related Person; or

(b) All of the following conditions are met:

(i) The cash or "Fair Market Value" (as hereinafter defined) as of the date of the consummation of the Business Combination (the "Combination Date") of the property, securities or other consideration to be received per share by holders of a particular class or series of capital stock, as the case may be, of the Corporation in the Business Combination is not less than the highest of:

(A) the highest per share price (including brokerage commissions, transfer taxes and soliciting dealers' fees) paid by or on behalf of the Related Person in acquiring beneficial ownership of any of its holdings of such class or series of capital stock of the Corporation (i) within the two-year period immediately prior to the Combination Date or (ii) in the transaction or series of transactions in which the Related Person became a Related Person, whichever is higher; or

(B) the Fair Market Value per share of the shares of capital stock being acquired in the Business Combination (i) as at the Combination Date or (ii) the date on which the Related Person became a Related Person, whichever is higher; or

(C) in the case of Common Stock, the per share book value of the Common Stock as reported at the end of the fiscal quarter immediately prior to the Combination Date, and in the case of Preferred Stock, the highest preferential amount per share to which the holders of shares of such class or series of Preferred Stock would be entitled in the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, regardless of whether the Business Combination to be consummated constitutes such an event.

The provisions of this paragraph 1(b)(i) shall be required to be met with respect to every class or series of outstanding capital stock, whether or not the Related Person has previously acquired any shares of a particular class or series of capital stock. In all above instances, appropriate adjustments shall be made for recapitalizations and for stock dividends, stock splits and like distributions; and

(ii) The consideration to be received by holders of a particular class or series of capital stock shall be in cash or in the same form as previously has been paid by or on behalf of the Related Person in connection with its direct or indirect acquisition of beneficial ownership of shares of such class or series of stock. If the consideration so paid for any such share varies as to form, the form of consideration for such shares shall be either cash or the form used to acquire beneficial ownership of the largest number of shares of such class or series of capital stock previously acquired by the Related Person.

## 2. For purposes of this Article ELEVENTH:

(a) The term "Business Combination" shall mean any (i) merger or consolidation of the Corporation or a subsidiary of the Corporation with a Related Person or any other corporation which is or after such merger or consolidation would be an "Affiliate" or "Associate" (as hereinafter defined) of a Related Person, (ii) sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions) with any Related Person or any affiliate of any Related Person, of all or any "Substantial Part" (as hereinafter defined) of the assets of the Corporation or of a subsidiary of the Corporation to a Related Person or any Affiliate or Associate of any Related Person, (iii) adoption of any plan or proposal for the liquidation or dissolution of the Corporation proposed by or on behalf of a Related Person or any Affiliate or Associate of any Related Person, (iv) sale, lease, exchange or other disposition, including without limitation a mortgage or other security device, of all or any Substantial Part of the assets of a Related Person or any Affiliate or Associate of any Related Person to the Corporation or a subsidiary of the Corporation, (v) issuance or pledge of securities of the Corporation or a subsidiary of the Corporation to or with a Related Person or any Affiliate or Associate of any Related Person, (vi) reclassification of securities (including any reverse stock split) or recapitalization of the Corporation or any other transaction that would have the effect, either directly or indirectly, of increasing the proportionate share of any class of equity or convertible securities of the Corporation or any subsidiary of the Corporation which is directly or indirectly beneficially owned by any Related Person or any Affiliate or Associate of any Related Person, and (vii) agreement, contract or other arrangement providing for any of the transactions described in this definition of Business Combination.

(b) The term "person" shall mean any individual, firm, corporation or other entity and shall include any group comprised of any person and any other person with whom such person or any Affiliate or Associate of such person has any agreement, arrangement or understanding, directly or indirectly, for the purpose of acquiring, holding, voting or disposing of Voting Stock of the Corporation.

(c) The term "Related Person" shall mean any person (other than the Corporation, or any Subsidiary and other than any profit-sharing, employee stock ownership or other employee benefit plan of the Corporation or any Subsidiary or any trustee of or fiduciary with respect to any such plan when acting in such capacity) who or which:

(i) is the beneficial owner (as hereinafter defined) of ten percent (10%) or more of the Voting Stock;

(ii) is an Affiliate or Associate of the Corporation and at any time within the two-year period immediately prior to the date in question was the beneficial owner of ten percent (10%) or more of the Voting Stock; or

(iii) is at such time an assignee of or has otherwise succeeded to the beneficial ownership of any shares of Voting Stock which were at any time within the two-year period immediately prior to such time beneficially owned by any Related Person, if

such assignment or

succession shall have occurred in the course of a transaction or series of transactions not involving a public offering within the meaning of the Securities Act of 1933.

(d) A person shall be a "beneficial owner" of any Voting Stock:

(i) which such person or any of its Affiliates or Associates beneficially owns, directly or indirectly;

(ii) which such person or any of its Affiliates or Associates has, directly or indirectly, (a) the right to acquire (whether such right is exercisable immediately or only after the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise, or (b) the right to vote pursuant to any agreement, arrangement or understanding; or

(iii) which are beneficially owned, directly or indirectly, by any other person with which such person or any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any shares of Voting Stock.

(e) For the purposes of determining whether a person is a Related Person pursuant to sub-paragraph (c) of this paragraph 2, the number of shares of Voting Stock deemed to be outstanding shall include shares deemed owned through application of subparagraph (d) of this paragraph 2 but shall not include any other shares of Voting Stock which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise.

(f) The terms "Affiliate" or "Associate" shall have the respective meanings ascribed to such terms in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as in effect on January 1, 1984.

(g) The term "Subsidiary" means any corporation of which a majority of any class of equity security is owned, directly or indirectly, by the Corporation; provided, however, that for the purposes of the definition of Related Person set forth in subparagraph (c) of this paragraph 2, the term "Subsidiary" shall mean only a corporation of which a majority of each class of equity security is owned, directly or indirectly, by the Corporation.

(h) The term "Continuing Director" means any member of the Board of Directors, while such person is a member of the Board of Directors, who is not an Affiliate, Associate or a representative of the Related Person and was a member of the Board of Directors prior to the time that the Related Person became a Related Person, and any successor of a Continuing Director, while such successor is a member of the Board of Directors, who is not an Affiliate, Associate or a representative of the Related Person and is recommended or elected to succeed a Continuing Director by a majority of Continuing Directors.

(i) The term "Substantial Part" shall mean more than twenty percent (20%) of the Fair Market Value, as determined by a majority of the Continuing Directors, of the total consolidated assets of the Corporation and its Subsidiaries taken as a whole as of the end of its most recent fiscal year ended prior to the time the determination is being made.

(j) For the purposes of paragraph 1(b)(i) of this Article ELEVENTH, the term "other consideration to be received" shall include, without limitation, capital stock retained by the stockholders.

(k) The term "Voting Stock" shall mean all of the outstanding shares of Common Stock and the outstanding shares of Preferred Stock entitled to vote on each matter on which the holders of record of Common Stock shall be entitled to vote, and each reference to a proportion of shares of Voting Stock shall refer to such proportion of the votes entitled to be cast by such shares voting as one class.

(l) The term "Fair Market Value" means: (i) in the case of stock, the highest closing sale price during the 30-day period immediately preceding the date in question of a share of such stock on the Composite Tape for the New York Stock Exchange - Listed Stocks, or, if such stock is not quoted on the Composite Tape, on the New York Stock Exchange, or, if such stock is not listed on such Exchange, on the principal United States securities exchange registered under the Securities Exchange Act of 1934 on which such stock is listed, or, if such stock is not listed on any such stock exchange, the highest closing bid quotation with respect to a share of such stock during the 30-day period preceding the date in question on the National Association of Securities Dealers, Inc. Automated Quotations System or any successor system then in use, or if no such quotations are available, the fair market value on the date in question of a share of such stock as determined in good faith by a majority of the Continuing Directors;

and (ii) in the case of property other than cash or stock, the fair market value of such property on the date in question as determined in good faith by a majority of the Continuing Directors.

(m) A Related Person shall be deemed to have acquired a share of the Voting Stock of the Corporation at the time when such Related Person became the beneficial owner thereof. If a majority of the Continuing Directors is not able to determine the price at which a Related Person has acquired a share of Voting Stock of the Corporation, such price shall be deemed to be the Fair Market Value of the shares in question at the time when the Related Person became the beneficial owner thereof. With respect to shares owned by Affiliates, Associates or other persons whose ownership is attributed to a Related Person under the foregoing definition of Related Person, the price deemed to be paid therefor by such Related Person shall be the price paid upon the acquisition thereof by such Affiliate, Associate or other person, or, if such price is not determinable by a majority of the Continuing Directors, the Fair Market Value of the shares in question at the time when the Affiliate, Associate or other such person became the beneficial owner thereof.

3. The fact that any Business Combination complies with the provisions of paragraph 1(b) of this Article ELEVENTH shall not be construed to impose any fiduciary duty, obligation or responsibility on the Board of Directors, or any member thereof, to approve such Business Combination or recommend its adoption or approval to the stockholders of the Corporation, nor shall such compliance limit, prohibit or otherwise restrict in any manner the Board of Directors, or any member thereof, with respect to evaluations of or actions and responses taken with respect to such Business Combination.

TWELFTH: No director of the Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director; provided, however, that this Article TWELFTH shall not eliminate or limit the liability of a director to the extent provided by applicable law (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of Delaware (as in effect and as hereafter amended), or (iv) for any transaction from which the director derived an improper personal benefit. If the Delaware General Corporation Law is amended after approval by the stockholders of this Article TWELFTH to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of each director of the Corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended. Neither the amendment nor repeal of this Article TWELFTH nor the adoption of any provision of this Certificate of Incorporation inconsistent with this Article TWELFTH shall eliminate or reduce the effect of this Article TWELFTH in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article TWELFTH, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

IN WITNESS WHEREOF, said TEXTRON INC. has caused this certificate to be signed and attested and the corporate seal to be hereunto affixed this 27th day of January, 1998.

[SEAL]

**WAYNE W. JUCHATZ**

Executive Vice President  
and General Counsel

**Attest:**

**FREDERICK K. BUTLER**  
Vice President and Secretary



**Exhibit 10.17**

12/13/96

**HERBERT L. HENKEL  
Retention Award**

At its December 12, 1996 meeting, the Organization and Compensation Committee of the Board of Directors approved a 15,000 share retention award for Herbert L. Henkel (the "Executive"). The terms of the award are as follows:

The Executive will receive the cash equivalent of 15,000 shares of Textron common stock provided he remains in Textron's employment through January 1, 2002.

The cash payment will equal 15,000 times the average of the composite closing prices (as reported on the New York Stock Exchange consolidated tape) of Textron's common stock for the first ten trading days following January 1, 2002. Such award shall be paid to the Executive in a lump sum or in annual installments as may be determined by the Organization and Compensation Committee of the Board of Directors.

Except as otherwise provided herein, the Executive shall not be entitled to receive such award if his employment with Textron ends for any reason prior to January 1, 2002, provided that if the Executive's employment ends prior to such date because of his disability or death, the Executive or the Executive's estate may receive a pro-rata portion of the award in the discretion of Textron's CEO.

Notwithstanding the above, if the Executive's employment terminates at any time after a "change in control" (as defined in the Textron 1994 Long-Term Incentive Plan), Textron shall, in lieu of the above award, award to the Executive (or to the Executive's estate in the event of his death prior to payment) upon such termination of employment, a cash amount equal to 15,000 times the highest closing price per share of Textron's common stock (as reported on the New York Stock Exchange consolidated tape) during the 30 day period ending on the date of such change in control.

Effective January 1, 1997, dividend equivalents shall be credited to the Executive and such dividend equivalents are to be accounted for as if reinvested in actual Textron common stock. Such dividend shares shall be paid at the same time as the retention shares are paid only if the retention shares are paid.

The number of retention shares awarded to the Executive hereunder shall be proportionately adjusted for any increase or decrease in the number of issued shares of Textron's common stock resulting from a stock split, stock dividend or any other increase or decrease in such shares effective without receipt of consideration by Textron.

Approved by the Organization and Compensation Committee of the Board of Directors December 12, 1996.

*/s/W. F. Wayland*                      12/13/96  
*W. F. Wayland*

*/s/Herbert L. Henkel*                12/13/96  
*H. L. Henkel*

## **EXHIBIT 10.19B**

### **Description of Modified Pension Arrangement**

Under an arrangement with Textron, Wayne W. Juchatz will be credited with an additional 12 years of Textron service under the Textron pension plan upon completing five years of employment with Textron.

## **EXHIBIT 10.20B**

### **Description of Stock Equivalent Grant**

Under an arrangement with Textron, Stephen L. Key will be paid the cash equivalent of 40,000 (on a post-split basis) shares of Textron Common Stock following his retirement, provided he retires from Textron at or after age 65.

**Exhibit 10.21B**

May 1, 1997

William F. Wayland  
Executive Vice President Administration  
and Chief Human Resource Officer  
Textron Inc.  
40 Westminster Street  
Providence, RI 02903-2525

Dear Bill:

The purpose of this letter is to confirm our agreement concerning your employment relationship with Textron and your Employment Agreement dated January 1, 1989.

1. Effective July 1, 1997, your employment status shall be converted into that of an employee-consultant through the term of your Employment Agreement, which will expire on December 31, 1999. Your rights and obligations as an employee-consultant shall be as set forth in the Employment Agreement except as specifically set forth herein.

2. Pursuant to your Employment Agreement, your compensation as an employee-consultant will be as follows:

(a) Base Pay: At the rate of \$425,000 per annum.

(b) Annual Incentive Compensation: Your annual incentive bonus will be \$345,000 per year.

(c) Performance Share Units: You will continue to be eligible for payouts for the three-year cycles ending December 31, 1997, 1998, and 1999. The discretionary portion of your payout for each of these years will be commensurate with payouts received by other Executive Vice presidents at Textron; provided that the total amount of your payout for any such year shall not exceed \$631,000. You will not be eligible to receive any additional performance share unit awards.

(d) You will not be eligible to receive any additional stock option awards.

3. You agree to assist in the identification and recruitment of your successor and, upon the retention of your successor, to use your best efforts to facilitate a smooth and orderly transition of your responsibilities.

4. Unless otherwise agreed, you shall continue to occupy your current office and perform your current duties and responsibilities on a full-time basis until July 1, 1997. You shall relinquish your current titles and responsibilities effective on such date. You will, as is customary, be entitled to any or all of your office furnishings should you so desire.

5. We agree that any internal or external announcement concerning your change of status will be coordinated and that no public announcement by either party shall be made without the other party's consent, unless required by law. It is, however, understood that an announcement will be made as soon as practicable after both parties have signed this letter.

6. Pursuant to your Employment Agreement, you will be entitled to the following benefits:

(a) financial and tax planning (at Management Committee rates);

(b) use of your current company car through the term of the present lease; use of a new company car thereafter; and eligibility to purchase that car at the end of its lease at the regular price and terms available to members of the Management Committee;

(c) continued payment by Textron of dues for the Hope Club and Rhode Island Country Club;

(d) annual physical examination;

(e) professional association dues, fees and expenses held in your name, at company expense, at current levels (to the extent that such memberships do not preclude your successor's membership in any such organization);

(f) eligibility to participate in Textron's matching gift program;

(g) office space and clerical support for consulting duties;

(h) you will continue to be eligible to participate in the Deferred Income Plan and the survivor Benefit Plan at the three-times base salary level. Your retirement at the end of 1999 shall be considered a "separation" as defined in each of those plans.

7. Pursuant to Section 3.03 of the Supplemental Retirement Plan and subject to the to the performance of your obligations hereunder, the Company hereby agrees that you will receive 100% of the benefit you would otherwise have been entitled to under such plan had you reached the age of 65 on January 1, 2000.

8. During the term of your Employment Agreement, you agree that:

(i) You will not, directly or indirectly, recruit any employee of the Company or any affiliate of the Company:

(ii) you will not, directly or indirectly, provide any services (as an employee or otherwise) for any person, firm or corporation that competes directly with the Company or any affiliate of the Company; and

(iii) you will refrain from taking any action or making any statements, written or oral, which disparage the goodwill or reputation of the Company. Likewise, the Company will refrain from taking any action or making any statements, written or oral, which disparage you or your reputation.

9. In consideration of paragraph 7 above, you agree not to file against the Company or any affiliate of the Company, their respective directors, officers, or employees, and you release the same from, any and all claims and lawsuits arising from your employment or termination including any claim or lawsuit alleging (i) breach of contract, (ii) wrongful termination, (iii) any unlawful or tortious acts, or (iv) discrimination, including discrimination under the Age Discrimination in Employment Act of 1967 or other federal, state or local laws regarding employment discrimination. This release shall not waive rights or claims that may arise after the date of execution of this letter.

10. You acknowledge that your acceptance of the terms of this special arrangement is completely voluntary and you have been offered no other inducements, promises, or representations other than those included herein. You also acknowledge that, as required by Law, you have been advised to seek the advice of legal counsel prior to accepting this agreement. You may accept the terms of this agreement any time on or before May 22, 1997. You may withdraw your acceptance within seven calendar days after the execution of this agreement by providing written notification of such withdrawal to Wayne Juchatz, and this acceptance shall not be effective or enforceable until the seven day revocation period has expired.

11. Your Employment Agreement as modified by this letter constitutes the entire agreement of the parties on the subject matter hereof, is intended to be binding on both parties and supersedes any prior agreements or understandings. All required approvals have been obtained.

Please indicate your agreement with the above by signing and returning the enclosed copy of this letter.

Sincerely,

*/s/James F. Hardyman*

AGREED:

*/s/William F. Wayland*  
*(Signature)*

*Date: May 1, 1997*

**EXHIBIT 12.1****PARENT GROUP****COMPUTATION OF RATIO OF INCOME TO COMBINED FIXED  
CHARGES AND PREFERRED STOCK DIVIDENDS**

(Unaudited)

(In millions except ratios)

	1997	1996	Year 1995	1994	1993
Fixed charges:					
Interest expense (1)	\$ 129	\$ 148	\$178	\$192	\$218
Distributions on preferred securities of subsidiary trust, net of income taxes	26	23	-	-	-
Estimated interest portion of rents	21	17	17	20	21
Total fixed charges	\$ 176	\$ 188	\$195	\$212	\$239
Income:					
Income from continuing operations before income taxes and distributions on preferred securities of subsidiary trust	\$ 948	\$ 827	\$690	\$623	\$470
Fixed charges (2)	150	165	195	212	239
Eliminate equity in undistributed pretax income of finance subsidiaries	(188)	(259)	(248)	(225)	(195)
Adjusted income	\$ 910	\$ 733	\$637	\$610	\$514
Ratio of income to fixed charges	5.17	3.90	3.27	2.88	2.15

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(1) Includes interest unrelated to borrowings of \$12 million in 1997, \$11 million in 1996, \$23 million in 1995, \$27 million in 1994 and \$25 million in 1993.

(2) Adjusted to exclude distributions on preferred securities of subsidiary trust, net of income taxes in 1997 and 1996.

**EXHIBIT 12.2****TEXTRON INC. INCLUDING ALL MAJORITY-OWNED SUBSIDIARIES****COMPUTATION OF RATIO OF INCOME TO COMBINED FIXED  
CHARGES AND PREFERRED STOCK DIVIDENDS**

(Unaudited)

(In millions except ratios)

	1997	1996	Year 1995	1994	1993
Fixed charges:					
Interest expense (1)	\$ 726	\$ 731	\$ 791	\$ 651	\$ 650
Distributions on preferred securities of subsidiary trust, net of income taxes	26	23	-	-	-
Estimated interest portion of rents	39	35	34	36	38
Total fixed charges	\$ 791	\$ 789	\$ 825	\$ 687	\$ 688
Income:					
Income from continuing operations before income taxes and distributions on preferred securities of subsidiary trust	\$ 948	\$ 827	\$ 690	\$ 623	\$ 470
Fixed charges (2)	765	766	825	687	688
Adjusted income	\$1,713	\$1,593	\$1,515	\$1,310	\$1,158
Ratio of income to fixed charges	2.17	2.02	1.84	1.91	1.68

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(1) Includes interest unrelated to borrowings of \$12 million in 1997, \$11 million in 1996, \$23 million in 1995, \$27 million in 1994 and \$25 million in 1993.

(2) Adjusted to exclude distributions on preferred securities of subsidiary trust, net of income taxes in 1997 and 1996.

## 1997 TEXTRON ANNUAL REPORT

### Business Segment Data

For a description of the businesses comprising each segment, see pages 58 and 59.

(In millions)	Revenues			Operating Income			Operating Income Margins		
	1997	1996	1995	1997	1996	1995	1997	1996	1995
Aircraft	\$ 3,135	\$2,703	\$2,519	\$ 325	\$ 271	\$ 245	10.4%	10.0%	9.7%
Automotive	2,127	1,627	1,534	150	146	135	7.1	9.0	8.8
Industrial	3,071	2,849	2,415	334	290	242	10.9	10.2	10.0
Finance	2,211	2,095	1,985	409	383	365	18.5	18.3	18.4
	\$10,544	\$9,274	\$8,453	1,218	1,090	987	11.6	11.8	11.7
Corporate expenses and other - net				(141)	(115)	(119)			
Interest expense - net				(129)	(148)	(178)			
Income from continuing operations before income taxes*				\$ 948	\$ 827	\$ 690			

\*Before distributions on preferred securities of subsidiary trust in 1997 and 1996.

Income of the Finance segment is net of interest expense.

Prior year amounts have been reclassified to conform to the current year's segment presentation as more fully described on page 25.

#### 1997 REVENUES - \$10.5 BILLION

[PIE CHART]

AIRCRAFT	30%
FINANCE	21%
AUTOMOTIVE	20%
INDUSTRIAL	29%

#### 1997 OPERATING INCOME - \$1.2 BILLION

[PIE CHART]

AIRCRAFT	27%
FINANCE	34%
AUTOMOTIVE	12%
INDUSTRIAL	27%

(In millions)	IDENTIFIABLE ASSETS			CAPITAL EXPENDITURES			DEPRECIATION		
	1997	1996	1995	1997	1996	1995	1997	1996	1995
Aircraft	\$ 2,007	\$ 1,896	\$ 1,782	\$110	\$119	\$ 75	\$ 71	\$ 55	\$ 50
Automotive	1,515	1,020	861	103	60	78	69	41	39
Industrial	2,530	2,415	2,335	150	127	99	99	102	81
Finance	11,910	11,409	10,816	46	34	23	23	21	20
Corporate, including investment in discontinued operation in 1996 and 1995	1,105	1,742	1,932	3	3	4	4	4	5
Eliminations	(457)	(247)	(75)	-	-	-	-	-	-
	\$18,610	\$18,235	\$17,651	\$412	\$343	\$279	\$266	\$223	\$195

Prior year amounts have been reclassified to conform to the current year's segment presentation as more fully described on page 25.



# 1997 TEXTRON ANNUAL REPORT

## Management's Discussion and Analysis

### Results of Operations

Textron Inc.

1997 vs. 1996

#### REVENUES

95	+ 1%	\$ 8,453
96	+10%	\$ 9,274
97	+14%	\$10,544

- Diluted earnings per share from continuing operations in 1997 were \$3.29, up 17% from the 1996 amount of \$2.81. Income from continuing operations in 1997 of \$558 million was up 16% from \$482 million for 1996. Revenues increased 14% to \$10.5 billion in 1997 from \$9.3 billion in 1996. Net income in 1997 was \$558 million versus \$253 million in 1996, which reflected the impact of a \$229 million loss from a discontinued operation.

- Operating income of Textron's four business segments aggregated \$1.2 billion in 1997, up 12% from 1996, as a result of continued improved financial results in the Aircraft, Industrial and Finance segments. Operating income in the Automotive segment was essentially unchanged.

#### EARNINGS PER SHARE \*

95	+18%	\$2.40
96	+17%	\$2.81
97	+17%	\$3.29

- Total segment margins decreased to 11.6% in 1997 from 11.8% in 1996, due primarily to lower margins associated with the Kautex acquisition.

- Corporate expenses and other - net increased in 1997 by \$26 million due to 1997 litigation expenses related to a divested operation, higher 1997 expenses related to organizational changes and higher support costs related to international expansion, and 1997 costs associated with the termination of interest rate swap agreements no longer qualifying as accounting hedges.

\* From Continuing Operations

- The lower interest of the Parent Group - \$129 million in 1997 vs. \$148 million in 1996-was due to lower average debt, resulting from the payment of debt with proceeds from the divestiture of Paul Revere, partially offset by the incremental debt associated with acquisitions.

- Business segment data for prior years has been reclassified to reflect the combination of the Systems and Components segment into the Industrial segment due to the increased commercialization of the Systems and Components businesses and their underlying technologies.

1996 vs. 1995

- Diluted earnings per share from continuing operations in 1996 were \$2.81, up 17% from the 1995 amount of \$2.40. Income from continuing operations in 1996 of \$482 million was up 16% from \$416 million for 1995. Revenues increased 10% to \$9.3 billion in 1996 from \$8.5 billion in 1995. Net income in 1996 was \$253 million vs. \$479 million in 1995, reflecting the impact of a \$229 million loss from a discontinued operation in 1996.

- Operating income aggregated \$1.1 billion in 1996, up 10% from 1995, as a result of continued improved financial results across all business segments.

- The lower interest of the Parent Group - \$148 million in 1996 vs. \$178 million in 1995-was due to lower average debt, due in part to the payment of debt with the proceeds from the issuance of preferred securities in February 1996.

# 1997 TEXTRON ANNUAL REPORT

## AIRCRAFT

### 1997 vs. 1996 AIRCRAFT

#### REVENUES

95 +10%	\$2,519
96 + 7%	\$2,703
97 +16%	\$3,135

The Aircraft segment's revenues and income increased \$432 million (16%) and \$54 million (20%), respectively, due primarily to higher results at Cessna Aircraft.

#### OPERATING INCOME

95 +24%	\$245
96 +11%	\$271
97 +20%	\$325

- Bell Helicopter's revenues increased primarily as a result of higher U.S. government and commercial aircraft sales (\$91 million) and higher revenues on the Huey upgrade contract for the U.S. Marines (\$28 million), partially offset by lower revenues on the V-22 program (\$80 million) and lower foreign military sales (\$23 million). Bell's commercial aircraft sales included the completion of the three-year contract for model 412 helicopters with the Canadian Forces. Its income increased slightly as a result of the higher revenues, partially offset by higher product development expenses primarily related to its new commercial aircraft models.

- Cessna Aircraft's revenues increased as a result of higher sales of business jets, including the Citation X and Bravo. Its income increased as a result of the higher revenues, partially offset by an increased level of expenses due to the introduction and support of new products.

### 1996 vs. 1995

The Aircraft segment's revenues and income increased \$184 million (7%) and \$26 million (11%), respectively, due to higher results at Cessna Aircraft.

- Bell Helicopter's revenues decreased primarily as a result of lower sales of military helicopters to the U.S. government (\$136 million) and lower revenues on the V-22 program (\$69 million), partially offset by higher domestic and international helicopter sales, including increased deliveries on the Canadian Forces contract (\$119 million), and increased military and commercial spares sales (\$41 million). Bell's income decreased slightly, as the impact of lower revenues and costs associated with the introduction of new commercial aircraft models was partially offset by additional income on the V-22 program.

- Cessna's revenues increased primarily as a result of higher sales of business jets, principally the Citation X and Citation VII models, and utility turboprop aircraft. Its income increased as a result of the higher revenues, partially offset by higher product development and selling and administrative expenses due to the introduction and support of new products.

#### AUTOMOTIVE

### 1997 vs. 1996

#### AUTOMOTIVE REVENUES

95 + 2%	\$1,534
96 + 6%	\$1,627
97 +31%	\$2,127

The Automotive segment's revenues increased \$500 million (31%), primarily as a result of the first quarter 1997 acquisition of Kautex, the third quarter 1997 acquisition of the General Rubber Goods division of Pirelli Tyres, Ltd., and the 1996 acquisitions of Valeo Wiper Systems and the remaining 50% of a joint venture in Born, Netherlands. The benefit of the higher sales from the acquisitions was partially offset by the unfavorable impact of a strike at a Chrysler engine plant in the second quarter 1997 and the timing of replacement business and new model launches. Income approximated last year's level, reflecting the above factors, increased costs related to new model launches and the impact of a

restructuring effort which began in the second quarter 1997.

1996 vs. 1995

OPERATING		
INCOME		
95	+ 2%	\$135
96	+ 8%	\$146
97	+ 3%	\$150

The Automotive segment's revenues increased \$93 million (6%) and income increased \$11 million (8%). The improved results reflected the increased production of models with Textron content, particularly light trucks at Chrysler, and the benefits of the acquisitions of Valeo Wiper Systems and the remaining 50% of a joint venture in Born, Netherlands.

# 1997 TEXTRON ANNUAL REPORT

## INDUSTRIAL

### INDUSTRIAL REVENUES

95	(16)%	\$2,415
96	+18%	\$2,849
97	+8%	\$3,071

### 1997 vs. 1996

The Industrial segment's revenues increased \$222 million (8%). Income increased \$44 million (15%), reflecting higher sales from both acquisitions and organic growth, and improved operating margins, principally in industrial components and fastening systems. The revenue and income increases were due primarily to higher sales in the fastening systems business (\$143 million), including the second quarter 1996 acquisition of Textron Industries S.A.S. In addition, results benefited from the 1997 acquisitions of Maag Pump Systems, Maag Italia, S.p.A., and Burkland Holding, Inc., an increase in demand for aerospace components and higher revenues on the sensor fuzed weapon contract, partially offset by the third quarter 1996 divestiture of Textron Aerostructures and lower revenues in marine and land systems products.

### 1996 vs. 1995

### OPERATING INCOME

95	(1)%	\$242
96	+20%	\$290
97	+15%	\$334

The Industrial segment's revenues and income increased \$434 million (18%) and \$48 million (20%), respectively. These increases were due primarily to higher sales in the fastening systems business (\$558 million), reflecting the fourth quarter 1995 acquisitions of Elco Industries and Boesner, and the first half 1996 acquisitions of Textron Industries S.A.S. and Xact Products. In addition, the year's results benefited from higher sales and improved performance at E-Z-GO, and continued strong performance in the contractor tool business, including the contribution from the Klauke acquisition. These increases were partially offset by reduced shipments on certain U.S. government and commercial aerospace contracts and the impact of the divestiture of Textron Aerostructures in the third quarter of 1996.

### FINANCE

### 1997 vs. 1996

### FINANCE REVENUES

95	+19%	\$1,985
96	+6%	\$2,095
97	+6%	\$2,211

The Finance segment's revenues increased \$116 million (6%), while income increased \$26 million (7%).

- Avco Financial Services' (AFS) revenues and income increased \$93 million and \$13 million, respectively. Revenues in its finance and related insurance business increased \$75 million, due to an increase in investment and other income, and an increase in average finance receivables (\$7.546 billion in 1997 vs \$6.892 billion in 1996), reflecting the benefit of the acquisition of approximately \$720 million of finance receivables during 1997, which consists of commercial receivables (\$534 million) and consumer receivables (\$186 million). The increase in investment and other income was primarily attributable to a \$22 million gain on the sale of certain underperforming branches in 1997, offset in part by a \$7 million gain on the sale of its U.S. small-ticket leasing operation in 1996 and a decrease in capital gains of \$3 million. The benefit of these revenue increases were partially offset by a decrease in yields on finance receivables (17.77% in 1997 vs 18.52% in 1996), reflecting both decreases in yields on consumer finance receivables and the impact of an increase in lower-yielding commercial receivables. Income increased \$3 million due to the benefit of the higher revenues and a decrease in the average cost of borrowed funds (6.39% in 1997 vs 6.88% in 1996), partially offset by an increase in the provision for losses resulting from a higher level of net credit losses to average finance receivables (2.93% in 1997 vs 2.82% in 1996), and higher operating expenses related to international expansion and the start-up

### OPERATING INCOME

95	+10%	\$365
96	+5%	\$383
97	+7%	\$409

of centralized sales processing centers in the U.S. and Canada. The increase in the net credit losses to average finance receivables was primarily attributable to an increase in the ratio in the consumer finance business (3.18% in 1997 vs. 2.91% in 1996).

## 1997 TEXTRON ANNUAL REPORT

The proliferation of credit cards continues to provide the consumer with an alternative source of funds, and as a result, the increase in consumer debt has continued to burden the consumer finance customer, resulting in higher delinquencies and charge-offs. This has been particularly true in the U.S. where charge-offs have increased and receivables outstanding have decreased. In order to make better use of its capital resources, AFS has undertaken a strategic review of its U.S. operations. This review, which encompasses underperforming branches, started in June 1997 and should be completed by year-end 1998. Each underperforming branch is being reviewed, and when it is determined that a branch will not meet certain profitability standards, it will be sold. It is not anticipated that these actions will result in any losses. Although the strategic review resulted in 47 branches being sold in 1997, AFS as part of its normal operations opened 47 new branches in the U.S. while closing 38 branches. At December 31, 1997, AFS had 1,199 branches, of which 715 were in the U.S.

In AFS' nonrelated insurance business, revenues increased \$18 million, due primarily to higher premiums earned and a higher level of investment income, partially offset by a decrease in capital gains. Income increased \$10 million, due to the higher revenues and a decrease in underwriting expenses in relation to earned premiums.

- Textron Financial Corporation's (TFC) revenues increased \$23 million, due to a higher level of average receivables (\$3.128 billion in 1997 vs \$3.036 billion in 1996) and increases in other income, due primarily to the securitization of \$401 million of Textron-related receivables and increased syndication fee income. Its income increased \$13 million, due to the higher revenues and a lower provision for loan losses related to the real estate portfolio, partially offset by growth in businesses with higher operating expense ratios.

1996 vs. 1995

The Finance segment's revenues increased \$110 million (6%), while income increased \$18 million (5%).

- AFS' revenues and income increased \$96 million and \$11 million, respectively. Revenues in its finance and related insurance business increased \$55 million, primarily as a result of an increase in yields on finance receivables (18.52% in 1996 vs. 18.20% in 1995), an increase in earned premiums, and an increase in capital gains (due primarily to a higher volume of sales in the bond investment portfolio), and gains on the sale of certain finance receivables. Income increased \$7 million due to the higher revenues and a decrease in the average cost of borrowed funds (6.88% in 1996 vs. 7.32% in 1995). This favorable impact was partially offset by an increase in the ratio of net credit losses to average finance receivables (2.82% in 1996 vs. 2.10% in 1995) and the strengthening of the allowance for credit losses (3.01% of finance receivables at December 31, 1996 vs. 2.82% at December 31, 1995).

In AFS' nonrelated insurance business, revenues increased \$41 million, due primarily to higher premiums earned and investment income. Income increased \$4 million, due to the higher revenues as well as an improved underwriting expense ratio (as a percent of earned insurance premiums), partially offset by an increase in the ratio of insurance losses to earned insurance premiums.

- TFC's revenues increased \$14 million, due to a higher level of average receivables (\$3.036 billion in 1996 vs. \$2.839 billion in 1995) and higher fee income, partially offset by lower yields of receivables (10.03% in 1996 and 10.34% in 1995) predominantly on floating rate receivables, reflecting a decline in the prevailing interest rate environment. Its income increased \$7 million, due to the higher revenues, partially offset by a higher provision for loan losses, principally due to charge-offs of nonperforming equipment loans.

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### LIQUIDITY & CAPITAL RESOURCES

The liquidity and capital resources of Textron's (Textron or the Company) operations are best understood by separately considering its independent borrowing groups (Parent Group and Finance Group). The Parent Group consists of Textron's manufacturing businesses, whose financial results are a reflection of the ability to manage and finance the development, production and delivery of tangible goods and services. The Finance Group businesses involve consumer and commercial financing activities. The Finance Group's financial results are a reflection of its ability to provide financial services in a competitive marketplace, at the appropriate pricing, while managing the associated financial risks. The fundamental differences between each borrowing group's activities result in different measures used by investors, rating agencies and analysts.

### OPERATING CASH FLOWS

Textron's financial position remained strong in 1997. Cash flows from operations continue to be the primary source of funds for operating needs and capital expenditures of the Parent Group. Operating activities have generated increased cash flow in each of the past three years. The Statement of Cash Flows for each borrowing group detailing the changes in cash balances are on page 38. The Parent Group's operating cash flow includes dividends received from the Finance Group. Beginning in late 1997, the methodology used to determine the amount of dividends to be paid to the Parent Group changed from payments based on a percentage of net income to payments based on maintaining a leverage ratio of 6.5 to 1. This change resulted in the availability of additional Finance Group cash flows for the Parent Group in 1997.

### FINANCING

Borrowings are a secondary source of funds for the Parent Group and, along with the collection of finance receivables, are a primary source of funds for the Finance Group. Both the Parent and Finance borrowing groups maintain debt levels considered prudent based on cash flows, interest coverage ratios and ratios of debt to capital. The Parent Group's debt to total capital decreased to 25 % in 1997. Both the Parent and Finance Group utilize a broad base of financial sources for their respective liquidity and capital requirements. The Company's strong credit ratings from Moody's and Standard & Poor's provide flexibility in obtaining funds on competitive terms. Credit facilities are summarized on page 46. In addition, at the end of 1997, the Parent Group and Finance Group have \$311 million and \$1.0 billion, respectively, available for unsecured debt securities under shelf registration statements with the Securities and Exchange Commission, and for the Finance Group, Canadian Provincial Security Exchanges. The Finance Group also has a medium-term note facility of which \$92 million was available at year-end 1997. The Company believes that both borrowing groups, individually and in the aggregate, have adequate credit facilities and have available access to capital markets to meet their financing needs.

Periodically, capital resources are generated through dispositions. In early 1997, Textron completed the sale of its 83.3% owned subsidiary, Paul Revere to Provident Companies Inc. Net proceeds to Textron after adjustments and contingent payments were approximately \$800 million (which included the value of shares of Provident common stock subsequently sold for \$245 million).

#### USES OF CAPITAL

Cash flows from operations and borrowing capacity provide both borrowing groups with the flexibility to actively manage acquisitions, dispositions and internal investments in a changing environment. During the past three years, Textron acquired 23 companies for an aggregate cost of \$1.3 billion. The principal acquisitions in 1997 were the purchase of the Kautex Group, a world-wide supplier of plastic-molded fuel tanks and Brazil-based Brazaco Mapri



## 1997 TEXTRON ANNUAL REPORT

Industrias S.A., a leading maker of fasteners in South America. In addition, in November 1997, the Company announced a tender offer to acquire the capital stock of Ransomes PLC, a UK-based equipment manufacturer, for approximately \$230 million, plus the assumption of debt. This transaction closed in early 1998.

Capital spending increased in 1997 by \$69 million. The increased capital was primarily used to increase automotive capacity and improve manufacturing productivity in the domestic fastening businesses. 1998 capital spending is expected to increase from 1997, as a result of anticipated investments to support increased fastening production and aircraft capacity.

In 1997, Textron repurchased 5 million shares of common stock, and there are approximately 8 million shares remaining to be repurchased under its Board authorized share repurchase program. Textron's Board of Directors has increased the cash dividend to shareholders by an average annual compound growth rate of 12% since 1992. Textron's Board of Directors raised the dividend per common share to \$1.00 in 1997 from \$.88 in 1996. Dividend payments to shareholders in 1997 amounted to \$202 million. This amount represents an increase of \$54 million over 1996. Because 1997 was a 53 week fiscal year for Textron, the 1997 dividend payment amount includes five payments as opposed to 1996 when four payments were paid.

### INTEREST RATE RISKS FINANCIAL RISK

#### MANAGEMENT

Textron's financial results could be affected by changes in U.S. and foreign interest rates. As part of managing this risk, the Company enters into interest rate exchange agreements to convert certain variable-rate debt to long-term fixed-rate debt and vice versa. The overall objective of Textron's interest rate risk management is to reduce the risk that near-term earnings could be adversely affected by changes in interest rates while also reducing the overall cost of debt.

The Parent Group generally uses these agreements to alter the underlying interest rate and effective maturity of certain variable-rate short-term borrowings (and their anticipated replacements) to that of a fixed-rate debt instrument. By doing so, the Parent Group is able to obtain fixed-rate financing at a lower cost than had fixed-rate debt instruments been issued. The difference between the variable-rate the Parent Group received and the fixed-rate it paid on interest rate exchange agreements increased its reported interest expense by \$11 million in 1997, \$12 million in 1996 and \$14 million in 1995.

By adjusting the underlying effective interest rate of certain variable-rate debt instruments with fixed-pay interest rate exchange agreements, the Finance Group matches the effective maturity and interest rates of the debt to certain finance receivables to reduce the risk of the interest rate margins declining from increases in interest rates. Not all interest sensitive assets and liabilities are matched. Management continuously monitors this situation to ensure that the net unmatched position is within acceptable limits. If the unmatched positions were to exceed the acceptable limits, then corrective action would be implemented. The difference between the variable-rate the Finance Group received and the fixed-rate it paid on interest rate exchange agreements increased its reported interest expense by \$19 million in 1997, \$19 million in 1996 and \$13 million in 1995. The Finance Group's ratio of variable-rate debt to total debt, after considering the impact of interest rate exchange agreements, was approximately 61% at year-end 1997 (51% in 1996).

#### FOREIGN EXCHANGE RISKS

Textron's financial results could be affected by changes in foreign currency exchange rates or weak economic conditions in the foreign markets in which products are manufactured and sold. The Parent Group's primary currency exposures are the Deutschemark, British pound,

## 1997 TEXTRON ANNUAL REPORT

Canadian dollar and French franc. The Finance Group's primary exposures are the Canadian dollar, Australian dollar, French franc, British pound and Hong Kong dollar.

Textron's Parent Group manages its foreign currency exposures primarily by funding certain foreign currency denominated assets with liabilities in the same currency and, as such, certain exposures are naturally offset. In addition, as part of managing its foreign currency exposures, Textron enters into foreign currency forward exchange contracts. These agreements are generally used to fix the local currency cost of purchased goods or services or selling prices denominated in currencies other than the functional currency. These contracts are also used to hedge certain assets and liabilities denominated in foreign currencies.

The Finance Group funds non-U.S. dollar receivables with debt denominated in the same currency. However, the amount of the Finance Group's non-U.S. dollar receivables generally exceed the amount of debt denominated in that same currency. As such, the effect of changing exchange rates on foreign denominated assets and liabilities is reflected within the translation adjustment in stockholder's equity and is not part of income.

### QUANTITATIVE RISK MEASURES

Textron has used a value-at-risk model to quantify the market risk inherent in its financial instruments at year end. The value-at-risk model is intended to measure the maximum amount of fair value Textron's financial instruments could hypothetically lose over a given time period from adverse movements in interest rates and foreign exchange rates at a 95% confidence level. The model considers financial instruments (finance receivables, investments, debt, interest rate swaps and foreign exchange forward contracts) but not all underlying exposures. The model only assumes adverse market conditions and most likely is not indicative of actual results. The estimated value-at-risk amounts representing the potential loss in value the Company's financial instruments could realize from adverse changes in interest rates and foreign exchange rates for a one day period are not material.

#### OTHER MATTERS

#### ENVIRONMENTAL

As with other industrial enterprises engaged in similar businesses, Textron is involved in a number of remedial actions under various federal and state laws and regulations relating to the environment which impose liability on companies to clean up, or contribute to the cost of cleaning up, sites on which their hazardous wastes or materials were disposed or released. Expenditures to evaluate and remediate contaminated sites approximated \$10 million, \$12 million and \$15 million in 1997, 1996 and 1995, respectively. Textron currently projects that expenditures for remediation will range between \$10 million and \$20 million for each of the years 1998 and 1999.

Textron's accrued estimated environmental liabilities are based on assumptions which are subject to a number of factors and uncertainties. Circumstances which can affect the accruals' reliability and precision include identification of additional sites, environmental regulations, level of cleanup required, technologies available, number and financial condition of other contributors to remediation, and the time period over which remediation may occur. Textron believes that any changes to the accruals that may result from these factors and uncertainties will not have a material effect on Textron's net income or financial condition. Textron estimates that its accrued environmental remediation liabilities will likely be paid over the next five to ten years.

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### YEAR 2000 COMPUTER CONVERSION COSTS

Many computer programs, including those used by Textron and Textron's suppliers and customers, use only two digits to identify a year, and were not designed to handle years beginning after 1999. These programs, some of which are critical to operations, could fail to properly process data that contain dates after 1999 unless they are modified. Textron commenced a company-wide effort to substantially complete the necessary modifications to our computer programs by early 1999. Textron also is working with its principal suppliers and customers to ensure that problems in their computer programs will not materially affect Textron. The remaining cost of the Year 2000 remediation effort is estimated to be between \$35 million - \$45 million. Textron believes it is on track to resolve this issue in a timely fashion without having a material adverse effect on its business, operations or financial condition.

### BACKLOG

Textron's commercial backlog was \$4.1 billion and \$3.1 billion at the end of 1997 and 1996, respectively, and U.S. government backlog was \$2.2 billion at the end of both of those years. Backlog for the Aircraft segment was approximately 79% and 73% of Textron's commercial backlog at the end of 1997 and 1996, respectively, and 71% of Textron's U.S. government backlog at the end of both of those years.

### FOREIGN MILITARY SALES

Certain Textron products are sold through the Department of Defense's Foreign Military Sales Program. In addition, Textron sells directly to select foreign military organizations, primarily Canada. Sales under these programs totaled approximately 3.4% of Textron's consolidated revenues in 1997 and 4.7% in 1996. Such sales, which include spare parts, are made only after approval of applicable United States government agencies.

### NEW ACCOUNTING PRONOUNCEMENTS

In 1997, the Statement of Financial Accounting Standards No. 131 "Disclosures about Segments of an Enterprise and Related Information" was issued. This Statement establishes new standards for reporting information about operating segments. This Statement is effective for periods beginning after December 15, 1997. Textron is evaluating the impact of this Statement on future segment reporting.

\* \* \* \* \*

Forward-looking Information: Certain statements in this Report, and other oral and written statements made by Textron from time to time, are forward-looking statements, including those that discuss strategies, goals, outlook or other non-historical matters; or project revenues, income, returns or other financial measures. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements, including the following: (i) continued market demand for the types of products and services produced and sold by Textron, (ii) changes in worldwide economic and political conditions and associated impact on interest and foreign exchange rates, (iii) the level of sales by original equipment manufacturers of vehicles for which Textron supplies parts, (iv) the successful integration of companies acquired by Textron and (v) changes in consumer debt levels. The statement on Year 2000 Computer Conversion Costs that appears above is subject to Textron's ability to complete the conversion without unexpected complications and the ability of its suppliers and customers to successfully modify their own programs.

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## REPORT OF

### MANAGEMENT

Management is responsible for the integrity and objectivity of the financial data presented in this annual report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and include amounts based on Management's best estimates and judgments. The independent auditors, Ernst & Young LLP, have audited the consolidated financial statements and have considered the internal control structure to the extent they believed necessary to support their report, which appears below.

We conduct our business in accordance with the standards outlined in the Textron Business Conduct Guidelines which is communicated to all employees. Honesty, integrity and high ethical standards are the core values of how we conduct business. Every Textron division prepares and carries out an annual Compliance Plan to ensure these values and standards are maintained. Our internal control structure is designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded and that transactions are properly executed and recorded. The internal control structure includes, among other things, established policies and procedures, an internal audit function, and the selection and training of qualified personnel. Textron financial managers are responsible for implementing effective internal control systems and monitoring their effectiveness, as well as developing and executing an annual internal control plan.

The Audit Committee of our Board of Directors, on behalf of the stockholders, oversees management's financial reporting responsibilities. The Audit Committee, comprised of five directors who are not officers or employees of the Company, meets regularly with the independent auditors, management and our internal auditors to review matters relating to financial reporting, internal accounting controls and auditing. Both the independent auditors and the internal auditors have free and full access to senior management and the Audit Committee.

/s/ James F. Hardymon  
James F. Hardymon  
Chairman and Chief  
Executive Officer

/s/ Lewis B. Campbell  
Lewis B. Campbell  
President and Chief  
Operating Officer

/s/ Stephen L. Key  
Executive Vice President and Chief Financial Officer  
January 27, 1998

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REPORT OF  
INDEPENDENT AUDITORS

To the Board of Directors and Shareholders  
Textron Inc.

We have audited the accompanying consolidated balance sheets of Textron Inc. as of January 3, 1998 and December 28, 1996, and the related consolidated statements of income, cash flows and changes in shareholders' equity for each of the three years in the period ended January 3, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Textron Inc. at January 3, 1998 and December 28, 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 3, 1998, in conformity with generally accepted accounting principles.

/s/ERNST & YOUNG LLP

Boston, Massachusetts

January 27, 1998

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## STATEMENT OF INCOME

For each of the three years in the period ended January 3, 1998

	CONSOLIDATED		
(In millions except per share amounts)	1997	1996	1995
<b>REVENUES</b>			
Manufacturing sales	\$ 8,333	\$7,179	\$6,468
Finance revenues	2,211	2,095	1,985
Total revenues	10,544	9,274	8,453
<b>COSTS AND EXPENSES</b>			
Cost of sales	6,836	5,837	5,294
Selling and administrative	1,499	1,374	1,274
Interest	726	731	791
Provision for losses on collection of finance receivables	256	230	169
Other	279	275	235
Total costs and expenses	9,596	8,447	7,763
Pretax income of the Finance Group	948	827	690
Income from continuing operations before income taxes and distributions on preferred securities of subsidiary trust	948	827	690
Income taxes	(364)	(322)	(274)
Distributions on preferred securities of subsidiary trust, net of income taxes	(26)	(23)	-
Income from continuing operations	558	482	416
Discontinued operation, net of income taxes:			
Income from operations	-	16	63
Loss on disposal	-	(245)	-
NET INCOME	\$ 558	\$ 253	\$ 479
<b>PER COMMON SHARE**:</b>			
<b>BASIC:</b>			
INCOME FROM CONTINUING OPERATIONS	\$ 3.38	\$ 2.87	\$ 2.45
Discontinued operation	-	(1.36)	.37
NET INCOME	\$ 3.38	\$ 1.51	\$ 2.82
<b>DILUTED:</b>			
INCOME FROM CONTINUING OPERATIONS	\$ 3.29	\$ 2.81	\$ 2.40
Discontinued operation	-	(1.34)	.37
NET INCOME	\$ 3.29	\$ 1.47	\$ 2.77

\*"Parent Group" includes all entities of Textron (primarily manufacturing) other than its finance subsidiaries. The Parent Group's investment in Textron's finance subsidiaries is reflected on a one-line basis under the equity method of accounting. "Finance Group" consists of Textron's wholly-owned finance subsidiaries, AFS and TFC. All significant transactions between the Parent Group and the Finance Group have been eliminated from the "Consolidated" column. The principles of consolidation are described in Note 1 to the consolidated financial statements.

\*\*Reflects the effect of the two-for-one stock split in the form of a stock dividend in May 1997.

The fiscal year-end for the Finance Group is December 31 for all periods presented.

See notes to the consolidated financial statements.

**1997 TEXTRON ANNUAL REPORT**

	PARENT GROUP*			FINANCE GROUP		
	1997	1996	1995	1997	1996	1995
<b>REVENUES</b>						
Manufacturing sales	\$8,333	\$7,179	\$6,468	\$ -	\$ -	\$ -
Finance revenues	-	-	-	2,211	2,095	1,985
<b>Total revenues</b>	<b>8,333</b>	<b>7,179</b>	<b>6,468</b>	<b>2,211</b>	<b>2,095</b>	<b>1,985</b>
<b>COSTS AND EXPENSES</b>						
Cost of sales	6,836	5,837	5,294	-	-	-
Selling and administrative	829	750	671	670	624	603
Interest	129	148	178	597	583	613
Provision for losses on collection of finance receivables	-	-	-	256	230	169
Other	-	-	-	279	275	235
<b>Total costs and expenses</b>	<b>7,794</b>	<b>6,735</b>	<b>6,143</b>	<b>1,802</b>	<b>1,712</b>	<b>1,620</b>
Pretax income of the Finance Group	539	444	325	409	383	365
	409	383	365	-	-	-
Income from continuing operations before income taxes and distributions on preferred securities of subsidiary trust	948	827	690	409	383	365
Income taxes	(364)	(322)	(274)	(156)	(149)	(142)
Distributions on preferred securities of subsidiary trust, net of income taxes	(26)	(23)	-	-	-	-
Income from continuing operations	558	482	416	253	234	223
Discontinued operation, net of income taxes:						
Income from operations	-	16	63	-	-	-
Loss on disposal	-	(245)	-	-	-	-
	-	(229)	63	-	-	-
<b>NET INCOME</b>	<b>\$ 558</b>	<b>\$ 253</b>	<b>\$ 479</b>	<b>\$ 253</b>	<b>\$ 234</b>	<b>\$ 223</b>

\*"Parent Group" includes all entities of Textron (primarily manufacturing) other than its finance subsidiaries. The Parent Group's investment in Textron's finance subsidiaries is reflected on a one-line basis under the equity method of accounting. "Finance Group" consists of Textron's wholly-owned finance subsidiaries, AFS and TFC. All significant transactions between the Parent Group and the Finance Group have been eliminated from the "Consolidated" column. The principles of consolidation are described in Note 1 to the consolidated financial statements.

The fiscal year-end for the Finance Group is December 31 for all periods presented.

See notes to the consolidated financial statements.

# 1997 TEXTRON ANNUAL REPORT

## BALANCE SHEET

As of January 3, 1998 and December 28, 1996

	CONSOLIDATED	
(Dollars in millions)	1997	1996
<b>ASSETS</b>		
Cash	\$ 87	\$ 47
Investments	844	820
Receivables - net:		
Finance	10,226	9,856
Commercial and U.S. government	920	882
	11,146	10,738
Inventories	1,349	1,192
Investments in Finance Group	-	-
Investment in discontinued operation	-	770
Property, plant, and equipment - net	1,860	1,539
Goodwill - net	1,753	1,609
Other (including net prepaid income taxes)	1,571	1,520
	\$18,610	\$18,235
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 963	\$ 850
Accrued postretirement benefits other than pensions	799	817
Other accrued liabilities (including income taxes)	2,641	2,556
Debt	10,496	10,346
	14,899	14,569
TEXTRON - OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES OF SUBSIDIARY TRUST HOLDING SOLELY TEXTRON JUNIOR SUBORDINATED DEBT SECURITIES	483	483
<b>SHAREHOLDERS' EQUITY</b>		
Capital stock:		
Preferred stock:		
\$2.08 Cumulative Convertible Preferred Stock, Series A (liquidation value - \$14)	6	7
\$1.40 Convertible Preferred Dividend Stock, Series B (preferred only as to dividends)	7	7
Common stock (190,689,000 and 94,456,000 shares issued)	24	12
Capital surplus	830	793
Retained earnings	3,362	2,969
Other	(62)	7
	4,167	3,795
Less cost of treasury shares	939	612
	3,228	3,183
	\$18,610	\$18,235

\*"Parent Group" includes all entities of Textron (primarily manufacturing) other than its finance subsidiaries. The Parent Group's investment in Textron's finance subsidiaries is reflected on a one-line basis under the equity method of accounting. "Finance Group" consists of Textron's wholly-owned finance subsidiaries, AFS and TFC. All significant transactions between the Parent Group and the Finance Group have been eliminated from the "Consolidated" column. The principles of consolidation are described in Note 1 to the consolidated financial statements.

The fiscal year-end for the Finance Group is December 31 for all periods presented.

See notes to the consolidated financial statements.



# 1997 TEXTRON ANNUAL REPORT

	PARENT GROUP*		FINANCE GROUP	
	1997	1996	1997	1996
<b>ASSETS</b>				
Cash	\$ 30	\$ 24	\$ 57	\$ 23
Investments	-	6	844	814
Receivables - net:				
Finance	-	-	10,226	9,860
Commercial and U.S. government	920	882	-	-
	920	882	10,226	9,860
Inventories	1,349	1,192	-	-
Investments in Finance Group	1,620	1,600	-	-
Investment in discontinued operation	-	770	-	-
Property, plant, and equipment - net	1,761	1,454	99	85
Goodwill - net	1,567	1,466	186	143
Other (including net prepaid income taxes)	1,311	1,263	498	484
<b>TOTAL ASSETS</b>	<b>\$8,558</b>	<b>\$8,657</b>	<b>\$11,910</b>	<b>\$11,409</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 812	\$ 724	\$ 152	\$ 130
Accrued postretirement benefits other than pensions	766	782	33	35
Other accrued liabilities (including income taxes)	2,048	1,978	830	805
Debt	1,221	1,507	9,275	8,839
<b>TOTAL LIABILITIES</b>	<b>4,847</b>	<b>4,991</b>	<b>10,290</b>	<b>9,809</b>
<b>TEXTRON - OBLIGATED MANDATORILY REDEEMABLE PREFERRED SECURITIES</b>				
OF SUBSIDIARY TRUST HOLDING SOLELY TEXTRON				
JUNIOR SUBORDINATED DEBT SECURITIES	483	483	-	-
<b>SHAREHOLDERS' EQUITY</b>				
<b>Capital stock:</b>				
<b>Preferred stock:</b>				
\$2.08 Cumulative Convertible Preferred Stock, Series A (liquidation value - \$14)	6	7	-	-
\$1.40 Convertible Preferred Dividend Stock, Series B (preferred only as to dividends)	7	7	-	-
Common stock (190,689,000 and 94,456,000 shares issued)	24	12	1	1
Capital surplus	830	793	843	800
Retained earnings	3,362	2,969	819	787
Other	(62)	7	(43)	12
	4,167	3,795	1,620	1,600
Less cost of treasury shares	939	612	-	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>3,228</b>	<b>3,183</b>	<b>1,620</b>	<b>1,600</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$8,558</b>	<b>\$8,657</b>	<b>\$11,910</b>	<b>\$11,409</b>

\*"Parent Group" includes all entities of Textron (primarily manufacturing) other than its finance subsidiaries. The Parent Group's investment in Textron's finance subsidiaries is reflected on a one-line basis under the equity method of accounting. "Finance Group" consists of Textron's wholly-owned finance subsidiaries, AFS and TFC. All significant transactions between the Parent Group and the Finance Group have been eliminated from the "Consolidated" column. The principles of consolidation are described in Note 1 to the consolidated financial statements.

The fiscal year-end for the Finance Group is December 31 for all periods presented.

See notes to the consolidated financial statements.

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## STATEMENT OF CASH FLOWS

For each of the three years in the period ended January 3, 1998

	CONSOLIDATED		
(In millions)	1997	1996	1995
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Income from continuing operations	\$ 558	\$ 482	\$ 416
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Undistributed earnings of Finance Group	-	-	-
Depreciation	266	223	195
Amortization	169	164	147
Provision for losses on receivables	258	233	172
Deferred income taxes	76	11	28
Changes in assets and liabilities excluding those related to acquisitions and divestitures:			
Decrease (increase) in commercial and U.S. government receivables	44	(33)	(40)
Increase in inventories	(89)	(33)	(28)
Decrease (increase) in other assets	(95)	(125)	25
Increase (decrease) in accounts payable	30	79	54
Increase (decrease) in accrued liabilities	(86)	57	(96)
Other - net	(68)	(82)	35
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>1,063</b>	<b>976</b>	<b>908</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchases of investments	(288)	(293)	(188)
Proceeds from disposition of investments	402	204	96
Maturities and calls of investments	90	50	55
Finance receivables:			
Originated or purchased	(8,394)	(6,890)	(6,237)
Repaid or sold	7,708	6,310	5,731
Proceeds on sales of securitized assets	373	-	-
Cash used in acquisitions	(449)	(224)	(252)
Proceeds from sales of businesses	549	180	-
Capital expenditures	(412)	(343)	(279)
Other investing activities - net	45	25	30
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>(376)</b>	<b>(981)</b>	<b>(1,044)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Increase (decrease) in short-term debt	131	240	(253)
Proceeds from issuance of long-term debt	2,730	2,089	2,984
Principal payments on long-term debt	(3,016)	(2,438)	(2,347)
Issuance of Textron - obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Textron junior subordinated debt securities	-	483	-
Proceeds from exercise of stock options	38	42	42
Purchases of Textron common stock	(299)	(266)	(100)
Purchases of Textron common stock from Paul Revere	(29)	(34)	(22)
Dividends paid	(202)	(148)	(133)
Dividends paid to Parent Group	-	-	-
Capital contributions to Finance Group	-	-	-
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>(647)</b>	<b>(32)</b>	<b>171</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>40</b>	<b>(37)</b>	<b>35</b>
Cash at beginning of year	47	84	49
<b>Cash at end of year</b>	<b>\$ 87</b>	<b>\$ 47</b>	<b>\$ 84</b>
<b>SUPPLEMENTAL INFORMATION:</b>			
Cash paid during the year for interest	\$ 735	\$ 723	\$ 765
Cash paid during the year for income taxes	266	278	276

\*"Parent Group" includes all entities of Textron (primarily manufacturing) other than its finance subsidiaries. The Parent Group's investment in Textron's finance subsidiaries is reflected on a one-line basis under the equity method of accounting. "Finance Group" consists of Textron's wholly-owned finance subsidiaries, AFS and TFC. All significant transactions between the Parent Group and the Finance Group have been eliminated from the "Consolidated" column. The principles of consolidation are described in Note 1 to the consolidated financial statements.

The fiscal year-end for the Finance Group is December 31 for all periods presented.

See notes to the consolidated financial statements.

# 1997 TEXTRON ANNUAL REPORT

	PARENT GROUP*			FINANCE GROUP		
	1997	1996	1995	1997	1996	1995
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Income from continuing operations	\$ 558	\$ 482	\$ 416	\$ 253	\$ 234	\$ 223
Adjustment to reconcile income from continuing operations to net cash provided by operating activities:						
Undistributed earnings of Finance Group	(32)	(110)	(106)	-	-	-
Depreciation	243	202	175	23	21	20
Amortization	56	54	46	113	110	101
Provision for losses on receivables	2	3	3	256	230	169
Deferred income taxes	61	5	18	15	6	10
Changes in assets and liabilities excluding those related to acquisitions and divestitures:						
Decrease (increase) in commercial and U.S. government receivables	44	(33)	(40)	-	-	-
Increase in inventories	(89)	(33)	(28)	-	-	-
Decrease (increase) in other assets	(54)	(123)	49	(29)	(11)	(1)
Increase (decrease) in accounts payable	70	66	58	(54)	20	(28)
Increase (decrease) in accrued liabilities	(98)	70	(116)	12	(15)	(9)
Other - net	8	(7)	61	(78)	(75)	(27)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>769</b>	<b>576</b>	<b>536</b>	<b>511</b>	<b>520</b>	<b>458</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Purchases of investments	-	(5)	(9)	(288)	(288)	(179)
Proceeds from disposition of investments	251	6	30	151	198	66
Maturities and calls of investments	-	-	-	90	50	55
Finance receivables:						
Originated or purchased	-	-	-	(8,394)	(6,890)	(6,237)
Repaid or sold	-	-	-	7,712	6,314	5,762
Proceeds on sales of securitized assets	-	-	-	373	-	-
Cash used in acquisitions	(364)	(216)	(212)	(85)	(8)	(40)
Proceeds from sales of businesses	549	180	-	-	-	-
Capital expenditures	(366)	(309)	(256)	(46)	(34)	(23)
Other investing activities - net	34	28	10	11	(3)	20
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>	<b>104</b>	<b>(316)</b>	<b>(437)</b>	<b>(476)</b>	<b>(661)</b>	<b>(576)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Increase (decrease) in short-term debt	4	(48)	(15)	127	288	(238)
Proceeds from issuance of long-term debt	1,612	905	1,147	1,118	1,184	1,837
Principal payments on long-term debt	(1,951)	(1,226)	(982)	(1,065)	(1,212)	(1,365)
Issuance of Textron - obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Textron junior subordinated debt securities	-	483	-	-	-	-
Proceeds from exercise of stock options	38	42	42	-	-	-
Purchases of Textron common stock	(299)	(266)	(100)	-	-	-
Purchases of Textron common stock from Paul Revere	(29)	(34)	(22)	-	-	-
Dividends paid	(202)	(148)	(133)	-	-	-
Dividends paid to Parent Group	-	-	-	(221)	(124)	(117)
Capital contributions to Finance Group	(40)	-	-	40	-	-
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<b>(867)</b>	<b>(292)</b>	<b>(63)</b>	<b>(1)</b>	<b>136</b>	<b>117</b>
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>6</b>	<b>(32)</b>	<b>36</b>	<b>34</b>	<b>(5)</b>	<b>(1)</b>
Cash at beginning of year	24	56	20	23	28	29
<b>Cash at end of year</b>	<b>\$ 30</b>	<b>\$ 24</b>	<b>\$ 56</b>	<b>\$ 57</b>	<b>\$ 23</b>	<b>\$ 28</b>
<b>SUPPLEMENTAL INFORMATION:</b>						
Cash paid during the year for interest	\$ 140	\$ 140	\$ 161	\$ 595	\$ 583	\$ 604
Cash paid during the year for income taxes	112	142	131	154	136	145

\*"Parent Group" includes all entities of Textron (primarily manufacturing) other than its finance subsidiaries. The Parent Group's investment in Textron's finance subsidiaries is reflected on a one-line basis under the equity method of accounting. "Finance Group" consists of Textron's wholly-owned finance subsidiaries, AFS and TFC. All significant transactions between the Parent Group and the Finance Group have been eliminated from the "Consolidated" column. The principles of consolidation are described in Note 1 to the consolidated financial statements.

The fiscal year-end for the Finance Group is December 31 for all periods presented.

See notes to the consolidated financial statements.

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**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For each of the three years in the period ended January 3, 1998	SHARES OUTSTANDING* (In thousands)			DOLLARS (In millions)		
	1997	1996	1995	1997	1996	1995
<b>\$2.08 PREFERRED STOCK</b>						
Beginning balance	243	267	297	\$ 7	\$ 8	\$ 9
Conversion to common stock	(42)	(24)	(30)	(1)	(1)	(1)
Ending balance	201	243	267	\$ 6	\$ 7	\$ 8
<b>\$1.40 PREFERRED STOCK</b>						
Beginning balance	107	118	126	\$ 7	\$ 7	\$ 7
Conversion to common stock	(15)	(11)	(8)	-	-	-
Ending balance	92	107	118	\$ 7	\$ 7	\$ 7
<b>COMMON STOCK</b>						
Beginning balance	82,809	84,935	85,497	\$ 12	\$ 12	\$ 12
Purchases	(4,103)	(3,193)	(1,734)	-	-	-
Stock dividend declared	82,397	-	-	12	-	-
Conversion of preferred stock to common stock	166	71	81	-	-	-
Exercise of stock options	1,066	923	1,091	-	-	-
Other issuances of common stock	8	73	-	-	-	-
Ending balance	162,343	82,809	84,935	\$ 24	\$ 12	\$ 12
<b>CAPITAL SURPLUS</b>						
Beginning balance				\$ 793	\$ 750	\$ 702
Conversion of preferred stock to common stock				1	1	1
Exercise of stock options and other issuances				48	48	47
Stock dividend declared				(12)	-	-
Purchases of common stock				-	(6)	-
Ending balance				\$ 830	\$ 793	\$ 750
<b>RETAINED EARNINGS</b>						
Beginning balance				\$2,969	\$2,864	\$2,518
Net income				558	253	479
Dividends declared:						
Preferred stock				(1)	(1)	(1)
Common stock (per share: \$1.00 in 1997; \$.88 in 1996; and \$.78 in 1995)				(164)	(147)	(132)
Ending balance				\$3,362	\$2,969	\$2,864
<b>TREASURY STOCK</b>						
Beginning balance				\$ 612	\$ 358	\$ 258
Purchases of common stock				328	259	100
Issuance of common stock				(1)	(5)	-
Ending balance				\$ 939	\$ 612	\$ 358
<b>OTHER</b>						
Beginning balance				\$ 7	\$ 129	\$ (108)
Currency translation adjustment				(73)	35	5
Securities valuation adjustment				4	(155)	216**
Pension liability adjustment				-	(2)	3
Shares allocated to ESOP participants' accounts				-	-	13
Ending balance				\$ (62)	\$ 7	\$ 129

\*Shares issued at the end of 1997, 1996, 1995, and 1994 were as follows (in thousands): \$2.08 Preferred - 270; 312; 336; and 366 shares, respectively; \$1.40 Preferred - 579; 594; 604; and 613 shares, respectively; Common - 190,689; 94,456; 93,462; and 92,284 shares, respectively.

\*\*Includes net unrealized gains relating to the transfer of all of Paul Revere's debt securities from the held to maturity category to the available for sale category of its investment portfolio (\$133 million) partially offset by an adjustment to deferred policy acquisition costs (\$73 million).

See notes to consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. FINANCIAL STATEMENT PRESENTATION

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING POLICIES APPEAR IN CAPITAL LETTERS AS AN INTEGRAL PART OF THE NOTES TO THE FINANCIAL STATEMENTS TO WHICH THE POLICIES RELATE.

#### NATURE OF OPERATIONS AND PRINCIPLES OF CONSOLIDATION

Textron is a global multi-industry company with manufacturing and finance operations. See pages 58 and 59 for a description of Textron's principal products. Its principal markets (listed within segments in order of the amount of 1997 revenues) and the major locations of such markets are as

follows:

SEGMENT	PRINCIPAL MARKETS	MAJOR LOCATIONS
AIRCRAFT	<ul style="list-style-type: none"> <li>- Commercial and military helicopters</li> <li>- Business jets</li> <li>- General aviation</li> <li>- Overnight express package carriers</li> <li>- Commuter airlines, relief flights, tourism, and freight</li> </ul>	<ul style="list-style-type: none"> <li>- North America</li> <li>- Asia/Pacific</li> <li>- South America</li> <li>- Western Europe</li> </ul>
AUTOMOTIVE	<ul style="list-style-type: none"> <li>- Automotive original equipment manufacturers and their suppliers</li> </ul>	<ul style="list-style-type: none"> <li>- North America</li> <li>- Western Europe</li> </ul>
INDUSTRIAL	<ul style="list-style-type: none"> <li>- Fastening systems: automotive, electronics, aerospace, other OEMs, distributors, and consumers</li> <li>- Industrial components: commercial aerospace and defense</li> <li>- Golf and turf-care products: golf courses, resort communities, and commercial and industrial users</li> <li>- Fluid and power systems: original equipment manufacturers, distributors, and end-users of a wide variety of products</li> </ul>	<ul style="list-style-type: none"> <li>- North America</li> <li>- Western Europe</li> <li>- Asia/Pacific</li> <li>- South America</li> </ul>
FINANCE	<ul style="list-style-type: none"> <li>- Consumer loans</li> <li>- Commercial loans</li> </ul>	<ul style="list-style-type: none"> <li>- North America</li> <li>- Asia/Pacific</li> <li>- Western Europe</li> </ul>

The consolidated financial statements include the accounts of Textron and all of its majority- and wholly-owned subsidiaries. All significant intercompany transactions are eliminated. Paul Revere is reflected as a discontinued operation for 1996 and 1995.

Textron consists of two borrowing groups - the Textron Parent Company Borrowing Group (Parent Group) and Textron's finance subsidiaries (Finance Group). The Parent Group consists of all entities of Textron (primarily manufacturing) other than its wholly-owned finance subsidiaries, which are included on a one-line basis under the equity method of accounting. The Finance Group consists of Avco Financial Services (AFS) and Textron Financial Corporation (TFC).

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these statements and accompanying notes. Consequently, actual results could differ from such estimates.

### 2. ACQUISITIONS AND DISPOSITIONS

#### ACQUISITIONS

In 1997, Textron acquired Germany-based Kautex Group, a worldwide supplier of blow-molded plastic fuel tanks and other automotive components and systems for approximately \$350 million, which includes the assumption of debt. In addition, Textron acquired Brazil-based Brazaco Mapri Industrias, S.A., South America's leading maker of fasteners. The purchase price of \$70 million is payable on or before March 31, 1998. Smaller acquisitions made in 1997 aggregated approximately \$170 million.

In November 1997, Textron announced a tender offer to acquire the capital stock of Ransomes PLC, a UK-based equipment manufacturer, for approximately \$230 million, plus the assumption of debt. This transaction closed in early 1998.

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In 1996, Textron acquired Valois Industries (renamed Textron Industries, S.A.S.), a France-based manufacturer of engineered fastening systems for approximately \$240 million, which includes the assumption of debt. Other acquisitions made in 1996 aggregated approximately \$130 million.

In 1995, Textron acquired Elco Industries, Friedr. Boesner GmbH and the stock of HFC of Australia Ltd. for an aggregate of approximately \$300 million.

The acquisitions were accounted for as purchases and accordingly, the results of operations of each acquired company are included in the statement of income from the date of acquisition.

### DISPOSITIONS

In 1997, Textron completed the sale of its 83.3% owned subsidiary, the Paul Revere Corporation to Provident Companies, Inc. Net proceeds to Textron after adjustments and contingent payments were approximately \$800 million (which included the value of shares of Provident common stock subsequently sold for \$245 million). In 1996, the Parent Group sold, for no gain or loss, its Aerostructures division for \$180 million in cash plus a subordinated note.

#### 3. INVESTMENTS

SECURITIES CLASSIFIED AS AVAILABLE FOR SALE ARE REPORTED AT ESTIMATED FAIR VALUE. UNREALIZED GAINS AND LOSSES RELATED TO THESE SECURITIES, NET OF APPLICABLE INCOME TAXES, ARE REPORTED AS A SEPARATE COMPONENT OF SHAREHOLDERS' EQUITY. NET REALIZED GAINS OR LOSSES RESULTING FROM SALES OR CALLS OF INVESTMENTS ARE INCLUDED IN REVENUES AND ARE NOT SIGNIFICANT FOR ALL YEARS PRESENTED. THE COST OF SECURITIES SOLD IS DETERMINED PRIMARILY USING THE SPECIFIC IDENTIFICATION METHOD.

The amortized cost and estimated fair value of investments at the end of 1997 and 1996 were as

follows:

(In millions)	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
-----				
JANUARY 3, 1998				
Securities available for sale:				
Obligations of U.S. and foreign governments and government agencies	\$240	\$10	\$1	\$249
Public utility securities	41	1	-	42
Corporate securities	330	7	1	336
Mortgage-backed securities	195	2	-	197
Marketable equity securities	18	1	-	19
-----				
	\$824	\$21	\$2	843
=====				
Other investments, at cost (estimated fair value: \$1)				1
-----				
				\$844
=====				
December 28, 1996				
Securities available for sale:				
Obligations of U.S. and foreign governments and government agencies	\$227	\$10	\$1	\$236
Public utility securities	53	1	-	54
Corporate securities	315	4	2	317
Mortgage-backed securities	180	1	1	180
Marketable equity securities	23	2	-	25
-----				
	\$798	\$18	\$4	812
=====				
Other investments, at cost (estimated fair value: \$8)				8
-----				
				\$820
=====				

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The amortized cost and estimated fair value of debt securities at the end of 1997, grouped by contractual maturity date, were as follows:

(In millions)	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in 1998	\$143	\$144
Due 1999 to 2002	254	259
Due 2003 to 2007	137	143
Due after 2007	77	81
	611	627
Mortgage-backed securities	195	197
	\$806	\$824

#### 4. FINANCE RECEIVABLES

INTEREST INCOME IS RECOGNIZED IN REVENUES USING THE INTEREST METHOD. DIRECT LOAN ORIGINATION COSTS AND FEES RECEIVED ARE DEFERRED AND AMORTIZED OVER THE LOANS' CONTRACTUAL LIVES. THE ACCRUAL OF INTEREST INCOME IS SUSPENDED FOR ACCOUNTS WHICH ARE CONTRACTUALLY DELINQUENT BY MORE THAN THREE MONTHS (COMMERCIAL) OR THREE PAYMENTS (CONSUMER). ACCRUAL OF INTEREST ON COMMERCIAL LOANS RESUMES AND SUSPENDED INTEREST INCOME IS RECOGNIZED WHEN LOANS BECOME CONTRACTUALLY CURRENT. INTEREST INCOME ON DELINQUENT CONSUMER LOANS IS RECOGNIZED WHEN COLLECTED.

FINANCE RECEIVABLES ARE WRITTEN OFF WHEN THEY ARE DETERMINED TO BE UNCOLLECTIBLE, BUT IN ANY EVENT, ALL CONSUMER RECEIVABLES FOR WHICH AN AMOUNT AGGREGATING A FULL CONTRACTUAL PAYMENT HAS NOT BEEN RECEIVED FOR SIX CONSECUTIVE MONTHS ARE WRITTEN OFF. FINANCE RECEIVABLES, PRIMARILY COMMERCIAL FINANCE RECEIVABLES AND CONSUMER REAL ESTATE LOANS, ARE WRITTEN DOWN TO THE FAIR VALUE OF THE RELATED COLLATERAL (LESS ESTIMATED COSTS TO SELL) WHEN THE COLLATERAL IS REPOSSESSED OR WHEN NO PAYMENT HAS BEEN RECEIVED FOR SIX MONTHS, UNLESS MANAGEMENT DEEMS THE LOANS COLLECTIBLE. FORECLOSED REAL ESTATE LOANS AND REPOSSESSED ASSETS ARE TRANSFERRED FROM FINANCE RECEIVABLES TO OTHER ASSETS AT THE LOWER OF FAIR VALUE (LESS ESTIMATED COSTS TO SELL) OR THE OUTSTANDING LOAN BALANCE.

PROVISIONS FOR LOSSES ON FINANCE RECEIVABLES ARE CHARGED TO INCOME IN AMOUNTS SUFFICIENT TO MAINTAIN THE ALLOWANCE AT A LEVEL CONSIDERED ADEQUATE TO COVER LOSSES IN THE EXISTING RECEIVABLE PORTFOLIO. MANAGEMENT EVALUATES THE ALLOWANCE BY EXAMINING CURRENT DELINQUENCIES, THE CHARACTERISTICS OF THE EXISTING ACCOUNTS, HISTORICAL LOSS EXPERIENCE, THE VALUE OF THE UNDERLYING COLLATERAL, AND GENERAL ECONOMIC CONDITIONS AND TRENDS.

The maximum term of consumer loans and retail installment contracts is ten years, but approximately 90% of the contracts have terms of four years or less. Consumer real estate loans have a maximum term of 15 years. Nonearning consumer loans were \$132 million at the end of 1997 (\$141 million at the end of 1996).

Commercial installment contracts have initial terms ranging from one to 12 years. Commercial real estate loans have initial terms ranging from three to five years. Finance leases have initial terms up to 12 years. Leveraged leases have initial terms up to approximately 30 years. Floorplan and other receivables generally mature within one year. Nonearning commercial loans were \$92 million at the end of 1997 (\$91 million at the end of 1996).



The following table displays the contractual maturity of the finance receivables. It does not necessarily reflect future cash collections because of various factors including the refinancing of receivables and repayments prior to maturity. Cash collections from receivables, excluding finance charges, were \$7.3 billion and \$6.3 billion in 1997 and 1996, respectively. In the same periods, the ratio of cash collections to average net receivables was approximately 73% and 65%, respectively.

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(In millions)	CONTRACTUAL MATURITIES			LESS FINANCE CHARGES	FINANCE RECEIVABLES OUTSTANDING	
	1998	1999	After 1999		1997	1996
<b>CONSUMER:</b>						
Consumer loans	\$1,728	\$1,193	\$1,303	\$1,202	\$ 3,022	\$ 3,206
Real estate loans	599	488	3,509	2,201	2,395	2,547
Retail installment contracts	1,074	434	425	511	1,422	1,209
	3,401	2,115	5,237	3,914	6,839	6,962
<b>COMMERCIAL:</b>						
Installment contracts	360	244	734	158	1,180	1,211
Real estate loans	57	54	236	2	345	402
Finance leases	291	245	517	130	923	847
Leveraged leases	10	33	570	283	330	327
Floorplan and other receivables	820	157	284	66	1,195	673
	1,538	733	2,341	639	3,973	3,460
	\$4,939	\$2,848	\$7,578	\$4,553	10,812	10,422
Less allowance for credit losses						
					315	293
Less finance-related insurance reserves and claims						
					271	273
					\$10,226	\$ 9,856

Textron had both fixed-rate and variable-rate loan commitments totaling \$735 million at year-end 1997. Because interest rates on these commitments are not set until the loans are funded, Textron is not exposed to interest rate changes.

A portion of TFC's business involves financing the sale and lease of Textron products. In 1997, 1996, and 1995, TFC paid Textron \$736 million, \$663 million, and \$461 million, respectively, for receivables and operating lease equipment. Operating agreements with Textron specify that TFC generally has recourse to Textron with respect to these purchases. At year-end 1997, finance receivables and operating lease equipment of \$519 million and \$90 million, respectively, (\$713 million and \$86 million, respectively, at year-end 1996) were due from Textron or subject to recourse to Textron.

## 5. INVENTORIES

INVENTORIES ARE CARRIED AT THE LOWER OF COST OR MARKET.

(In millions)	JANUARY 3, 1998	December 28, 1996
Finished goods	\$ 454	\$ 364
Work in process	675	769
Raw materials	366	259
	1,495	1,392
Less progress payments and customer deposits	146	200
	\$1,349	\$1,192

Inventories aggregating \$894 million at year-end 1997 and \$848 million at year-end 1996 were valued by the last-in, first-out (LIFO) method. (Had such LIFO inventories been valued at current costs, their carrying values would have been approximately \$159 million and \$143 million higher at those respective dates.) The remaining inventories, other than those related to certain long-term contracts, are valued generally by the first-in, first-out method.

Inventories related to long-term contracts, net of progress payments and customer deposits, were \$147 million at year-end 1997 and \$181 million at year-end 1996.



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6. LONG-TERM  
CONTRACTS

SALES UNDER FIXED-PRICE CONTRACTS ARE GENERALLY RECORDED AS DELIVERIES ARE MADE. CERTAIN LONG-TERM FIXED-PRICE CONTRACTS PROVIDE FOR THE PERIODIC DELIVERY AFTER A LENGTHY PERIOD OF TIME OVER WHICH SIGNIFICANT COSTS ARE INCURRED OR REQUIRE A SIGNIFICANT AMOUNT OF DEVELOPMENT EFFORT IN RELATION TO TOTAL CONTRACT VOLUME. SALES UNDER THOSE CONTRACTS AND ALL COST-REIMBURSEMENT-TYPE CONTRACTS ARE RECORDED AS COSTS ARE INCURRED. SALES UNDER THE V-22 PRODUCTION CONTRACT WITH THE U.S. GOVERNMENT, WHICH PRESENTLY IS A COST-REIMBURSEMENT-TYPE CONTRACT, ARE RECORDED AS COSTS-ARE INCURRED.

CERTAIN CONTRACTS ARE AWARDED WITH FIXED-PRICE INCENTIVE FEES. INCENTIVE FEES ARE CONSIDERED WHEN ESTIMATING REVENUES AND PROFIT RATES, AND ARE RECORDED WHEN THESE AMOUNTS ARE REASONABLY DETERMINED. LONG-TERM CONTRACT PROFITS ARE BASED ON ESTIMATES OF TOTAL SALES VALUE AND COSTS AT COMPLETION. SUCH ESTIMATES ARE REVIEWED AND REVISED PERIODICALLY THROUGHOUT THE CONTRACT LIFE. REVISIONS TO CONTRACT PROFITS ARE RECORDED WHEN THE REVISIONS ARE MADE. ESTIMATED CONTRACT LOSSES ARE RECORDED WHEN IDENTIFIED.

Long-term contract receivables at year-end 1997 and year-end 1996 totaled \$146 million and \$127 million, respectively. This includes \$111 million and \$56 million, respectively, of unbilled costs and accrued profits that had not yet met the contractual billing criteria. Long-term contract receivables do not include significant amounts (a) billed but unpaid due to contractual retainage provisions or (b) subject to collection uncertainty.

7. PROPERTY, PLANT,  
AND EQUIPMENT

THE COST OF PROPERTY, PLANT, AND EQUIPMENT IS DEPRECIATED BASED ON THE ASSETS' ESTIMATED USEFUL LIVES.

(In millions)	JANUARY 3, 1998	December 28, 1996
<hr style="border-top: 1px dashed black;"/>		
At cost:		
Land and buildings	\$ 844	\$ 753
Machinery and equipment	2,843	2,450
<hr style="border-top: 1px dashed black;"/>		
	3,687	3,203
Less accumulated depreciation	1,827	1,664
<hr style="border-top: 1px dashed black;"/>		
	\$1,860	\$1,539
<hr style="border-top: 3px double black;"/>		

8. GOODWILL

GOODWILL IS AMORTIZED ON THE STRAIGHT-LINE METHOD. GOODWILL RELATED TO MANUFACTURING OPERATIONS IS AMORTIZED OVER 20 TO 40 YEARS AND GOODWILL RELATED TO FINANCE SUBSIDIARIES GENERALLY IS AMORTIZED OVER 25 YEARS. Accumulated amortization of goodwill totaled \$465 million at January 3, 1998 and \$404 million at December 28, 1996.

GOODWILL IS PERIODICALLY REVIEWED FOR IMPAIRMENT BY COMPARING THE CARRYING AMOUNT TO THE ESTIMATED FUTURE UNDISCOUNTED CASH FLOWS OF THE BUSINESSES ACQUIRED. IF THIS REVIEW INDICATES THAT GOODWILL IS NOT RECOVERABLE, THE CARRYING AMOUNT WOULD BE REDUCED TO FAIR VALUE.

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9. DEBT AND CREDIT At the end of 1997 and 1996, debt consisted of the FACILITIES following:

(In millions)	JANUARY 3, 1998	December 28, 1996
-----		
PARENT GROUP:		
Senior:		
Borrowings under or supported by long-term credit facilities*	\$ 375	\$ 878
Medium-term notes; due 1999 to 2011 (average rate - 9.54%)	229	291
6.63% - 10.04%; due 2001 to 2022	405	209
Other notes (average rate - 6.99%)	182	100
-----		
Total senior	1,191	1,478
-----		
Subordinated - 8.86% - 8.97%; due 1998 to 1999	30	29
-----		
Total Parent Group	1,221	1,507
-----		
FINANCE GROUP:		
Senior:		
Borrowings under or supported by credit facilities**	4,248	3,781
3.74% - 5.92%; due 1998 to 2002	1,917	1,181
6.00% - 6.99%; due 1998 to 2002	579	1,330
7.00% - 8.96%; due 1998 to 2001	1,603	1,595
9.01% - 10.86%; due 1998	28	29
Variable rate notes; due 1998 to 2001 (average rate - 6.11%)	900	923
-----		
Total Finance Group	9,275	8,839
-----		
Total debt	\$10,496	\$10,346
=====		

\*The weighted average interest rates on these borrowings, before the effect of interest rate exchange agreements, were 4.8%, 5.0%, and 6.1% at year-end 1997, 1996, and 1995, respectively. Comparable rates during the years 1997, 1996, and 1995 were 4.8%, 5.0%, and 6.1%, respectively.

\*\*The weighted average interest rates on these borrowings, before the effect of interest rate exchange agreements, were 5.7%, 5.5%, and 6.3% at year-end 1997, 1996, and 1995, respectively. Comparable rates during the years 1997, 1996, and 1995 were 5.5%, 5.8%, and 6.4%, respectively.

The following table shows required payments and sinking fund requirements during the next five years on debt outstanding at the end of 1997. The payments schedule excludes amounts that may become payable under credit facilities and revolving credit agreements.

(In millions)	1998	1999	2000	2001	2002
Parent Group	\$ 97	\$ 58	\$ 53	\$138	\$ 29
Finance Group	1,300	1,321	1,701	420	285
-----					
	\$1,397	\$1,379	\$1,754	\$558	\$314
=====					

The Parent Group maintains credit facilities with various banks for both short- and long-term borrowings. The Parent Group has a \$1.5 billion domestic credit agreement with 33 banks available on a fully revolving basis until July 1, 2002. At year-end 1997, \$1.4 billion of the credit facility was not used or reserved as support for commercial paper or bank borrowings. Textron also has two five-year multi-currency credit agreements with 25 banks for \$700 million for its foreign operations; \$445 million was available at year-end 1997.

The Finance Group has lines of credit with various banks aggregating \$5.2 billion at year-end 1997, of which \$374 million was not used or reserved as support for commercial paper or bank borrowings. Lending agreements limit the Finance Group's net assets available for cash dividends and other payments to the Parent Group to approximately \$475 million of the Finance Group's net assets of \$1.6 billion at year-end 1997. The Finance Group's loan agreements also contain provisions regarding additional debt, creation of liens or guarantees, and the making of investments.

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The Parent Group has agreed to cause TFC to maintain certain minimum levels of financial performance. No payments from the Parent Group were necessary in 1997, 1996, or 1995 for TFC to meet these standards.

### 10. DERIVATIVES AND FOREIGN CURRENCY TRANSACTIONS

#### INTEREST RATE EXCHANGE AGREEMENTS

Interest rate exchange agreements are used to help manage interest rate risk by converting certain variable-rate debt to fixed-rate debt and vice versa. These agreements involve the exchange of fixed-rate interest for variable-rate amounts over the life of the agreement without the exchange of the notional amount. INTEREST RATE EXCHANGE AGREEMENTS ARE ACCOUNTED FOR ON THE ACCRUAL BASIS WITH THE DIFFERENTIAL TO BE PAID OR RECEIVED RECORDED CURRENTLY AS AN ADJUSTMENT TO INTEREST EXPENSE.

SOME AGREEMENTS THAT REQUIRE THE PAYMENT OF FIXED-RATE INTEREST ARE DESIGNATED AGAINST SPECIFIC LONG-TERM VARIABLE-RATE BORROWINGS, WHILE THE BALANCE IS DESIGNATED AGAINST EXISTING SHORT-TERM BORROWINGS THROUGH MATURITY AND THEIR ANTICIPATED REPLACEMENTS. TEXTRON CONTINUOUSLY MONITORS VARIABLE-RATE BORROWINGS TO MAINTAIN THE LEVEL OF BORROWINGS ABOVE THE NOTIONAL AMOUNT OF THE DESIGNATED AGREEMENTS. IF IT IS NOT PROBABLE VARIABLE-RATE BORROWINGS WILL CONTINUOUSLY EXCEED THE NOTIONAL AMOUNT OF THE DESIGNATED AGREEMENTS, THE EXCESS IS MARKED TO MARKET AND THE ASSOCIATED GAIN OR LOSS RECORDED IN INCOME. PREMIUMS PAID TO TERMINATE AGREEMENTS DESIGNATED AS HEDGES ARE DEFERRED AND AMORTIZED TO EXPENSE OVER THE REMAINING TERM OF THE ORIGINAL LIFE OF THE CONTRACT. IF THE UNDERLYING DEBT IS THEN PAID EARLY, UNAMORTIZED PREMIUMS ARE RECOGNIZED AS AN ADJUSTMENT TO THE GAIN OR LOSS ASSOCIATED WITH THE DEBT'S EXTINGUISHMENT.

During 1997, the Finance Group had \$640 million of interest rate exchange agreements go into effect. Interest rate exchange agreements in effect at the end of 1997 and 1996 had weighted average remaining terms of 1.5 years and 3.2 years, respectively, for the Parent Group and 1.4 years and 1.2 years, respectively, for the Finance Group. Agreements that effectively fix the rate of interest on variable-rate

borrowings are summarized as follows:

	JANUARY 3, 1998		December 28, 1996	
FIXED-PAY INTEREST RATE EXCHANGE AGREEMENTS*	Notional amount	Weighted average interest rate	Notional amount	Weighted average interest rate
(Dollars in millions)				
Parent Group	\$ 275**	9.01%	\$ 453	8.53%
Finance Group	1,575***	6.96	1,443	7.50
	\$1,850	7.27	\$1,896	7.75

\* During 1997, the Parent Group and Finance Group also entered into variable-pay interest rate exchange agreements for \$200 million and \$150 million, respectively, which were designated against specific long-term fixed-rate notes. These agreements effectively adjusted the rate of interest on certain long-term fixed-rate notes to 6.2% from 6.6% for the Parent Group and to 4.8% from 5.5% for the Finance Group as of year-end.

\*\* The Parent Group's fixed-pay interest rate exchange agreements were designated against existing and anticipated short-term variable-rate borrowings. These agreements effectively adjusted the average rate of interest on short-term variable-rate notes to

7.0% from 4.8%. The interest rate exchange agreements in effect at the end of 1997 expire as follows: \$100 million (8.7%) in 1998; \$25 million (7.2%) in 1999; \$150 million (9.4%) in 2000.

\*\*\* \$450 million of the Finance Group's interest rate exchange agreements were designated against specific long-term variable-rate notes and the balance against existing short-term variable-rate borrowings or their anticipated replacements. These agreements effectively adjusted the average rate of interest on long-term variable-rate notes to 6.3% from 6.1% and on short-term variable-rate

borrowings to 5.8% from 5.6%. The fixed-pay interest rate exchange agreements in effect at the end of 1997 expire as follows: \$563 million (7.3%) in 1998; \$708 million (6.7%) in 1999; \$268 million (6.9%) in 2000; \$10 million

(6.7%) in 2001; and \$26 million (6.9%)

thereafter.

Textron had minimal exposure to loss from nonperformance by the counterparties to its interest rate exchange agreements at the end of 1997, and does not anticipate nonperformance by counterparties in the periodic settlements of amounts due. Textron currently minimizes this potential for risk by entering into contracts exclusively with major, financially sound

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counterparties having no less than a long-term bond rating of "A," by continuously monitoring the Counterparties' credit ratings, and by limiting exposure with any one financial institution. The credit risk generally is limited to the amount by which the counterparties' contractual obligations exceed Textron's obligations to the counterparty.

### TRANSLATION OF FOREIGN CURRENCIES, FOREIGN EXCHANGE TRANSACTIONS AND FOREIGN CURRENCY EXCHANGE CONTRACTS

FOREIGN CURRENCY DENOMINATED ASSETS AND LIABILITIES ARE TRANSLATED INTO U.S. DOLLARS WITH THE ADJUSTMENTS FROM THE CURRENCY RATE CHANGES BEING RECORDED IN THE CURRENCY TRANSLATION ADJUSTMENT ACCOUNT IN SHAREHOLDERS' EQUITY UNTIL THE RELATED FOREIGN ENTITY IS SOLD OR SUBSTANTIALLY LIQUIDATED. NON-U.S. DOLLAR FINANCING TRANSACTIONS ARE USED TO EFFECTIVELY HEDGE LONG-TERM INVESTMENTS IN FOREIGN OPERATIONS WITH THE SAME CORRESPONDING CURRENCY. FOREIGN CURRENCY GAINS AND LOSSES ON THE HEDGE OF THE LONG-TERM INVESTMENTS ARE RECORDED IN THE CURRENCY TRANSLATION ADJUSTMENT WITH THE OFFSET RECORDED AS AN ADJUSTMENT TO THE NON-U.S. DOLLAR FINANCING LIABILITY.

FORWARD EXCHANGE CONTRACTS ARE USED TO HEDGE CERTAIN FOREIGN CURRENCY TRANSACTIONS AND CERTAIN FIRM SALES AND PURCHASE COMMITMENTS DENOMINATED IN FOREIGN CURRENCIES. GAINS AND LOSSES FROM CURRENCY RATE CHANGES ON HEDGES OF FOREIGN CURRENCY TRANSACTIONS ARE RECORDED CURRENTLY IN INCOME. GAINS AND LOSSES RELATING TO THE HEDGE OF THE FIRM SALES AND PURCHASE COMMITMENTS ARE INCLUDED IN THE MEASUREMENT OF THE UNDERLYING TRANSACTIONS WHEN THEY

OCCUR. Foreign exchange gains and losses included in income have not been material.

Forward exchange contracts, predominantly denominated in Canadian dollars, Deutschmarks and French francs, totaling approximately \$524 million and \$124 million were outstanding at the end of 1997 and 1996, respectively. Unrealized gains or losses relating to these contracts approximated the contracts' fair value at year-end (see Note 18).

11. TEXTRON-OBLIGATED  
MANDATORILY  
REDEEMABLE  
PREFERRED  
SECURITIES OF  
SUBSIDIARY TRUST  
HOLDING SOLELY  
TEXTRON JUNIOR  
SUBORDINATED DEBT  
SECURITIES

In 1996, a trust sponsored and wholly-owned by Textron issued preferred securities to the public (for \$500 million) and shares of its common securities to Textron (for \$15.5 million), the proceeds of which were invested by the trust in \$515.5 million aggregate principal amount of Textron's newly issued 7.92% Junior Subordinated Deferrable Interest Debentures, due 2045. The debentures are the sole asset of the trust. The proceeds from the issuance of the debentures were used by Textron for the repayment of long-term borrowings and for general corporate purposes. The amounts due to the trust under the debentures and the related income statement amounts have been eliminated in Textron's consolidated financial statements.

The preferred securities accrue and pay cash distributions quarterly at a rate of 7.92% per annum. Textron has guaranteed, on a subordinated basis, distributions and other payments due on the preferred securities. The guarantee, when taken together with Textron's obligations under the debentures and in the indenture pursuant to which the debentures were issued and Textron's obligations under the Amended and Restated Declaration of Trust governing the trust, provides a full and unconditional guarantee of amounts due on the preferred securities. The preferred securities are mandatorily redeemable upon the maturity of the debentures on March 31, 2045, or earlier to the extent of any redemption by Textron of any debentures. The redemption price in either such case will be \$25 per share plus accrued and unpaid distributions to the date fixed for redemption.

12. SHAREHOLDERS'  
EQUITY

PREFERRED STOCK

Textron has authorization for 15,000,000 shares of preferred stock. Each share of \$2.08 Preferred Stock



(\$23.63 approximate stated value) is convertible into 4.4 shares of common stock and can be redeemed by Textron for \$50 per share. Each share of \$1.40 Preferred Dividend Stock (\$11.82 approximate stated value) is convertible into 3.6 shares of common stock and can be redeemed by Textron for \$45 per share.

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## COMMON STOCK

Textron has authorization for 500,000,000 shares of 12.5 cent per share par value common stock. New shares in connection with a two-for-one stock split in the form of a stock dividend were issued and distributed on May 30, 1997 to shareholders of record on the close of business on May 9, 1997. Average shares outstanding, stock options, and per share amounts have been restated for all periods presented.

### PERFORMANCE SHARE UNITS AND STOCK OPTIONS

Textron's 1994 Long-Term Incentive Plan authorizes awards to key employees in two forms: (a) performance share units and (b) options to purchase Textron common stock. The total number of shares of common stock for which options may be granted under the plan is 10,000,000. PERFORMANCE SHARE UNITS AND EMPLOYEE STOCK OPTION GRANTS ARE ACCOUNTED FOR IN ACCORDANCE WITH APB 25, "ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES." UNDER APB 25, BECAUSE THE EXERCISE PRICE OF EMPLOYEE STOCK OPTIONS EQUALS THE MARKET PRICE ON THE DATE OF GRANT, NO COMPENSATION EXPENSE IS RECOGNIZED FOR STOCK OPTION AWARDS. COMPENSATION EXPENSE FOR PERFORMANCE SHARE UNITS IS MEASURED BASED ON THE VALUE OF TEXTRON STOCK UNDERLYING THE AWARDS.

Compensation expense under Textron's performance share program was approximately \$65 million in 1997, \$45 million in 1996, and \$23 million in 1995. To mitigate the impact of stock price increases on compensation expense, Textron entered into a cash-settlement option program on Textron's common stock in November 1995. This program generated income of approximately \$37 million in 1997 and \$21 million in 1996.

Pro forma information regarding net income and earnings per share is required by FAS 123, "Accounting for Stock-Based Compensation" and has been determined under the fair value method of that Statement. For the purpose of developing the pro forma information, the fair values of options granted after 1995 are estimated at the date of grant using the Black-Scholes option-pricing model. The estimated fair values are amortized to expense over the options' vesting period. Using this methodology, net income would have been reduced by \$15 million or \$.09 per share in 1997 and \$10 million or \$.06 per share in 1996. The pro forma effect on 1995 net income was not material. The pro forma effect on net income is not necessarily representative of the effect in future years because it does not take into consideration pro forma compensation expense related to grants made prior to 1995.

The assumptions used to estimate the fair value of an option granted in 1997, 1996 and 1995, respectively, are approximately as follows: dividend yield of 2%; expected volatility of 16%; risk-free interest rates of 6%, 6%, and 5%; and weighted average expected lives of 3.5 years. Under these assumptions, the weighted-average fair value of an option to purchase one share granted in 1997, 1996, and 1995, respectively, was approximately \$14, \$10, and \$8.

Stock option transactions during the last three years are summarized as follows:

(Shares in thousands)	1997		1996		1995	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Shares under option at beginning of year	9,290	\$31.08	9,116	\$26.05	9,392	\$22.16
Options granted	1,333	62.54	2,136	45.37	2,124	36.06
Options exercised	(1,541)	24.56	(1,846)	22.89	(2,196)	19.13
Options canceled	(81)	43.40	(116)	29.38	(204)	25.57
Shares under option at end of year	9,001	36.74	9,290	31.08	9,116	26.05
Shares exercisable at end of year	6,641	30.21	6,128	25.26	5,888	22.69

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Stock options outstanding at the end of 1997 and 1996 are summarized as follows:

Range of Exercise Prices (Shares in thousands)	Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable	Weighted Average Exercise Price
-----					
JANUARY 3, 1998:					
\$11 - \$32	3,952	5.6	\$23.44	3,952	\$23.44
\$33 - \$50	3,745	8.5	41.67	2,689	40.15
\$51 - \$68	1,304	9.9	62.87	-	-
December 28, 1996:					
\$10 - \$32	5,292	6.6	\$23.24	5,192	\$23.15
\$33 - \$40	1,938	9.0	36.95	936	36.93
\$40 - \$46	2,060	9.9	45.69	-	-
=====					

### RESERVED SHARES OF COMMON STOCK

At year-end 1997, 3,277,000 shares of common stock were reserved for the subsequent conversion of preferred stock and 9,001,000 shares were reserved for the exercise of stock options.

### PREFERRED STOCK PURCHASE RIGHTS

Each outstanding share of Textron common stock has attached to it one-half of a preferred stock purchase right. One preferred stock purchase right entitles the holder to buy one one-hundredth of a share of Series C Junior Participating Preferred Stock at an exercise price of \$250. The rights become exercisable only under certain circumstances related to a person or group acquiring or offering to acquire a substantial block of Textron's common stock. In certain circumstances, holders may acquire Textron stock, or in some cases the stock of an acquiring entity, with a value equal to twice the exercise price. The rights expire in September 2005 but may be redeemed earlier for \$.05 per right.

### INCOME PER COMMON SHARE

In 1997, Textron adopted FAS 128 "Earnings Per Share." FAS 128 requires companies to present basic and diluted income per share amounts. A reconciliation of income from continuing operations and basic to diluted share amounts is presented below. All periods presented have been restated.

For the years ended	JANUARY 3, 1998		December 28, 1996		December 30, 1995	
(\$ in millions, shares in thousands)	Income	Average Shares	Income	Average Shares	Income	Average Shares
-----						
Income from continuing operations	\$558		\$482		\$416	
-----						
Less: Preferred stock dividends	(1)		(1)		(1)	
-----						
BASIC						
Available to common shareholders	557	164,830	481	167,453	415	169,848
Dilutive effect of convertible preferred stock and stock options	1	4,673	1	4,199	1	3,404
DILUTED						
Available to common shareholders and assumed conversions	\$558	169,503	\$482	171,652	\$416	173,252
=====						

#### 13. LEASES

Rental expense approximated \$116 million, \$106 million, and \$104 million in 1997, 1996, and 1995, respectively. Future minimum rental commitments for noncancellable operating leases in effect at year-end 1997 approximated \$91 million for 1998; \$75 million for 1999; \$55 million for 2000; \$43 million for 2001; \$37 million for 2002; and a total of \$229 million thereafter.

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### 14. RESEARCH AND DEVELOPMENT

Textron carries out research and development for itself and under contracts with others, primarily the U.S. government. Company initiated programs include independent research and development related to government products and services, a significant portion of which is recoverable from the U.S. government through overhead cost allowances.

RESEARCH AND DEVELOPMENT COSTS FOR WHICH TEXTRON IS RESPONSIBLE ARE EXPENSED AS INCURRED. THESE COMPANY FUNDED COSTS INCLUDE AMOUNTS FOR COMPANY INITIATED PROGRAMS, THE COST SHARING PORTIONS OF CUSTOMER INITIATED PROGRAMS, AND LOSSES INCURRED ON CUSTOMER INITIATED PROGRAMS. The company funded and customer funded research and development costs for

1997, 1996, and 1995 were as follows:

(In millions)	1997	1996	1995
Company funded	\$ 222	\$ 185	\$ 181
Customer funded	380	391	475
<b>Total research and development</b>	<b>\$602</b>	<b>\$ 576</b>	<b>\$ 656</b>

### 15. PENSION BENEFITS

Textron has defined benefit and defined contribution pension plans which together cover substantially all employees. The costs of the defined contribution plans are funded as accrued and amounted to approximately \$56 million, \$49 million, and \$32 million for 1997, 1996, and 1995, respectively. Defined benefits under salaried plans are based on salary and years of service. Hourly plans generally provide benefits based on stated amounts for each year of service. Textron's funding policy is consistent with federal law and regulations. Plan assets consist principally of corporate and government bonds and common stocks.

Pension income in 1997, 1996, and 1995 included the

following components:

(In millions)	1997	1996	1995
Service cost - benefits earned during the year	\$ 73	\$ 70	\$ 56
Interest cost on projected benefit obligation	224	208	210
Actual return on plan assets	(721)	(495)	(747)
Amortization of unrecognized transition net asset	(17)	(17)	(17)
Net amortization and deferral of actuarial gains	438	230	483
<b>Net pension income</b>	<b>\$ (3)</b>	<b>\$ (4)</b>	<b>\$ (15)</b>

The following table sets forth the funded status of Textron's pension plans.

(In millions)	January 3, 1998		December 28, 1996	
	Assets exceed accumulated benefits	Accumulated benefits exceed assets	Assets exceed accumulated benefits	Accumulated benefits exceed assets
Plan assets at fair value	\$4,091	\$ 61	\$3,534	\$ 124
Actuarial present value of:				
Vested benefit obligation	2,633	161	2,410	197
Nonvested benefit obligation	73	17	67	19
Accumulated benefit obligation	2,706	178	2,477	216
Effect of projected pay increases	307	35	254	35
Projected benefit obligation	3,013	213	2,731	251
Plan funded status	1,078	(152)	803	(127)
Unrecognized net actuarial (gains) losses	(719)	20	(472)	30
Unrecognized prior service cost	84	21	93	21
Unrecognized transition net obligation (net asset)	(104)	7	(120)	5
Adjustment required to recognize minimum liability	-	(18)	-	(24)

Net pension asset (liability) recognized on the consolidated balance sheet	\$ 339	\$(122)	\$ 304	\$ (95)
--	--------	---------	--------	---------

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Major actuarial assumptions used in accounting for the defined benefit pension plans are shown in the following table. Net pension income is determined using these assumptions as of the end of the prior year. The funded status of the plans is determined using these assumptions as of the end of the current year.

	January 3, 1998	December 28, 1996	December 30, 1995	December 31, 1994
Discount rate	7.25%	7.50%	7.25%	8.25%
Weighted average long-term rate of compensation increase	5.00	5.00	5.00	5.00
Long-term rate of return on plan assets	9.00	9.00	9.00	9.00

16. **POSTRETIREMENT** Textron offers health care and life insurance benefits for **BENEFITS OTHER** certain retired employees. Postretirement benefit costs other THAN PENSIONS than pension-related expenses in 1997, 1996, and 1995 included the components shown in the following table. Textron's postretirement benefit plans other than pensions are unfunded.

(In millions)	1997	1996	1995
Service cost - benefits earned during the year	\$ 5	\$ 5	\$ 5
Interest cost on accumulated postretirement benefit obligation	47	53	58
Net amortization	(15)	(13)	(14)
 Postretirement benefit costs	 \$ 37	 \$ 45	 \$ 49

The following table sets forth the status of these plans at the end of 1997 and 1996:

(In millions)	January 3, 1998	December 28, 1996
Actuarial present value of benefits attributed to:		
Retirees	\$507	\$522
Fully eligible active plan participants	68	66
Other active plan participants	88	85
Accumulated postretirement benefit obligation	663	673
Unrecognized net actuarial gains	110	114
Unrecognized prior service cost benefit	26	30
Postretirement benefit liability recognized on the consolidated balance sheet	\$799	\$817

The discount rates used to determine postretirement benefit costs other than pensions and the status of those plans were the same as those used for Textron's defined benefit pension plans.

The 1997 health care cost trend rate, which is the weighted average annual assumed rate of increase in the per capita cost of covered benefits, was 6.5% for retirees age 65 and over and 7.5% for retirees under age 65. Both rates are assumed to decrease gradually to 5.5% by 2001 and 2003, respectively, and then remain at that level. Increasing the health care cost trend rates by one percentage point in each year would have increased the accumulated postretirement benefit obligation as of year-end 1997 by \$60 million and the aggregate of the service and interest cost components of postretirement benefit costs for 1997 by \$5 million.

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17. INCOME  
TAXES

Textron files a consolidated federal income tax return for all U.S. subsidiaries and separate returns for foreign subsidiaries. TEXTRON RECOGNIZES DEFERRED INCOME TAXES FOR TEMPORARY DIFFERENCES BETWEEN THE FINANCIAL REPORTING BASIS AND INCOME TAX BASIS OF ASSETS AND LIABILITIES BASED ON ENACTED TAX RATES EXPECTED TO BE IN EFFECT WHEN AMOUNTS ARE LIKELY TO BE REALIZED OR SETTLED.

The following table shows income from continuing operations before income taxes and distributions on

preferred securities of subsidiary trust:

(In millions)	1997	1996	1995
United States	\$566	\$528	\$476
Foreign	382	299	214
Total	\$948	\$827	\$690

Income tax expense is summarized as follows:

(In millions)	1997	1996	1995
Federal:			
Current	\$109	\$169	\$137
Deferred	81	11	31
State	38	31	32
Foreign	136	111	74
Income tax expense	\$364	\$322	\$274

The following reconciles the federal statutory income tax rate to the effective income tax rate reflected in the consolidated statement of income:

	1997	1996	1995
Federal statutory income tax rate	35.0%	35.0%	35.0%
Increase (decrease) in taxes resulting from:			
State income taxes	2.2	2.4	2.9
Goodwill	2.3	2.3	2.5
Other - net	(1.1)	(.8)	(.7)
Effective income tax rate	38.4%	38.9%	39.7%

Textron's net deferred tax asset consisted of gross deferred tax assets and gross deferred tax liabilities of \$1,696 million and \$1,453 million, respectively, at the end of 1997 and \$1,467 million and \$1,140 million, respectively, at the end of 1996.

The components of Textron's net deferred tax asset were as follows:

(In millions)	January 3, 1998	December 28, 1996
Finance Group transactions, principally leasing	\$(329)	\$(324)
Obligation for postretirement benefits other than pensions	319	321
Fixed assets, principally depreciation	(156)	(146)
Self insured liabilities	147	152
Deferred compensation	116	103
Allowance for credit losses	81	86
Other, principally timing of other expense deductions	65	135
	\$ 243	\$ 327

Deferred income taxes have not been provided for the undistributed earnings of foreign subsidiaries, which approximated \$936 million at the end of 1997. Management intends to reinvest those earnings for an indefinite period, except for distributions having an immaterial tax effect. If foreign subsidiaries' earnings were distributed, 1997 taxes, net of foreign tax credits, would be increased by approximately \$51 million,

primarily because of foreign withholding taxes.



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18. FAIR VALUE OF FINANCIAL INSTRUMENTS      The estimated fair value amounts shown below were determined from available market information and valuation methodologies. Because considerable judgment is required in interpreting market data, the estimates are not necessarily indicative of the amounts that could be realized in a current market exchange.

	January 3, 1998		December 28, 1996	
(In millions)	Carrying value	Estimated fair value	Carrying value	Estimated fair value
<b>ASSETS:</b>				
INVESTMENTS	\$ 844	\$ 844	\$ 820	\$ 820
<b>FINANCE RECEIVABLES:</b>				
Consumer loans	6,364	6,288	6,471	6,451
Commercial loans	2,652	2,741	2,227	2,270
<b>LIABILITIES:</b>				
<b>DEBT:</b>				
Parent Group:				
Debt	1,221	1,276	1,507	1,565
Interest rate exchange agreements	-	10	-	37
Finance Group:				
Debt	9,275	9,309	8,839	8,882
Interest rate exchange agreements	-	12	-	18
FOREIGN CURRENCY EXCHANGE CONTRACTS	(4)	-	-	2

### NOTES:

(i) Investments - The estimated fair values of investment securities were based on available quoted market prices, appraisals, prices from independent brokers, or discounted cash flow analyses.

(ii) Finance receivables - The estimated fair values of fixed-rate consumer loans, real estate loans and commercial installment contracts were based on discounted cash flow analyses. The estimated fair values of variable-rate receivables and fixed-rate retail installment contracts approximated the net carrying value. The estimated fair values of nonperforming loans were based on discounted cash flow analyses using risk-adjusted interest rates or the fair value of the related collateral.

(iii) Debt, interest rate exchange agreements, and foreign currency exchange contracts - The estimated fair value of fixed-rate debt was determined by independent investment bankers or discounted cash flow analyses. The estimated fair values of variable-rate debt approximated their carrying values. The estimated fair values of interest rate exchange agreements were determined by independent investment bankers and represent the estimated amounts that Textron or its counterparty would be required to pay to assume the other party's obligations under the agreements. The estimated fair values of the foreign currency exchange contracts were determined by Textron's foreign exchange banks.

19. CONTINGENCIES AND ENVIRONMENTAL REMEDIATION      CONTINGENCIES

Textron is subject to a number of lawsuits, investigations and claims arising out of the conduct of its business, including those relating to commercial transactions, government contracts, product liability, and environmental, safety and health matters. Some seek compensatory, treble or punitive damages in substantial amounts; fines, penalties or restitution; or remediation of contamination. Some are or purport to be class actions. Under federal government procurement regulations, some could result in suspension or debarment of Textron or its subsidiaries from U.S. government contracting for a period of time. On the basis of information presently available, Textron believes that any liability for these suits and proceedings would not have a material effect on Textron's net income or financial condition.

ENVIRONMENTAL REMEDIATION

ENVIRONMENTAL LIABILITIES ARE RECORDED BASED ON THE MOST

PROBABLE COST IF KNOWN OR ON THE ESTIMATED MINIMUM COST, DETERMINED ON A SITE-BY-SITE BASIS. TEXTRON'S ENVIRONMENTAL LIABILITIES ARE UNDISCOUNTED AND DO NOT TAKE INTO CONSIDERATION POSSIBLE FUTURE INSURANCE PROCEEDS OR SIGNIFICANT AMOUNTS FROM CLAIMS AGAINST OTHER THIRD PARTIES.

Textron's accrued estimated environmental liabilities are based on assumptions which are subject to a number of factors and uncertainties. Circumstances which can affect the accruals' reliability and precision include identification of additional sites, environmental regulations, level of cleanup required, technologies available, number and financial condition of other contributors to remediation, and the time period over which remediation may occur. Textron believes that any changes to the accruals that may result from these factors and uncertainties will not have a material effect on Textron's net income or financial condition. Textron estimates that its accrued environmental remediation liabilities will likely be paid over the next five to ten years.

## 1997 TEXTRON ANNUAL REPORT

20. GEOGRAPHIC Presented below is selected financial information by DATA geographic area of Textron's operations.

GEOGRAPHIC AREAS (In millions)	REVENUES BY ORIGIN			INCOME BY ORIGIN		
	1997	1996	1995	1997	1996	1995
United States	\$ 7,495	\$7,000	\$6,841	\$ 836	\$ 791	\$ 773
Europe	1,394	767	393	158	99	61
Other North America	1,179	1,043	807	139	125	87
Australia/New Zealand	299	292	267	73	66	59
Other (primarily Asia/Pacific)	177	172	145	12	9	7
	\$10,544	\$9,274	\$8,453	1,218	1,090	987
Corporate expenses and other - net				(141)	(115)	(119)
Interest expense - net				(129)	(148)	(178)
Income from continuing operations before income taxes and distributions on preferred securities of subsidiary trust				\$ 948	\$ 827	\$ 690

(In millions)	DESTINATION OF U.S. EXPORT REVENUE		
	1997	1996	1995
North America	\$ 340	\$ 342	\$ 280
Europe	227	256	306
Asia/Pacific	215	220	194
South America	172	92	110
Australia/New Zealand	32	33	41
Middle East	25	55	43
Other locations	32	43	26
	\$ 1,043	\$1,041	\$1,000

(In millions)	IDENTIFIABLE ASSETS		
	1997	1996	1995
United States	\$12,126	\$12,103	\$12,080
Europe	2,268	1,662	1,077
Other North America	1,694	1,436	1,337
Australia/New Zealand	1,320	1,211	1,138
Other (primarily Asia/Pacific)	553	311	210
Corporate, including investment in discontinued operation in 1996 and 1995	1,105	1,742	1,932
Eliminations	(456)	(230)	(123)
	\$18,610	\$18,235	\$17,651

**NOTES:**

- (i) Revenues include sales to the U.S. government of \$1.0 billion, \$1.0 billion, and \$1.3 billion in 1997, 1996, and 1995, respectively and of \$1.1 billion in 1997 to a single customer.
- (ii) Revenues between geographic areas, predominantly revenues of U.S. divisions, were approximately 5% in each of the years 1997, 1996, and 1995.
- (iii) Assets in foreign locations relate principally to the Finance segment.

## 1997 TEXTRON ANNUAL REPORT

### QUARTERLY DATA

(Unaudited) (Dollars in millions except per share amounts)	1997				1996			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
REVENUES								
Aircraft	\$ 895	\$ 752	\$ 782	\$ 706	\$ 762	\$ 638	\$ 649	\$ 654
Automotive	583	464	523	557	428	355	439	405
Industrial	767	734	812	758	700	729	779	641

Finance	573	558	550	530	538	526	517	514
TOTAL REVENUES	\$2,818	\$2,508	\$2,667	\$2,551	\$2,428	\$2,248	\$2,384	\$2,214
INCOME								
Aircraft	\$ 96	\$ 84	\$ 81	\$ 64	\$ 79	\$ 69	\$ 67	\$ 56
Automotive	39	28	33	50	41	27	41	37
Industrial	82	82	92	78	68	77	80	65
Finance	108	104	101	96	98	98	95	92
TOTAL OPERATING INCOME	325	298	307	288	286	271	283	250
Corporate expenses and other - net	(42)	(36)	(30)	(33)	(29)	(28)	(30)	(28)
Interest expense - net	(28)	(32)	(30)	(39)	(37)	(36)	(37)	(38)
Income taxes	(98)	(86)	(95)	(85)	(85)	(81)	(84)	(72)
Distributions on preferred securities of subsidiary trust, net of income taxes	(7)	(6)	(7)	(6)	(7)	(6)	(7)	(3)
INCOME FROM CONTINUING OPERATIONS	150	138	145	125	128	120	125	109
Discontinued operation, net of income taxes:								
Income from operations	-	-	-	-	-	-	-	16
Loss on disposal	-	-	-	-	-	(155)	-	(90)
	-	-	-	-	-	(155)	-	(74)
Net income (loss)	\$ 150	\$ 138	\$ 145	\$ 125	\$ 128	\$ (35)	\$ 125	\$ 35
EARNINGS PER COMMON SHARE								
BASIC:								
Income from continuing operations	\$ .92	\$ .83	\$ .88	\$ .75	\$ .77	\$ .72	\$ .74	\$ .64
Discontinued operation	-	-	-	-	-	(.93)	-	(.43)
Net income (loss)	\$ .92	\$ .83	\$ .88	\$ .75	\$ .77	\$ (.21)	\$ .74	\$ .21
Average shares outstanding (in thousands)	163,697	164,912	165,173	165,897	165,551	167,060	168,188	168,929
DILUTED:								
Income from continuing operations	\$ .89	\$ .81	\$ .86	\$ .73	\$ .75	\$ .70	\$ .73	\$ .63
Discontinued operation	-	-	-	-	-	(.90)	-	(.43)
Net income (loss)	\$ .89	\$ .81	\$ .86	\$ .73	\$ .75	\$ (.20)	\$ .73	\$ .20
Average shares outstanding (in thousands)	168,527	169,675	169,797	170,388	169,745	171,357	172,516	172,963
OPERATING INCOME MARGINS								
Aircraft	10.7%	11.2%	10.4%	9.1%	10.4%	10.8%	10.3%	8.6%
Automotive	6.7	6.0	6.3	9.0	9.6	7.6	9.3	9.1
Industrial	10.7	11.2	11.3	10.3	9.7	10.6	10.3	10.1
Finance	18.8	18.6	18.4	18.1	18.2	18.6	18.4	17.9
OPERATING INCOME MARGIN	11.5	11.9	11.5	11.3	11.8	12.1	11.9	11.3
COMMON STOCK INFORMATION								
Price range: High	\$65 11/16	\$70 3/4	\$67 11/16	\$53 5/8	\$48 7/8	\$43 15/16	\$44 1/2	\$42 7/8
Low	\$55 1/2	\$59 1/2	\$49 11/16	\$ 45	\$42 3/8	\$36 1/2	\$38 1/2	\$34 9/16
Dividends per share	\$ .25	\$ .25	\$ .25	\$ .25	\$ .22	\$ .22	\$ .22	\$ .22

All share related data has been restated to reflect the effect of the two-for-one common stock split in the form of a stock dividend in May 1997. Prior year amounts have been reclassified to conform to the current year's segment presentation.

## 1997 TEXTRON ANNUAL REPORT

### SELECTED FINANCIAL INFORMATION

(Dollars in millions except per share amounts)	1997	1996	1995
REVENUES			
Aircraft	\$ 3,135	\$ 2,703	\$ 2,519
Automotive	2,127	1,627	1,534
Industrial	3,071	2,849	2,415
Finance	2,211	2,095	1,985
Total revenues	\$ 10,544	\$ 9,274	\$ 8,453
INCOME			
Aircraft	\$ 325	\$ 271	\$ 245
Automotive	150	146	135
Industrial	334	290	242
Finance	409	383	365

TOTAL OPERATING INCOME	1,218	1,090	987
Corporate expenses and other - net	(141)	(115)	(119)
Interest expense - net	(129)	(148)	(178)
Income taxes	(364)	(322)	(274)
Distributions on preferred securities of subsidiary trust, net of income taxes	(26)	(23)	-

INCOME FROM CONTINUING OPERATIONS*	\$ 558	\$ 482	\$ 416
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PER SHARE OF COMMON STOCK

Income from continuing operations - basic*	\$ 3.38	\$ 2.87	\$ 2.45
Income from continuing operations - diluted*	\$ 3.29	\$ 2.81	\$ 2.40
Dividends declared	\$ 1.00	\$ .88	\$ .78
Book value at year-end	\$ 19.78	\$ 19.10	\$ 19.96
Common stock price: High	\$ 70 3/4	\$ 48 7/8	\$ 38 11/16
Low	\$ 45	\$ 34 9/16	\$ 24 5/16
Year-end	\$ 62 5/8	\$ 46 11/16	\$ 33 3/4

Common shares outstanding (in thousands):

Basic average	164,830	167,453	169,848
Diluted average	169,503	171,652	173,252
Year-end	167,315	169,745	173,340

FINANCIAL POSITION

Total assets	\$ 18,610	\$ 18,235	\$ 17,651
Debt:			
Parent Group	\$ 1,221	\$ 1,507	\$ 1,774
Finance Group	\$ 9,275	\$ 8,839	\$ 8,437
Preferred securities of subsidiary trust	\$ 483	\$ 483	\$ -
Shareholders' equity	\$ 3,228	\$ 3,183	\$ 3,412
Parent Group debt to total capital	25%	29%	34%

INVESTMENT DATA

Capital expenditures	\$ 412	\$ 343	\$ 279
Depreciation	\$ 266	\$ 223	\$ 195
Research and development	\$ 602	\$ 576	\$ 656

OTHER DATA

Number of employees at year-end	64,000	57,000	54,000
Number of common shareholders at year-end	24,000	25,000	26,000

	1994	1993	1992	1991
<b>REVENUES</b>				
Aircraft	\$ 2,290	\$ 2,077	\$ 1,617	\$ 1,352
Automotive	1,511	1,178	788	661
Industrial	2,877	3,016	3,211	3,197
Finance	1,672	1,610	1,622	1,548
Total revenues	\$ 8,350	\$ 7,881	\$ 7,238	\$ 6,758
<b>INCOME</b>				
Aircraft	\$ 197	\$ 162	\$ 136	\$ 121
Automotive	132	89	68	50
Industrial	245	247	277	303
Finance	331	289	250	226
TOTAL OPERATING INCOME	905	787	731	700
Corporate expenses and other - net	(92)	(103)	(81)	(89)
Interest expense - net	(190)	(214)	(238)	(213)
Income taxes	(257)	(171)	(160)	(160)
Distributions on preferred securities of subsidiary trust, net of income taxes	-	-	-	-
Income from continuing operations*	\$ 366	\$ 299	\$ 252	\$ 238
<b>PER SHARE OF COMMON STOCK</b>				
Income from continuing operations - basic*	\$ 2.07	\$ 1.69	\$ 1.45	\$ 1.38
Income from continuing operations - diluted*	\$ 2.03	\$ 1.66	\$ 1.42	\$ 1.36
Dividends declared	\$ .70	\$ .62	\$ .56	\$ .515
Book value at year-end	\$ 16.72	\$ 15.59	\$ 14.05	\$ 16.82
Common stock price: High	\$30 5/16	\$29 7/16	\$22 3/8	\$19 3/4
Low	\$23 1/4	\$20 3/16	\$16 7/8	\$12 1/2
Year-end	\$25 3/16	\$29 1/8	\$22 3/8	\$19 1/4
Common shares outstanding (in thousands):				
Basic average	176,474	176,071	173,334	171,061
Diluted average	180,208	179,713	177,087	174,724
Year-end	174,616	180,509	178,366	175,903
<b>FINANCIAL POSITION</b>				
Total assets	\$ 16,103	\$ 15,372	\$14,710	\$12,283

Debt:				
Parent Group	\$ 1,582	\$ 2,025	\$ 2,283	\$ 1,820
Finance Group	\$ 7,760	\$ 6,847	\$ 6,440	\$ 5,664
Preferred securities of subsidiary trust	\$ -	\$ -	\$ -	\$ -
Shareholders' equity	\$ 2,882	\$ 2,780	\$ 2,488	\$ 2,928
Parent Group debt to total capital	35%	42%	48%	45%
=====				
INVESTMENT DATA				
Capital expenditures	\$ 294	\$ 246	\$ 215	\$ 152
Depreciation	\$ 206	\$ 201	\$ 194	\$ 177
Research and development	\$ 611	\$ 514	\$ 430	\$ 457
=====				
OTHER DATA				
Number of employees at year-end	50,000	53,000	51,000	49,000
Number of common shareholders at year-end	27,000	28,000	30,000	31,000
=====				

\*Before cumulative effect of changes in accounting principles in 1992.

All share related data has been restated to reflect the effect of the two-for-one common stock split in the form of a stock dividend in May 1997. Prior year amounts have been reclassified to conform to the current year's segment presentation.

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## 1997 TEXTRON ANNUAL REPORT

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AIRCRAFT	BELL HELICOPTER TEXTRON	Webb F. Joiner Chairman Terry D. Stinson President and CEO	Vertical takeoff and landing aircraft and spare parts for the U.S. government, foreign governments and commercial markets.
	THE CESSNA AIRCRAFT COMPANY	Russell W. Meyer, Jr. Chairman and CEO	Light and mid-size business jets, utility turboprops and single-engine piston aircraft.
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AUTOMOTIVE	TEXTRON AUTOMOTIVE COMPANY	John A. Janitz Chairman, President and CEO	Automotive interior and exterior trim; functional components and systems.
	CWC CASTINGS TEXTRON	John L. Kelly President	Gray iron and ductile iron castings, primarily camshafts for automobile and engine manufacturers.
	KAUTEX TEXTRON GERMANY	Dr. Wolfgang Theis President	Blow-molded plastic fuel tank systems and other automotive functional components.
	MCCORD WINN TEXTRON	George F. Daniels President	Automotive windshield and headlamp washing systems and electro-mechanical components; seating comfort systems for automotive and non-automotive markets.
	MICROMATIC TEXTRON	Michael J. Brennan President	Proprietary machine tools, components and assembly systems for automotive and commercial markets.
	RANDALL TEXTRON	Jane L. Warner President	Fuel filler assemblies and fuel delivery systems for the automotive market.
	TEXTRON AUTOMOTIVE TRIM OPERATIONS	Sam Licavoli President	Instrument panels, door panels, armrests, airbag doors, center consoles, headliners, exterior trim and lighting components.
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INDUSTRIAL		Herbert L. Henkel President Textron Industrial Products	Fastening systems, golf and turf care products, industrial components, and fluid and power systems.
	TEXTRON FASTENING SYSTEMS	Frank Gulden President Textron Fastening Systems	Fastening systems, synergistic assemblies, components and installation tools serving the automotive, aerospace, electronics, construction, do-it-yourself and transportation markets.
	AVDEL CHERRY	Donald J. Garbison General Manager	TEXTRON FASTENING SYSTEMS GERMANY Horst B. Homuth President
	CAMCAR TEXTRON (INCLUDES BRAZIL-BASED MAPRI INDUSTRIAS, S.A.)	James R. MacGilvray President	TEXTRON FASTENING SYSTEMS UNITED KINGDOM Andrew R. Taylor Managing Director
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	ELCO TEXTRON	John C. Lutz President and CEO	TEXTRON INDUSTRIES S.A FRANCE Frank Gulden Acting President
	TEXTRON AEROSPACE FASTENERS	Edmund W. Staple	TEXTRON LOGISTICS COMPANY James R. Stenberg

## 1997 TEXTRON ANNUAL REPORT

INDUSTRIAL (continued)	GOLF AND TURF CARE PRODUCTS	Carl D. Burtner President Golf and Turf Care Products	Golf cars, lawn and turf care products, and multi-purpose utility vehicles.
	E-Z-GO TEXTRON	L.T. Walden, Jr. President	Electric- and gasoline-powered golf cars and multipurpose utility vehicles.
	JACOBSEN TEXTRON	Philip J. Tralies President	Professional mowing and turf maintenance equipment.
	RANSOMES PLC UNITED KINGDOM	Peter G. Wilson President	Turf care machinery for the golf, municipal and commercial markets, and multi-purpose utility vehicles.
INDUSTRIAL COMPONENTS		Carl D. Burtner President Industrial Components	Tools and accessories for the wire and cable industry; components for the commercial aerospace and defense industries.
	FUEL SYSTEMS TEXTRON	Michael Boston President	Fuel systems components for aircraft and industrial gas turbine engines.
	GREENLEE TEXTRON (INCLUDES GERMANY-BASED KLAUKE)	Barclay S. Olson President	Products for wire and cable installation and maintenance in residential, commercial and industrial facilities.
	TEXTRON LYCOMING*	James A. Koerner President	Piston aircraft engines and replacement parts for the general aviation market.
	TEXTRON MARINE & LAND SYSTEMS	John J. Kelly President	Air cushion amphibious landing craft, Coast Guard rescue craft, combat vehicles, lightweight artillery systems and advanced suspension systems.
	TURBINE ENGINE COMPONENTS TEXTRON	G.L. (Topper) Long President	Air and land-based gas turbine engine components for engine OEMs.
FLUID AND POWER SYSTEMS		Robert A. Geckle President Fluid and Power Systems	Mechanical power transmission and motion control components and systems; specialty fluid handling pumps and systems; weapons and electronic systems.
	CONE DRIVE TEXTRON (INCLUDES ITALY-BASED MAAG ITALIA)	John G. Melvin President	Double-enveloping worm gear speed reducers, gear motors and gear sets.
	HR TEXTRON	George A. Andrews President	Motion control components and systems for industrial, defense and aerospace markets.
	MAAG PUMP SYSTEMS TEXTRON AG SWITZERLAND	Dr. Frank Brinken President	Gear pumps and systems used for processing applications in the plastics, chemical and pharmaceutical industries.
	TEXTRON SYSTEMS	Richard J. Millman President	Weapon systems, sensing systems and advanced materials for defense and commercial markets.
FINANCE	AVCO FINANCIAL SERVICES	Warren R. Lyons Chairman	Global consumer and commercial lending and credit, property and casualty insurance.
	TEXTRON FINANCIAL CORPORATION	Stephen A. Giliotti President	Commercial financing for the purchase and lease of Textron and independent products including: equipment, aircraft, golf, and time share.

\*For financial reporting purposes, Textron Lycoming's results are included in the Aircraft Segment.

Exhibit 21 TEXTRON INC. - Significant Subsidiaries

(as of 3/10/98)

Set forth below are the names of certain subsidiaries of Textron Inc. Other subsidiaries, which considered in the aggregate, do not constitute a significant subsidiary, are omitted from such list.

Name	Place of Incorporation
Avco Corporation	Delaware
ARS Two Inc.	Delaware
Avco Community Developers, Inc.	California
Textron Pacific Limited	Australia
Textron Systems Corporation	Delaware
Turbine Engine Components Textron Inc.	Delaware
Avco Financial Services, Inc. (refer to Schedule 1 hereto for a list of the principal subsidiaries of AFS)	Delaware
Avdel Cherry Textron Inc.	New York
Bell Helicopter Services Inc.	Delaware
Bell Helicopter Asia (Pte) Ltd.	Singapore
Bell Helicopter Textron Inc.	Delaware
Brazaco-Mapri Industrias Metalurgica S.A.	Brazil
Burkland Textron Inc.	Michigan
Cadillac Gage Textron Inc.	Michigan
The Cessna Aircraft Company	Kansas
Cone Drive Operations Inc.	Delaware
Elco Textron Inc.	Delaware
Fuel Systems Textron Inc.	Delaware
Greenlee Textron Inc.	Delaware
HR Textron Inc.	Delaware
MAAG Pump Systems Textron Inc.	North Carolina
McCord Corporation	Michigan
Textron Automotive Functional Components Inc. - McCord	Massachusetts
Winn Division	
Textron Automotive Interiors Inc.	Delaware
Textron Automotive Overseas Investment Inc.	Delaware
Textron Automotive B.V.	Netherlands
Micromatic Operations Inc.	Delaware
Micro-Precision Operations Inc.	Delaware
Textron Atlantic Inc.	Delaware
Avdel plc	United Kingdom
Bell Helicopter Supply Center B.V.	Netherlands
Camcar Textron (Malaysia) Sdn. Bhd.	Malaysia
Jacobsen E-Z-GO Textron A.G.	Switzerland
Jacobsen E-Z-GO Textron A/S	Denmark
Jacobsen E-Z-GO Textron B.V.	Netherlands
Jacobsen E-Z-GO Textron S.A.	France
Jacobsen E-Z-GO Textron S.R.L.	Italy
Kautex Iberica S.A.	Spain
Kautex do Brasil Ltda.	Brazil
Kautex Argentina S.A.	Argentina
Kautex Portugal, Produtos Plasticos Ldas.	Portugal
Kautex Textron Benelux N.V.	Belgium
Kautex Textron Bohemia spol. s.r.o.	Czech Republic
Klauke Handels GmbH	Austria
MAAG Pump Systems A.G.	Switzerland
MAAG Pump Systems PTE Ltd.	Singapore
Textron Acquisition Limited	United Kingdom
Ransomes PLC (refer to Schedule 2 hereto for a list of the subsidiaries of Ransomes)	United Kingdom
Textron Golf & Turf PLC	United Kingdom
Textron Atlantic France Inc.	Delaware
Textron Atlantic Holding GmbH	Germany
Gustav Klauke GmbH	Germany
Gustav Klauke France S.A.R.L.	France
Jacobsen E-Z-GO Textron GmbH Rasenpflegesysteme	Germany
Kautex Textron Verwaltungs GmbH	Germany
Kautex Textron GmbH & Co. KG	Germany
Maag Pump Systems GmbH	Germany
Textron Verbindungstechnik Beteiligungs GmbH	Germany
Textron Verbindungstechnik GmbH & Co. OHG	Germany
Textron France Inc.	Delaware
Textron France S.N.C. (1)	France
Textron France S.A.	France
Textron Industries S.A.S.	France
Textron Industrial SpA (2)	Italy
Textron Limited	United Kingdom
Kautex Textron Ltd.	United Kingdom
Textron Automotive Company Limited	United Kingdom
Textron Automotive Company Inc.	Delaware



Keywood Products Corporation	Michigan
Textron Automotive Exteriors Inc.	Delaware
Textron FSC Inc.	Barbados
Textron Financial Corporation	Delaware
Cessna Finance Corporation	Kansas
Textron Holdings Inc.	Delaware
Textron International Inc.	Delaware
Textron Logistics Company Inc.	Delaware
Textron Properties Inc.	Delaware
Textron Canada Limited (3)	Canada
Bell Helicopter Canada International Inc.	Canada
Kautex Corporation	Ontario
Textron Realty Corporation	Delaware
Textron Realty Operations (Wheatfield) Inc.	Delaware
Textron S.A. de C.V.	Mexico
Kautex Textron de Mexico, S.A. de C.V.	Mexico
Kautex Textron Management Services Company de Puebla, S.A. de C.V.	Mexico
Textron Automotive Company de Mexico, S.A. de C.V.	Mexico
Textron Automotive Management Services Company de Mexico, S.A. de C.V.	Mexico
Turbine Engine Components Textron (Cleveland Operations) Inc.	Delaware
Turbine Engine Components Textron (Newington Operations) Inc.	Connecticut
Turbine Engine Components Textron (Santa Fe Springs Operations) Inc.	California
Wolverine Metal Specialties Inc.	Michigan
Xact Textron Inc.	Delaware

- (1) 85% of the capital stock is held by Textron France Inc. and the remaining 15% by Textron Atlantic France Inc.
- (2) 85% of the capital stock is held by Textron Atlantic Inc. and the remaining 15% by Textron International Inc.
- (3) 64.5% of the capital stock is held by Textron Properties Inc. and the remaining 35.5% by Textron Inc.

### Schedule 1

Set forth below are the principal subsidiaries of Avco Financial Services, Inc.:

Name	Place of Incorporation
AFS Corporation (1)	Delaware
Avco DC Corporation (2)	Delaware
Avco Enterprises, Inc. (1)	California
Avco Financial Services Canada Limited (3)	Ontario
Avco Financial Services International, Inc. (4)	Nebraska
Avco Financial Services Ltd. (5)	Australian Capital Territory
Avco Financial Services Limited (1)	New Zealand
Avco Group Limited (2)	United Kingdom
Avco National Bank (6)	California
Balboa Insurance Company (7)	California
Balboa Life Insurance Company (1)	California
Family Insurance Corporation (1)	Wisconsin
Meritplan Insurance Company (8)	California
Newport Insurance Company (8)	California

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- (1) Owned by Avco Financial Services, Inc.
  - (2) Owned by Avco Financial Services International, Inc.
  - (3) Owned by AFS Corporation and Avco DC Corporation
  - (4) Owned by Avco Financial Services, Inc. and Balboa Life Insurance Company
  - (5) Owned by Avco Australia Pty. Ltd.
  - (6) Owned by Avco Enterprises, Inc.
  - (7) Owned by Avco Financial Services International, Inc. and Balboa Life Insurance Company
  - (8) Owned by Balboa Insurance Company

### Schedule 2

Set forth below are the subsidiaries of Ransomes PLC:

Name	Place of Incorporation
Ransom PLC	United Kingdom
Dorman Sprayers Limited	United Kingdom

Laser Lawnmowers Limited	United Kingdom
Livesey Nu-Dale Limited	United Kingdom
Ransomes Consumer Limited	United Kingdom
BTS Green SRL (in liquidation)	Italy
GD Mountfield SA	Luxembourg
Ransomes Investment Corporation	United Kingdom
Ransomes American Corporation	United States
Cushman Inc.	United States
Ransomes Inc.	United States
Steiner Turf Equipment	United States
Ransomes No. 1 Limited	United Kingdom
Ransomes Overseas Services Limited	United Kingdom
Granja SA	France
Granja Motoculture	France
KK Ransomes	Japan
Ransomes SA	France
Ransomes GmbH	Germany
Ransomes Park Limited	United Kingdom
The Havens Management Limited	United Kingdom
Ransomes Property Developments Limited	United Kingdom
Ransomes Sims & Jefferies Limited	United Kingdom
Ransomes Executive Pension Trustee Co. Limited	United Kingdom
Ransomes Pensions Trustee Company Limited	United Kingdom
Ransomes Works Pension Trustee Company Limited	United Kingdom
Supreme Mowing Limited	United Kingdom
Westwood Engineering Limited	United Kingdom
CD Mountfield Limited	United Kingdom

**Exhibit 23**

**CONSENT OF INDEPENDENT AUDITORS**

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Textron Inc. of our report dated January 27, 1998, included in the 1997 Annual Report to Shareholders of Textron Inc.

Our audits also included the financial statement schedules of Textron Inc. listed in the accompanying Index to Financial Statements and Financial Statement Schedules. These schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statements (Form S-3 No. 33-63227, Form S-8 No. 333-07121, Form S-8 No. 33-19402, Form S-8 No. 33-38094, Form S-8 No. 33-57025 and Form S-8 No. 33-63741) of Textron Inc. and in the related Prospectuses and Prospectus Supplements of our report dated January 27, 1998, with respect to the consolidated financial statements and schedules of Textron Inc. included or incorporated by reference in this Annual Report (Form 10-K) for the year ended January 3, 1998.

*/s/Ernst & Young  
Boston, Massachusetts  
March 13, 1998*

## POWER OF ATTORNEY

The undersigned, Textron Inc. ("Textron") a Delaware corporation, and the undersigned directors and officers of Textron, do hereby constitute and appoint Wayne W. Juchatz, Arnold M. Friedman, Michael D. Cahn and Ann T. Willaman, and each of them, with full powers of substitution, their true and lawful attorneys and agents to do or cause to be done any and all acts and things and to execute and deliver any and all instruments and documents which said attorneys and agents, or any of them, may deem necessary or advisable in order to enable Textron to comply with the Securities and Exchange Act of 1934, as amended, and any requirements of the Securities and Exchange Commission in respect thereof, in connection with the filing of Textron's Annual Report on Form 10-K for the fiscal year ended January 3, 1998, including specifically, but without limitation, power and authority to sign the names of the undersigned directors and officers in the capacities indicated below and to sign the names of such officers on behalf of Textron to such Annual Report filed with the Securities and Exchange Commission, to any and all amendments to such Annual Report, to any instruments or documents or other writings in which the original or copies thereof are to be filed as a part of or in connection with such Annual Report or amendments thereto, and to file or cause to be filed the same with the Securities and Exchange Commission; and each of the undersigned hereby ratifies and confirms all that such attorneys and agents, and each of them, shall do or cause to be done hereunder and such attorneys and agents, and each of them, shall have, and may exercise, all of the powers hereby conferred.

IN WITNESS WHEREOF, Textron has caused this Power of Attorney to be executed and delivered in its name and on its behalf by the undersigned duly authorized officer and its corporate seal affixed, and each of the undersigned has signed his or her name thereto, on this 25th day of February, 1998.

### TEXTRON INC.

By: /s/James F. Hardymon  
James F. Hardymon  
Chairman and Chief  
Executive Officer

ATTEST:

/s/Frederick K. Butler  
Frederick K. Butler  
Vice President and Secretary

/s/James F. Hardymon  
James F. Hardymon  
Chairman and Chief  
Executive Officer, Director  
(principal executive officer)

/s/Barbara Scott Preiskel  
Barbara Scott Preiskel  
Director

/s/Lewis B. Campbell  
Lewis B. Campbell  
President and Chief Operating  
Officer, Director

/s/Brian H. Rowe  
Brian H. Rowe  
Director

/s/H. Jesse Arnelle  
H. Jesse Arnelle  
Director

/s/Sam F. Segnar  
Sam F. Segnar  
Director

/s/Teresa Beck  
Teresa Beck  
Director

/s/Jean Head Sisco  
Jean Head Sisco  
Director

/s/R. Stuart Dickson  
R. Stuart Dickson  
Director

/s/John W. Snow  
John W. Snow  
Director

/s/Paul E. Gagne  
Paul E. Gagne  
Director

/s/Martin D. Walker  
Martin D. Walker  
Director

/s/John D. Macomber  
John D. Macomber  
Director

/s/Thomas B. Wheeler  
Thomas B. Wheeler  
Director

/s/Dana G. Mead  
Dana G. Mead  
Director

/s/Stephen L. Key  
Stephen L. Key  
Executive Vice President  
and Chief Financial Officer  
(principal financial officer)

/s/Richard L. Yates  
Richard L. Yates  
Vice President and Controller

(principal accounting officer)

**Exhibit 24.2**

**TEXTRON INC.**

**Assistant Secretary's Certificate**

I, ANN T. WILLAMAN, a duly elected Assistant Secretary of TEXTRON INC., a Delaware corporation (hereinafter, the "Corporation"), DO HEREBY CERTIFY that set forth below is a true and correct copy of a resolution passed at a meeting of the Corporation's Board of Directors held on February 25, 1998, at which a quorum was present and voted throughout:

RESOLVED, that the officers of the Corporation be, and they hereby are, authorized in the name and on behalf of the Corporation to execute and deliver a power of attorney appointing Wayne W. Juchatz, Arnold M. Friedman, Michael D. Cahn and Ann T. Willaman, or any of them, to act as attorneys-in-fact for the Corporation for the purpose of executing and filing the Corporation's Annual Report on Form 10-K for its fiscal year ended January 3, 1998, and any and all amendments thereto.

I DO HEREBY FURTHER CERTIFY that the foregoing resolution has been neither amended nor modified, and remains in full force and effect as of the date hereof.

IN WITNESS WHEREOF, I have hereunto set my hand and caused the Corporate seal of TEXTRON INC. to be affixed as of the 16th day of March, 1998.

CORPORATE SEAL

*/s/Ann T. Willaman*  
*Assistant Secretary*

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**End of Filing**

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