TEXTRON INC

FORM 10-Q
(Quarterly Report)

Filed 11/07/97 for the Period Ending 09/27/97

Address 40 WESTMINSTER ST
            PROVIDENCE, RI 02903
Telephone 4014212800
CIK 0000217346
Symbol TXT
SIC Code 6162 - Mortgage Bankers and Loan Correspondents
Fiscal Year 01/02
# TEXTRON INC

## FORM 10-Q
(Quarterly Report)

Filed 11/7/1997 For Period Ending 9/27/1997

<table>
<thead>
<tr>
<th>Address</th>
<th>40 WESTMINSTER ST</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PROVIDENCE, Rhode Island 02903</td>
</tr>
<tr>
<td>Telephone</td>
<td>401-421-2800</td>
</tr>
<tr>
<td>CIK</td>
<td>0000217346</td>
</tr>
<tr>
<td>Industry</td>
<td>Conglomerates</td>
</tr>
<tr>
<td>Sector</td>
<td>Conglomerates</td>
</tr>
<tr>
<td>Fiscal Year</td>
<td>12/31</td>
</tr>
</tbody>
</table>
## TEXTRON INC.

(Exact name of registrant as specified in its charter)

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

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

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

Common stock outstanding at October 25, 1997 - 164,322,000 shares

### PART I. FINANCIAL INFORMATION

#### Item 1. FINANCIAL STATEMENTS

**TEXTRON INC.**
Condensed Consolidated Statement of Income (unaudited)

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended</th>
<th>Nine Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing sales</td>
<td>$1,950</td>
<td>$1,722</td>
</tr>
<tr>
<td>Finance revenues</td>
<td>558</td>
<td>526</td>
</tr>
<tr>
<td>Total revenues</td>
<td>2,508</td>
<td>2,248</td>
</tr>
<tr>
<td>Costs and expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>1,589</td>
<td>1,395</td>
</tr>
<tr>
<td>Selling and administrative</td>
<td>372</td>
<td>335</td>
</tr>
<tr>
<td>Interest</td>
<td>183</td>
<td>183</td>
</tr>
<tr>
<td>Provision for losses on collection of finance</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


See notes to condensed consolidated financial statements.

Item 1. FINANCIAL STATEMENTS (Continued)

TEXTRON INC.
Condensed Consolidated Balance Sheet (unaudited)
(Dollars in millions)

<table>
<thead>
<tr>
<th></th>
<th>September 27, 1997</th>
<th>December 28, 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$89</td>
<td>$47</td>
</tr>
<tr>
<td>Investments</td>
<td>845</td>
<td>820</td>
</tr>
<tr>
<td>Receivables - net:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance</td>
<td>9,877</td>
<td>9,856</td>
</tr>
<tr>
<td>Commercial and U.S. government</td>
<td>1,015</td>
<td>882</td>
</tr>
<tr>
<td></td>
<td>10,892</td>
<td>10,738</td>
</tr>
<tr>
<td>Inventories</td>
<td>1,435</td>
<td>1,192</td>
</tr>
<tr>
<td>Investment in discontinued operation</td>
<td>-</td>
<td>770</td>
</tr>
<tr>
<td>Property, plant, and equipment, less accumulated depreciation of $1,803 and $1,664</td>
<td>1,713</td>
<td>1,539</td>
</tr>
<tr>
<td>Goodwill, less accumulated amortization of $442 and $404</td>
<td>1,773</td>
<td>1,609</td>
</tr>
<tr>
<td>Other (including net prepaid income taxes)</td>
<td>1,770</td>
<td>1,520</td>
</tr>
<tr>
<td>Total assets</td>
<td>$18,517</td>
<td>$18,235</td>
</tr>
<tr>
<td><strong>Liabilities and shareholders' equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$866</td>
<td>$850</td>
</tr>
<tr>
<td>Accrued postretirement benefits other than pensions</td>
<td>806</td>
<td>817</td>
</tr>
<tr>
<td>Other accrued liabilities (including income taxes)</td>
<td>2,764</td>
<td>2,556</td>
</tr>
<tr>
<td><strong>Debt:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parent Group</td>
<td>1,317</td>
<td>1,507</td>
</tr>
<tr>
<td>Finance Group</td>
<td>8,992</td>
<td>8,839</td>
</tr>
<tr>
<td></td>
<td>10,309</td>
<td>10,346</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>14,745</td>
<td>14,569</td>
</tr>
<tr>
<td>Textron - obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Textron junior subordinated debt securities</td>
<td>483</td>
<td>483</td>
</tr>
<tr>
<td><strong>Shareholders' equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital stock:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Common stock*</td>
<td>24</td>
<td>12</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>825</td>
<td>793</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>3,253</td>
<td>2,969</td>
</tr>
<tr>
<td>Other</td>
<td>(56)</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>4,059</td>
<td>3,795</td>
</tr>
<tr>
<td>Less cost of treasury shares</td>
<td>770</td>
<td>612</td>
</tr>
<tr>
<td>Total shareholders' equity</td>
<td>3,289</td>
<td>3,183</td>
</tr>
<tr>
<td>Total liabilities and shareholders' equity</td>
<td>$18,517</td>
<td>$18,235</td>
</tr>
<tr>
<td>*Common shares outstanding</td>
<td>164,852,000**</td>
<td>82,809,000 **</td>
</tr>
</tbody>
</table>

** Reflects the effect of the two-for-one stock split in the form of a stock dividend paid May 30, 1997 to shareholders of record on May 9, 1997.

See notes to condensed consolidated financial statements.
TEXTRON INC.

Condensed Consolidated Statement of Cash Flows (Unaudited) (In millions)

<table>
<thead>
<tr>
<th>Nine Months Ended</th>
<th>September 27, 1997</th>
<th>September 28, 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from continuing operations</td>
<td>$ 408</td>
<td>$ 354</td>
</tr>
<tr>
<td>Adjustments to reconcile income from continuing operations to net cash provided by operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>316</td>
<td>286</td>
</tr>
<tr>
<td>Provision for losses on receivables</td>
<td>192</td>
<td>168</td>
</tr>
<tr>
<td>Changes in assets and liabilities excluding those related to acquisitions and divestitures:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in commercial and U.S. government receivables</td>
<td>(60)</td>
<td>(8)</td>
</tr>
<tr>
<td>Increase in inventories</td>
<td>(187)</td>
<td>(150)</td>
</tr>
<tr>
<td>Increase in other assets</td>
<td>(150)</td>
<td>(105)</td>
</tr>
<tr>
<td>Decrease in accounts payable</td>
<td>18</td>
<td>16</td>
</tr>
<tr>
<td>Increase in accrued liabilities</td>
<td>13</td>
<td>176</td>
</tr>
<tr>
<td>Other - net</td>
<td>(58)</td>
<td>(83)</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>456</td>
<td>622</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>(178)</td>
<td>(204)</td>
</tr>
<tr>
<td>Proceeds from disposition of investments</td>
<td>336</td>
<td>143</td>
</tr>
<tr>
<td>Maturities and calls of investments</td>
<td>56</td>
<td>41</td>
</tr>
<tr>
<td>Finance receivables:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Originated or purchased</td>
<td>(5,674)</td>
<td>(4,874)</td>
</tr>
<tr>
<td>Repaid or sold</td>
<td>5,093</td>
<td>4,657</td>
</tr>
<tr>
<td>Proceeds from sale of securitized assets</td>
<td>373</td>
<td>-</td>
</tr>
<tr>
<td>Cash used in acquisitions</td>
<td>(398)</td>
<td>(172)</td>
</tr>
<tr>
<td>Cash received from disposition of business</td>
<td>571</td>
<td>180</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>(254)</td>
<td>(215)</td>
</tr>
<tr>
<td>Other investing activities - net</td>
<td>31</td>
<td>(25)</td>
</tr>
<tr>
<td>Net cash used by investing activities</td>
<td>(44)</td>
<td>(469)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in short-term debt</td>
<td>120</td>
<td>230</td>
</tr>
<tr>
<td>Proceeds from issuance of long-term debt</td>
<td>1,604</td>
<td>1,222</td>
</tr>
<tr>
<td>Principal payments on long-term debt</td>
<td>(1,872)</td>
<td>(1,648)</td>
</tr>
<tr>
<td>Issuance of Textron-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Textron junior subordinated debt securities</td>
<td>-</td>
<td>483</td>
</tr>
<tr>
<td>Proceeds from exercise of stock options</td>
<td>32</td>
<td>29</td>
</tr>
<tr>
<td>Purchases of Textron common stock</td>
<td>(130)</td>
<td>(239)</td>
</tr>
<tr>
<td>Purchases of Textron common stock from Paul Revere</td>
<td>-</td>
<td>(34)</td>
</tr>
<tr>
<td>Dividends paid</td>
<td>(124)</td>
<td>(111)</td>
</tr>
<tr>
<td>Net cash used by financing activities</td>
<td>(370)</td>
<td>(68)</td>
</tr>
<tr>
<td><strong>Net increase in cash</strong></td>
<td>42</td>
<td>85</td>
</tr>
<tr>
<td><strong>Cash at beginning of period</strong></td>
<td>47</td>
<td>84</td>
</tr>
<tr>
<td><strong>Cash at end of period</strong></td>
<td>$ 89</td>
<td>$ 169</td>
</tr>
</tbody>
</table>

See notes to condensed consolidated financial statements.

TEXTRON INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1: Basis of presentation

The financial statements should be read in conjunction with the financial statements included in Textron's Annual Report on Form 10-K for the year ended December 28, 1996. The financial statements reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of Textron's consolidated financial position at September 27, 1997, and its consolidated results of operations for each of the respective three and nine month periods ended September 27, 1997 and September 28, 1996 and consolidated cash flows for each of the nine month periods ended September 27, 1997 and September 28, 1996. The results of operations for the nine months ended September 27, 1997 are not necessarily indicative of results for the full year. Textron completed the sale of Paul Revere to Provident Companies, Inc. on March 27, 1997. See Management's Discussion and Analysis for additional information.

Note 2: Stock split in the form of a stock dividend

At Textron's Annual Meeting on April 23, 1997, Textron's shareholders approved an increase in the authorized number of common shares from 250 million to 500 million in connection with a two-for-one stock split of Textron common stock to be effected in the form of a stock dividend. The new shares were distributed on May 30, 1997 to shareholders of record on the close of business on May 9, 1997. Average shares outstanding and per share amounts have been restated to reflect the stock split for all periods presented.
Note 3: Earnings per Share

In February 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share," (FAS 128) which is effective for financial statements for both interim and annual periods ending after December 15, 1997. FAS 128 will require the presentation of "Basic" and "Diluted" EPS. The Basic EPS calculation does not consider the potential effects of potentially dilutive securities and on a pro forma basis, is approximately $.03 and $.08 per share higher than Diluted EPS for the three and nine month periods ended September 27, 1997, respectively. On a pro forma basis, Diluted EPS calculated in accordance with FAS 128 does not differ significantly from EPS as currently reported for the three and nine month periods ended September 27, 1997.

Note 4: Inventories

<table>
<thead>
<tr>
<th></th>
<th>September 27, 1997</th>
<th>December 28, 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished goods</td>
<td>$434</td>
<td>$364</td>
</tr>
<tr>
<td>Work in process</td>
<td>800</td>
<td>769</td>
</tr>
<tr>
<td>Raw materials</td>
<td>350</td>
<td>259</td>
</tr>
<tr>
<td></td>
<td>1,584</td>
<td>1,392</td>
</tr>
<tr>
<td>Less progress payments and customer deposits</td>
<td>149</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td>$1,435</td>
<td>$1,192</td>
</tr>
</tbody>
</table>

Note 5: 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 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.

Note 6: Contingencies

Lawsuits and other proceedings are pending or threatened against Textron and its subsidiaries. Some allege violations of federal government procurement regulations, involve environmental matters, or are or purport to be class actions. Some seek compensatory, treble or punitive damages in substantial amounts; fines, penalties or restitution; or remediation of contamination. 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 these suits and proceedings will not have a material effect on Textron's net income or financial condition.

Note 7: Financial information by borrowing group

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. The Finance Group consists of Avco Financial Services (AFS) and Textron Financial Corporation (TFC). Summarized financial information for the Parent Group includes the Finance Group on a one- line basis under the equity method of accounting.

Item 1. FINANCIAL STATEMENTS (Continued) Note 7: Financial information by borrowing group (continued)
Interest                                                    32              36              101             111
Total costs and expenses                               1,824           1,613            5,696           4,967
 Pretax income on Finance Group                             104              98              392             322
Pretax income on Finance Group                             104              98              301             285
Income from continuing operations before income taxes and
distributions on preferred securities of subsidiary trust 230          207             693             607
Income taxes (86) (81) (266) (237)
Distributions on preferred securities of subsidiary trust, net of income
taxes (6) (6) (19) (16)
Income from continuing operations net of income taxes   (155)            -             (229)            -
Net income                                              $  138          $ (35)           $  408          $  125

Condensed Balance Sheet

Assets
Cash                                                    $   61             $   24
Receivables - net                                        1,015                882
Inventories                                              1,435              1,192
Investments in Finance Group                             1,617              1,600
Investment in discontinued operation                     -                770
Property, plant and equipment - net                      1,614              1,454
Goodwill                                                 1,616              1,466
Other assets (including net prepaid income taxes)        1,436              1,269
Total assets                                          $8,794             $8,657
Liabilities and shareholders' equity
Accounts payable and accrued liabilities (including
income taxes)                                          $3,705             $3,484
Debt                                                     1,317              1,507
Textron - obligated mandatorily redeemable preferred
securities of subsidiary trust holding solely
Textron junior subordinated debt securities              483                483
Shareholders' equity                                     3,289              3,183
Total liabilities and shareholders' equity            $8,794             $8,657

Condensed Statement of Cash Flows

Cash flows from operating activities:
Income from continuing operations                        $ 408              $ 354
Adjustments to reconcile income from continuing
operations to net cash provided by operating
activities:
Undistributed earnings of Finance Group              (46)               (80)
Depreciation and amortization                         215                188
Changes in assets and liabilities excluding
those related to acquisitions and
devestitures:
Increase in receivables                               (60)               (8)
Increase in inventories                               (187)             (150)
Increase in other assets                              (138)              (95)
(Decrease) increase in accounts payable and
accrued liabilities                                     (1)               137
Other - net                                          6                (6)
Net cash provided by operating activities               197              341

Cash flows from investing activities:
Capital expenditures (222) (197)
Cash used in acquisitions (355) (172)
Cash received from disposition of businesses 571 180
Proceeds from disposition of investments 251 -
Other investing activities - net 20 (24)
Net cash provided (used) by investing activities 265 (213)

Cash flows from financing activities:
Increase (decrease) in short-term debt                  11                (46)
Proceeds from issuance of long-term debt              1,085              808
Principal payments on long-term debt (1,299) (947)

Proceeds from exercise of stock options              32                29

Item 1. FINANCIAL STATEMENTS (Continued)
Note 7: Financial information by borrowing group (continued)
Item 1. FINANCIAL STATEMENTS (Continued)
Note 7: Financial information by borrowing group (continued)

FINANCE GROUP
(unaudited) (In millions)

<table>
<thead>
<tr>
<th>Condensed Statement of Income</th>
<th>Three Months Ended</th>
<th>Nine Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$ 558</td>
<td>$ 526</td>
</tr>
<tr>
<td>Costs and expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling and administrative</td>
<td>169</td>
<td>153</td>
</tr>
<tr>
<td>Interest</td>
<td>151</td>
<td>147</td>
</tr>
<tr>
<td>Provision for losses on collection of finance receivables</td>
<td>63</td>
<td>59</td>
</tr>
<tr>
<td>Other</td>
<td>71</td>
<td>69</td>
</tr>
<tr>
<td>Total costs and expenses</td>
<td>454</td>
<td>428</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>104</td>
<td>98</td>
</tr>
<tr>
<td>Income taxes</td>
<td>(39)</td>
<td>(38)</td>
</tr>
<tr>
<td>Net income</td>
<td>$ 65</td>
<td>$ 60</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Condensed Balance Sheet</th>
<th>September 30, 1997</th>
<th>December 31, 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$ 28</td>
<td>$ 23</td>
</tr>
<tr>
<td>Investments</td>
<td>845</td>
<td>814</td>
</tr>
<tr>
<td>Finance receivables - net</td>
<td>9,880</td>
<td>9,860</td>
</tr>
<tr>
<td>Other</td>
<td>825</td>
<td>712</td>
</tr>
<tr>
<td>Total assets</td>
<td>$11,578</td>
<td>$11,409</td>
</tr>
<tr>
<td>Liabilities and equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities (including income taxes)</td>
<td>$ 969</td>
<td>$ 970</td>
</tr>
<tr>
<td>Debt</td>
<td>8,992</td>
<td>8,839</td>
</tr>
<tr>
<td>Equity</td>
<td>1,617</td>
<td>1,600</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>$11,578</td>
<td>$11,409</td>
</tr>
</tbody>
</table>

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

TEXTRON INC.
Revenues and Income by Business Segment
(In millions)

<table>
<thead>
<tr>
<th>Revenues</th>
<th>Three Months Ended</th>
<th>Nine Months Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MANUFACTURING:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aircraft</td>
<td>$ 752</td>
<td>$ 638</td>
</tr>
<tr>
<td>Automotive</td>
<td>464</td>
<td>355</td>
</tr>
<tr>
<td>Industrial</td>
<td>584</td>
<td>554</td>
</tr>
<tr>
<td>Systems and Components</td>
<td>150</td>
<td>175</td>
</tr>
<tr>
<td></td>
<td>1,950</td>
<td>1,722</td>
</tr>
<tr>
<td>FINANCE</td>
<td>558</td>
<td>526</td>
</tr>
<tr>
<td>Total revenues</td>
<td>$2,508</td>
<td>$2,248</td>
</tr>
<tr>
<td>INCOME</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MANUFACTURING:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aircraft</td>
<td>$ 84</td>
<td>$ 69</td>
</tr>
<tr>
<td>Automotive</td>
<td>28</td>
<td>27</td>
</tr>
<tr>
<td>Industrial</td>
<td>65</td>
<td>58</td>
</tr>
<tr>
<td>Systems and Components</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>194</td>
<td>173</td>
</tr>
<tr>
<td>FINANCE</td>
<td>104</td>
<td>98</td>
</tr>
<tr>
<td>Segment operating income</td>
<td>298</td>
<td>271</td>
</tr>
<tr>
<td>Corporate expenses and other - net</td>
<td>(36)</td>
<td>(28)</td>
</tr>
<tr>
<td>Interest expense - net</td>
<td>(32)</td>
<td>(36)</td>
</tr>
<tr>
<td>Income from continuing operations before income taxes and distributions on preferred securities of subsidiary trust</td>
<td>$ 230</td>
<td>$ 207</td>
</tr>
</tbody>
</table>
Financial Condition

Parent Group: During the nine months ended September 27, 1997, the Parent Group's operating activities provided cash of $197 million versus $341 million during the corresponding period of 1996. Operating cash flows for 1997 were affected by income from continuing operations offset by inventory builds associated with new Aircraft products, higher receivable balances, and the timing of prepaid expenses and customer tooling costs.

The Group's debt decreased by $190 million. On March 27, 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 shares of Provident common stock subsequently sold in May for $245 million). Cash provided by operating activities and the proceeds from the sale of Paul Revere were primarily used for (a) acquisitions ($355 million), (b) capital expenditures ($222 million), (c) purchases of Textron common stock ($130 million), and (d) payments of dividends ($124 million). Its ratio of debt to total capital was 26% at September 27, 1997, down from 29% at December 28, 1996.

The Parent Group's credit facilities not used or reserved as support for outstanding commercial paper or bank borrowings at September 27, 1997 were $1.3 billion. Textron had $511 million available at September 27, 1997 under its shelf registration statements filed with the Securities and Exchange Commission.

At September 27, 1997, approximately 37% and 28% of total foreign currency borrowings of $482 million under Textron's multi-currency credit agreements were denominated in Deutsche marks and French francs, respectively.

During the nine months ended September 27, 1997, the Parent Group acquired the Germany-based Kautex Group, a worldwide supplier of blow-molded plastic fuel tanks and other automotive components and systems and Switzerland-based Maag Pump Systems AG and Italy-based Maag Italia S.p.A., manufacturers of gears, gear pumps and gear systems for an aggregate cost of approximately $390 million. Several smaller acquisitions aggregating approximately $30 million also closed during the period.

Management believes that the Parent Group will continue to have adequate access to credit markets and that its credit facilities and cash flows from operations --including dividends received from Textron's Finance Group-- will continue to be more than sufficient to meet its operating needs and to finance growth.

Finance Group: The Finance Group paid dividends of $140 million and $93 million to the Parent Group during the nine month periods ended September 27, 1997 and September 28, 1996, respectively.

During the nine months ended September 30, 1997, Avco Financial Services (AFS) issued $469 million of unsecured debt securities, including $155 million under its shelf registration statements. AFS had $947 million and $488 million available at September 30, 1997 for unsecured debt securities under its shelf registration statements with the Securities and Exchange Commission and Canadian provincial security exchanges, respectively.

During the nine months ended September 30, 1997, the Finance Group had $390 million of interest rate exchange agreements expire and $519 million of interest rate exchange agreements go into effect. The new agreements, which have a weighted average original term of 2.5 years and expire through 2002, had the effect of fixing the rate of interest at approximately 6.7% on $519 million of variable rate borrowings at September 30, 1997.

Textron Financial Corporation (TFC) issued $50 million medium-term notes during the nine months ended September 30, 1997 under its $500 million medium-term note facility under Rule 144A of the Securities Act of 1933, as amended. TFC had $242 million available under this facility at September 30, 1997.

Results of Operations - Three months ended September 27, 1997 vs. Three months ended September 28, 1996

Textron reported third quarter 1997 earnings per share from continuing operations of $0.81 per share, up 16% from third quarter 1996 earnings per share from continuing operations of $0.70. Income from continuing operations in 1997 of $138 million was up 15% from the 1996 amount of $120 million. Revenues increased 12% to $2.5 billion in 1997 from $2.2 billion in 1996. Net income in 1997 was $138 million versus a net loss of $35 million in 1996, which reflected the impact of a $155 million loss from a discontinued operation.

The Aircraft segment's revenues and income increased $114 million (18%) and $15 million (22%), respectively, due primarily to higher results at Cessna Aircraft. Cessna's revenues increased as a result of higher sales of business jets, including its recently introduced Citation X and Citation Bravo. Its income increased from the higher revenues, partially offset by an increased level of expenses due to the introduction and support of new products. Bell Helicopter's revenues were slightly below last year and income approximated last year's level. Higher sales of U.S. Government aircraft and commercial spares aggregated $29 million, while lower revenues on the V-22 program and lower foreign military and commercial aircraft sales aggregated $37 million.

The Automotive segment's revenues increased $109 million (31%), reflecting the first quarter 1997 acquisition of Kautex. Income increased $1 million (4%), reflecting the increased revenues, offset by the impact of new model launches and a restructuring effort which began in the second quarter of 1997.
The Industrial segment's revenues and income increased $30 million (5%) and $7 million (12%), respectively. These increases were due principally to the first quarter 1997 acquisitions of Maag Pump Systems and Maag Italia S.p.A., and the third quarter 1997 acquisition of Burkland Holding, Inc. In addition, higher revenues and income in the fastening systems and contractor tool businesses were partially offset by lower performance in the golf and turf-care business.

The Systems and Components segment's revenues and income decreased $25 million (14%) and $2 million (11%), respectively, reflecting the third quarter 1996 divestiture of Textron Aerostructures and lower revenues in marine and land systems products. These revenue and income decreases were partially offset by an increase in demand for aerospace components and higher revenues on the sensor fuzed weapon contract.

The Finance segment's revenues increased $32 million (6%), while income increased $6 million (6%). AFS' revenues and income increased $23 million and $1 million, respectively. Revenues in its finance and related insurance business increased $19 million, due to an increase in investment and other income, and an increase in average finance receivables reflecting the benefit of the acquisition of approximately $580 million of customer and commercial receivables in late 1996 and the first half of 1997. The increase in investment and other income was primarily attributable to an $8 million gain on the sale of certain underperforming branches. The benefit of these revenue increases were partially offset by lower yields on finance receivables (reflecting both decreases in yields on finance receivables and the impact of an increase in lower-yielding commercial receivables), and a decrease in capital gains. Income increased $1 million due to the benefit of the higher revenues and a decrease in the average cost of borrowed funds, partially offset by higher operating expenses related to international expansion and the start-up of centralized sales processing centers in the U.S. and Canada.

In AFS' nonrelated insurance business, revenues increased $4 million, due primarily to higher premiums earned, partially offset by a decrease in capital gains. Its income equaled last year's level, due to the higher revenues and a decrease in underwriting expenses (primarily insurance losses) in relation to premiums earned, partially offset by a decrease in capital gains.

TFC's revenues increased $9 million, due to a higher level of average receivables and an increase in other income, due primarily to a gain from the securitization of $401 million of Textron-related receivables. Its income increased $5 million, due to the higher revenues and a lower provision for loan losses related to the equipment portfolio, partially offset by an increase in the average cost of borrowed funds and growth in businesses with higher operating expense ratios.

Corporate expenses and other - net increased $8 million, due to expenses related to organizational changes and higher support costs related to international expansion.

Interest expense - net for the Parent Group decreased $4 million due to a lower level of 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 and share repurchases.

Results of Operations - Nine months ended September 27, 1997 vs. Nine months ended September 28, 1996

Earnings per share from continuing operations for the nine months were $2.39 per share, up 17% from the 1996 amount of $2.05. Income from continuing operations in 1997 of $408 million was up 15% from $354 million for 1996. Revenues increased 13% to $7.7 billion in 1997 from $6.8 billion in 1996. Net income in 1997 was $408 million versus $125 million in 1996, which reflected the impact of a $229 million loss from a discontinued operation.

The Aircraft segment's revenues and income increased $299 million (15%) and $37 million (19%), respectively. Cessna Aircraft's revenues increased as a result of higher sales of business jets, including its recently introduced Citation X and Citation Bravo. Its income increased from the higher revenues, partially offset by an increased level of expenses due to the introduction and support of new products. Bell Helicopter's revenues and income increased primarily as a result of higher commercial and U.S. Government aircraft sales ($117 million), partially offset by lower revenues on the V-22 program ($71 million) and foreign military programs ($26 million).

The Automotive segment's revenues increased $345 million (29%), reflecting the first quarter 1997 acquisition of Kautex 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 increased $6 million (6%), reflecting the above factors and the impact of a restructuring effort which began in the second quarter 1997.

Fourth quarter automotive sales, excluding the Kautex acquisition, are expected to be lower in 1997 than in 1996 as a result of the timing of replacement business and new model launches. Total segment margins in the fourth quarter are expected to continue at a lower level than last year primarily as a result of the lower sales described above, lower margins attributable to the Kautex acquisition and the impact of the restructuring effort.

The Industrial segment's revenues and income increased $229 million (14%) and $32 million (18%), respectively. These increases were due primarily to higher sales in fastening systems ($125 million), including the second quarter 1996 acquisition of Textron Industries. In addition, results benefited from the 1997 acquisitions of Maag Pump Systems, Maag Italia, S.p.A., and Burkland Holding, Inc., the third quarter 1996 acquisition of Klauke, and higher sales and improved performance in the contractor tool and golf and turf-care businesses.

The Systems and Components segment's revenues and income decreased $74 million (14%) and $2 million (4%), respectively, reflecting the
third quarter 1996 divestiture of Textron Aerostructures and lower revenues in marine and land systems products. These revenue and income decreases were partially offset by an increase in demand for aerospace components and higher revenues on the sensor fuzed weapon contract.

The Finance segment’s revenues increased $81 million (5%), while income increased $16 million (6%). AFS’ revenues and income increased $61 million and $6 million, respectively. Revenues in its finance and related insurance business increased $48 million, due to an increase in investment and other income, and an increase in average finance receivables ($7.376 billion for the first nine months of 1997 vs $6.845 billion for the first nine months of 1996), reflecting the benefit of the acquisition of approximately $580 million of consumer and commercial receivables in late 1996 and the first half of 1997. The increase in investment and other income was primarily attributable to an $11 million gain on the sale of certain underperforming branches. The benefit of these revenue increases were partially offset by a decrease in yields on finance receivables (17.93% for the first nine months of 1997 vs 18.58% for the first nine months of 1996), reflecting both decreases in yields on finance receivables and the impact of an increase in lower-yielding commercial receivables. Income decreased $4 million, due primarily to an increase in the provision for losses resulting from a higher level of net credit losses to average finance receivables (2.96% for the first nine months of 1997 vs 2.74% for the first nine months of 1996), partially offset by the benefit of the higher revenues, a decrease in the average cost of borrowed funds (6.45% for the first nine months of 1997 vs 6.93% for the first nine months of 1996), and a decrease in the ratio of insurance losses to earned premiums.

The general proliferation of credit cards has provided the consumer with an alternative source of funds, and as a result, the increase in consumer debt has continued to burden the finance customer, resulting in higher delinquencies and charge-offs. This is 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 will take 12 to 18 months. When it is determined that underperforming branches will not meet certain profitability standards, they will be sold. It is not anticipated that these actions will result in any losses.

In AFS’ non-related insurance business, revenues increased $13 million, due primarily to higher premiums earned, partially offset by a decrease in capital gains. Income increased $10 million, due to the higher revenues and a decrease in underwriting expenses (primarily insurance losses) in relation to premiums earned.

TFC’s revenues increased $20 million, due to a higher level of average receivables ($3.194 billion in the first nine months of 1997 vs. $3.023 billion in the first nine months of 1996), and increases in other income, due primarily to the securitization of $401 million of Textron-related receivables and increased syndication fee income, partially offset by lower yields of receivables (9.96% in the first nine months of 1997 vs. 10.03% in the first nine months of 1996), primarily on floating rate receivables. Its income increased $10 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.

Corporate expenses and other - net increased $13 million, due to first quarter 1997 litigation expenses related to a divested operation and higher third quarter 1997 expenses related to organizational changes and higher support costs related to international expansion.

Interest expense-net for the Parent Group decreased $10 million due to a lower level of 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 and share repurchases.

PART II. OTHER INFORMATION

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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

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

27 Financial Data Schedule (filed electronically only)

(b) Reports on Form 8-K

During the quarter ended September 27, 1997, Textron filed the following report on Form 8-K:

Current Report on Form 8-K filed with the Securities and Exchange Commission dated August 8, 1997, reporting under Item 5 (Other Events) and filing under Item 7 (Exhibits) (a) the consent of Cravath, Swaine & Moore, special tax counsel to Textron, to the filing of the opinion set forth in full under the caption, “United States Tax Considerations” in the Prospectus Supplement dated August 8, 1997 (relating to Medium-Term Notes Series D of Textron) to the Prospectus dated February 1, 1996, included in Registration Statement No. 33-63227, (b) the Form of Distribution Agreement for Medium-Term Senior Securities, (c) the Form of Fixed Interest Rate Medium-Term Senior Securities and (d) the Form of Floating Interest Rate Medium-Term Senior Securities.
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**TEXTRON INC.**

Date: November 7, 1997  
R. L. Yates  
Vice President and Controller  
(principal accounting officer)

**LIST OF EXHIBITS**

The following exhibits are filed as part of this report on Form 10-Q:

<table>
<thead>
<tr>
<th>Name of Exhibit</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.1</td>
<td>Computation of ratio of income to combined fixed charges and preferred securities dividends of the Parent Group</td>
</tr>
<tr>
<td>12.2</td>
<td>Computation of ratio of income to combined fixed charges and preferred securities dividends of Textron Inc. including all majority-owned subsidiaries</td>
</tr>
<tr>
<td>27</td>
<td>Financial Data Schedule (filed electronically only)</td>
</tr>
</tbody>
</table>
## Exhibit 12.1

**Parent Group**

**Computation of Ratio of Income to Combined Fixed Charges and Preferred Stock Dividends**

*(unaudited)*

*(In millions except ratio)*

<table>
<thead>
<tr>
<th>Nine Months Ended</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>September 27, 1997</td>
<td></td>
</tr>
</tbody>
</table>

### Fixed Charges:
- Interest expense: $101
- Distributions on preferred securities of subsidiary trust, net of income taxes: $19
- Estimated interest portion of rents: $13
- **Total fixed charges**: $133

### Income:
- Income from continuing operations before income taxes and distributions on preferred securities of subsidiary trust: $693
- Eliminate equity in undistributed pretax income of Finance Group: $(161)
- Fixed charges: $133
- **Adjusted income**: $665

### Ratio of income to fixed charges: 5.00
TEXTRON INC. INCLUDING ALL MAJORITY-OWNED SUBSIDIARIES

COMPUTATION OF RATIO OF INCOME TO
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(unaudited)

(In millions except ratio)

<table>
<thead>
<tr>
<th>Nine Months Ended September 27, 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed charges:</strong></td>
</tr>
<tr>
<td>Interest expense</td>
</tr>
<tr>
<td>Distributions on preferred securities of subsidiary trust, net of income taxes</td>
</tr>
<tr>
<td>Estimated interest portion of rents</td>
</tr>
<tr>
<td>Total fixed charges</td>
</tr>
<tr>
<td><strong>Income:</strong></td>
</tr>
<tr>
<td>Income from continuing operations before income taxes and distributions on preferred securities of subsidiary trust</td>
</tr>
<tr>
<td>Fixed charges</td>
</tr>
<tr>
<td><strong>Adjusted income</strong></td>
</tr>
<tr>
<td><strong>Ratio of income to fixed charges</strong></td>
</tr>
</tbody>
</table>
This schedule contains summary financial information extracted from Textron Inc.'s Consolidated Balance Sheet as of September 27, 1997 and Consolidated Statement of Income for the nine months ended September 27, 1997 and is qualified in its entirety by reference to such financial statements.

<table>
<thead>
<tr>
<th>PERIOD TYPE</th>
<th>9 MOS</th>
</tr>
</thead>
<tbody>
<tr>
<td>FISCAL YEAR END</td>
<td>JAN 03 1998</td>
</tr>
<tr>
<td>PERIOD END</td>
<td>SEP 27 1997</td>
</tr>
<tr>
<td>CASH</td>
<td>89</td>
</tr>
<tr>
<td>SECURITIES</td>
<td>0</td>
</tr>
<tr>
<td>RECEIVABLES</td>
<td>0</td>
</tr>
<tr>
<td>ALLOWANCES</td>
<td>0</td>
</tr>
<tr>
<td>INVENTORY</td>
<td>1,435</td>
</tr>
<tr>
<td>CURRENT ASSETS</td>
<td>0</td>
</tr>
<tr>
<td>PP&amp;E</td>
<td>3,516</td>
</tr>
<tr>
<td>DEPRECIATION</td>
<td>1,803</td>
</tr>
<tr>
<td>TOTAL ASSETS</td>
<td>18,517</td>
</tr>
<tr>
<td>CURRENT LIABILITIES</td>
<td>0</td>
</tr>
<tr>
<td>BONDS</td>
<td>10,309</td>
</tr>
<tr>
<td>COMMON</td>
<td>24</td>
</tr>
<tr>
<td>PREFERRED MANDATORY</td>
<td>0</td>
</tr>
<tr>
<td>PREFERRED</td>
<td>13</td>
</tr>
<tr>
<td>OTHER SE</td>
<td>3,252</td>
</tr>
<tr>
<td>TOTAL LIABILITY AND EQUITY</td>
<td>18,517</td>
</tr>
<tr>
<td>SALES</td>
<td>6,088</td>
</tr>
<tr>
<td>TOTAL REVENUES</td>
<td>7,726</td>
</tr>
<tr>
<td>CGS</td>
<td>4,975</td>
</tr>
<tr>
<td>TOTAL COSTS</td>
<td>5,183</td>
</tr>
<tr>
<td>OTHER EXPENSES</td>
<td>0</td>
</tr>
<tr>
<td>LOSS PROVISION</td>
<td>190</td>
</tr>
<tr>
<td>INTEREST EXPENSE</td>
<td>546</td>
</tr>
<tr>
<td>INCOME PRETAX</td>
<td>693</td>
</tr>
<tr>
<td>INCOME TAX</td>
<td>266</td>
</tr>
<tr>
<td>INCOME CONTINUING</td>
<td>408</td>
</tr>
<tr>
<td>DISCONTINUED</td>
<td>0</td>
</tr>
<tr>
<td>EXTRAORDINARY</td>
<td>0</td>
</tr>
<tr>
<td>CHANGES</td>
<td>0</td>
</tr>
<tr>
<td>NET INCOME</td>
<td>408</td>
</tr>
<tr>
<td>EPS PRIMARY</td>
<td>2.39</td>
</tr>
<tr>
<td>EPS DILUTED</td>
<td>2.39</td>
</tr>
</tbody>
</table>