TEXTRON INC

FORM 8-K
(Current report filing)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **January 23, 2014**

TEXTRON INC.
(Exact name of Registrant as specified in its charter)

Delaware	**1-5480**	**05-0315468**
(State of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

40 Westminster Street, Providence, Rhode Island 02903
(Address of principal executive offices)

Registrant's telephone number, including area code: **(401) 421-2800**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events

Textron Inc. is filing capsule financial information as of and for the quarter and year ended December 28, 2013 and updating its risk factors from those set forth in its Annual Report on Form 10-K for the year ended December 29, 2012. A copy of such capsule financial information is attached hereto as Exhibit 99.1 and a copy of such updated risk factors is attached hereto as Exhibit 99.2.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits:

The following exhibits are filed herewith:

Exhibit Number	Description
99.1	Capsule financial information of Textron Inc. as of and for the quarter and year ended December 28, 2013.
99.2	Risk factors of Textron Inc., as updated.

SIGNATURES

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 hereunto duly authorized.

TEXTRON INC.
(Registrant)

/s/ Mary F. Lovejoy
Mary F. Lovejoy
Vice President and Treasurer

Date: January 23, 2014

EXHIBIT INDEX

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Exhibit 99.1

TEXTRON INC.
Revenues by Segment and Reconciliation of Segment Profit to Net Income
(Dollars in millions, except per share amounts)
(Unaudited)

	Three Months Ended		Twelve Months Ended	
	December 28, 2013	**December 29, 2012**	**December 28, 2013**	**December 29, 2012**
REVENUES				
MANUFACTURING:				
Cessna	$ 923	$ 901	$ 2,784	$ 3,111
Bell	1,375	1,149	4,511	4,274
Textron Systems	409	571	1,665	1,737
Industrial	773	706	3,012	2,900
	3,480	3,327	11,972	12,022
FINANCE	26	35	132	215
Total revenues	**$ 3,506**	**$ 3,362**	**$ 12,104**	**$ 12,237**
SEGMENT PROFIT				
MANUFACTURING:				
Cessna (a)	$ 33	$ 23	$ (48)	$ 82
Bell	178	177	573	639
Textron Systems	40	36	147	132
Industrial	54	43	242	215
	305	279	914	1,068
FINANCE	2	2	49	64
Segment Profit	**307**	**281**	**963**	**1,132**
Corporate expenses and other, net	(57)	(43)	(166)	(148)
Interest expense, net for Manufacturing group	(27)	(38)	(123)	(143)
Income from continuing operations before income taxes	223	200	674	841
Income tax expense	(52)	(54)	(176)	(260)
Income from continuing operations	**171**	**146**	**498**	**581**
Discontinued operations, net of income taxes	(4)	2	—	8
Net income	**$ 167**	**$ 148**	**$ 498**	**$ 589**
Earnings per share:				
Income from continuing operations	**$ 0.60**	**$ 0.50**	**$ 1.75**	**$ 1.97**
Discontinued operations, net of income taxes	(0.01)	0.01	—	0.03
Net income	**$ 0.59**	**$ 0.51**	**$ 1.75**	**$ 2.00**
Diluted average shares outstanding	282,707,000	291,562,000	284,428,000	294,663,000

(a) Full year 2013 includes $28 million in severance costs. Fourth quarter of 2012 includes a $27 million charge related to an award against Cessna in an arbitration proceeding.

TEXTRON INC.
Condensed Consolidated Balance Sheets
(In millions)
(Unaudited)

	December 28, 2013	December 29, 2012
Assets		
Cash and equivalents	$ 1,163	$ 1,378
Accounts receivable, net	979	829
Inventories	2,963	2,712
Other current assets	467	470
Net property, plant and equipment	2,215	2,149
Other assets	3,432	3,173
Finance group assets	1,725	2,322
Total Assets	$ 12,944	$ 13,033
Liabilities and Shareholders' Equity		
Current portion of long-term debt	$ 8	$ 535
Other current liabilities	2,995	2,977
Other liabilities	2,118	2,798
Long-term debt	1,923	1,766
Finance group liabilities	1,516	1,966
Total Liabilities	8,560	10,042
Total Shareholders' Equity	4,384	2,991
Total Liabilities and Shareholders' Equity	$ 12,944	$ 13,033

TEXTRON INC.
Condensed Consolidated Schedule of Cash Flows
(In millions)
(Unaudited)

	Three Months Ended		Twelve Months Ended	
	December 28, 2013	December 29, 2012	December 28, 2013	December 29, 2012
Cash flows from operating activities:				
Income from continuing operations	$ 171	$ 146	$ 498	$ 581
Depreciation and amortization	104	106	389	383
Changes in working capital	537	381	(87)	28
Changes in other assets and liabilities and non-cash items	104	(100)	13	(57)
Net cash from operating activities of continuing operations	916	533	813	935
Cash flows from investing activities:				
Capital expenditures	(144)	(166)	(444)	(480)
Net cash used in acquisitions	(143)	(3)	(196)	(11)
Finance receivables repaid	33	121	190	599
Proceeds from sales of receivables and other finance assets	26	65	178	249
Other investing activities, net	(5)	22	8	21
Net cash from investing activities	(233)	39	(264)	378
Cash flows from financing activities:				
Principal payments on long-term and nonrecourse debt	(59)	(141)	(1,056)	(615)
Proceeds from long-term debt	36	18	448	106
Settlement of convertible debt	—	—	(215)	(2)
Proceeds from settlement of capped call	—	—	75	—
Purchases of Textron common stock	—	(272)	—	(272)
Decrease in short-term debt	(96)	—	—	—
Other financing activities, net	6	2	6	2
Net cash from financing activities	(113)	(393)	(742)	(781)
Total cash flows from continuing operations	570	179	(193)	532
Total cash flows from discontinued operations	2	(3)	(3)	(8)
Effect of exchange rate changes on cash and equivalents	2	(1)	(6)	4
Net change in cash and equivalents	574	175	(202)	528
Cash and equivalents at beginning of period	637	1,238	1,413	885
Cash and equivalents at end of period	$ 1,211	$ 1,413	$ 1,211	$ 1,413

Exhibit 99.2

RISK FACTORS

Textron Inc.

Our business, financial condition and results of operations are subject to various risks, including those discussed below, which may affect the value of our securities. The risks discussed below are those that we believe currently are the most significant to our business.

We have customer concentration with the U.S. Government; reduction in U.S. Government defense spending may adversely affect our results of operations and financial condition.

During 2013, we derived approximately 30% of our revenues from sales to a variety of U.S. Government entities. Our revenues from the U.S. Government largely result from contracts awarded to us under various U.S. Government defense-related programs. The funding of these programs is subject to congressional appropriation decisions. Although multiple-year contracts may be planned in connection with major procurements, Congress generally appropriates funds on a fiscal year basis even though a program may continue for several years. Consequently, programs often are only partially funded initially, and additional funds are committed only as Congress makes further appropriations. If we incur costs in excess of funds committed on a contract, we are at risk for non-reimbursement of those costs until additional funds are appropriated. The reduction, termination or delay in the timing of funding for U.S. Government programs for which we currently provide or propose to provide products or services may result in a loss of anticipated future revenues that could materially and adversely impact our results of operations and financial condition. Significant changes in national and international priorities for defense spending could impact the funding, or the timing of funding, of our programs, which could negatively impact our results of operations and financial condition.

Under the Budget Control Act of 2011, the U.S. Government committed to significantly reduce the federal deficit over ten years. Notwithstanding the Bipartisan Budget Control Act of 2013, substantial spending cuts to the U.S. defense budget are likely in the future. In addition, Congress and the Administration continue to debate the nation’s debt ceiling and other fiscal issues. The outcome of that debate could have a significant impact on future defense spending plans. As a result, long-term funding for various programs in which we participate, as well as future purchasing decisions by our U.S. Government customers, could be reduced, delayed or cancelled. In addition, these cuts could adversely affect the viability of the suppliers and subcontractors under our programs.

There are many variables in how these budget cuts could be implemented that make it difficult to determine specific impacts; however, we expect that sequestration, as currently provided for under the Budget Control Act, would result in lower revenues, profits and cash flows for our company. Such circumstances may also result in an impairment of our goodwill and intangible assets. Because our Government contracts generally require us to continue to perform even if the U.S. Government is unable to make timely payments; if the debt ceiling is not raised, and, as a result, the U.S. Government does not pay us on a timely basis, we would need to finance our continued performance of the impacted contracts from our available cash resources, credit facilities and/or access to the capital markets, if available. An extended delay in the timely payment by the U.S. Government could result in a material adverse effect on our cash flows, results of operations and financial condition.

U.S. Government contracts may be terminated at any time and may contain other unfavorable provisions.

The U.S. Government typically can terminate or modify any of its contracts with us either for its convenience or if we default by failing to perform under the terms of the applicable contract. In the event of termination for the U.S. Government’s convenience, contractors are generally protected by provisions covering reimbursement for costs incurred on the contracts and profit on those costs but not the anticipated profit that would have been earned had the contract been completed. A termination arising out of our default for failure to perform could expose us to liability, including but not limited to, liability for re-procurement costs in excess of the total original contract amount, net of the value of work performed and accepted by the customer under the contract. Such an event could also have an adverse effect on our ability to compete for future contracts and orders. If any of our contracts are terminated by the U.S. Government whether for convenience or default, our backlog and anticipated revenues would be reduced by the expected value of the remaining work under such contracts. We also enter into “fee for service” contracts with the U.S. Government where we retain ownership of, and consequently the risk of loss on, aircraft and equipment supplied to perform under these contracts.

Termination of these contracts for convenience or default could materially and adversely impact our results of operations. On contracts for which we are teamed with others and are not the prime contractor, the U.S. Government could terminate a prime contract under which we are a subcontractor, irrespective of the quality of our products and services as a subcontractor. In addition, in the event that the U.S. Government is unable to make timely payments, failure to continue contract performance places the contractor at risk of termination for default. Any such event could result in a material adverse effect on our cash flows, results of operations and financial condition.

As a U.S. Government contractor, we are subject to procurement rules and regulations as well as changes in the Department of Defense (DoD) acquisition practices.

We must comply with and are affected by laws and regulations relating to the formation, administration and performance of U.S. Government contracts. These laws and regulations, among other things, require certification and disclosure of all cost and pricing data in connection with contract negotiation, define allowable and unallowable costs and otherwise govern our right to reimbursement under certain cost-based U.S. Government contracts, and restrict the use and dissemination of classified information and the exportation of certain products and technical data. Our U.S. Government contracts contain provisions that allow the U.S. Government to unilaterally suspend or debar us from receiving new contracts for a period of time, reduce the value of existing contracts, issue modifications to a contract, and control and potentially prohibit the export of our products, services and associated materials. A number of our U.S. Government contracts contain provisions that require us to make disclosure to the Inspector General of the agency that is our customer if we have credible evidence that we have violated U.S. criminal laws involving fraud, conflict of interest, or bribery; the U.S. civil False Claims Act; or received a significant overpayment under a U.S. Government contract. Failure to properly and timely make disclosures under these provisions may result in a termination for default or cause, suspension and/or debarment, and potential fines.

In addition, the DoD's "Better Buying Power Initiative," which provides guidance for its acquisition workforce to obtain greater efficiency and productivity in defense spending, significantly affects the contracting environment in which we do business with our DoD customers and could have a significant impact on current programs, as well as new business opportunities. Changes to the DoD acquisition system and contracting models could affect whether and, if so, how we pursue certain opportunities and the terms under which we are able to do so.

As a U.S. Government contractor, our businesses and systems are subject to audit and review by the Defense Contract Audit Agency (DCAA) and the Defense Contract Management Agency (DCMA).

We operate in a highly regulated environment and are routinely audited and reviewed by the U.S. Government and its agencies such as DCAA and DCMA. These agencies review our performance under contracts, our cost structure and our compliance with laws and regulations applicable to U.S. Government contractors. The systems that are subject to review include, but are not limited to, our accounting, estimating, material management and accounting, earned value management, purchasing and government property systems. If an audit uncovers improper or illegal activities we may be subject to civil and criminal penalties and administrative sanctions that may include the termination of our contracts, forfeiture of profits, suspension of payments, fines, and, under certain circumstances, suspension or debarment from future contracts for a period of time. Whether or not illegal activities are alleged, the U.S. Government also has the ability to decrease or withhold certain payments when it deems systems subject to its review to be inadequate. These laws and regulations affect how we conduct business with our customers and, in some instances, impose added costs on our business.

Cost overruns on U.S. Government contracts could subject us to losses or adversely affect our future business.

Under fixed-price contracts, as a general rule, we receive a fixed price irrespective of the actual costs we incur, and, consequently, any costs in excess of the fixed price are absorbed by us. Changes in underlying assumptions, circumstances or estimates used in developing the pricing for such contracts may adversely affect our results of operations. Under time and materials contracts, we are paid for labor at negotiated hourly billing rates and for certain expenses. Under cost-reimbursement contracts that are subject to a contract-ceiling amount, we are reimbursed for allowable costs and paid a fee, which may be fixed or performance based, however, if our costs exceed the contract ceiling or are not allowable under the provisions of the contract or applicable regulations, we may not be able to obtain reimbursement for all such costs. Under each type of contract, if we are unable to control costs incurred in performing under the contract, our cash flows, results of operations and financial condition could be adversely affected. Cost overruns also may adversely affect our ability to sustain existing programs and obtain future contract awards.

Weak demand for our aircraft products may continue to adversely affect our financial results.

Continued worldwide economic softness has adversely impacted the business jet market in recent years. As a result, we have experienced continued weak demand for our fixed-wing aircraft, particularly our business jets. Soft demand for our jets could persist and could continue to adversely impact the pricing of new jets and the valuation of pre-owned jets, which comprise a significant portion of our inventory. A prolonged weakness in the markets for our aircraft products could adversely impact our results of operations and our future prospects.

We may make acquisitions that increase the risks of our business.

We may enter into acquisitions in an effort to expand our business and enhance shareholder value. Acquisitions involve risks and uncertainties that could result in our not achieving expected benefits. Such risks include difficulties in integrating newly acquired businesses and operations in an efficient and cost-effective manner; challenges in achieving expected strategic objectives, cost savings and other benefits; the risk that the acquired businesses' markets do not evolve as anticipated and that the acquired businesses' products and technologies do not prove to be those needed to be successful in those markets; the risk that our due diligence reviews of the acquired business do not identify or adequately assess all of the material issues which impact valuation of the business or that may result in costs or liabilities in excess of what we anticipated; the risk that we pay a purchase price that exceeds what the future results of operations would have merited; the risk that the acquired business may have significant internal control deficiencies or exposure to regulatory sanctions; and the potential loss of key customers, suppliers and employees of the acquired businesses. In addition, unanticipated delays or difficulties in effecting acquisitions may prevent the consummation of the acquisition or divert the attention of our management and resources from our existing operations.

On December 26, 2013 we entered into an agreement and plan of merger pursuant to which we will acquire all outstanding equity interests in Beech Holdings, LLC ("Beech"), the parent of Beechcraft Corporation, for approximately $1.4 billion in cash. Each of the foregoing risks may impact the success of the Beech acquisition. We plan to finance the purchase of the equity in Beech and the repayment of Beech's outstanding debt, which is required at closing, through a combination of available cash at Beech and Textron and up to $1.1 billion in new debt. While we believe that these sources of funds will be sufficient to complete the transaction, it is possible that unanticipated cash requirements, for working capital or other business needs, either at Beech or at Textron, could cause us to incur borrowings in excess of what we currently anticipate.

Difficult economic conditions could continue to affect the performance of our Finance segment and our losses may increase if we are unable to successfully collect our finance receivables or realize sufficient value from collateral.

The financial performance of our Finance segment depends on the quality of loans, leases and other assets in its finance asset portfolios. Portfolio quality may be adversely affected by several factors, including finance receivable underwriting procedures, collateral value, geographic or industry concentrations, and the effect of general economic conditions on our customers' businesses. Valuations of the types of collateral securing our finance asset portfolio, particularly valuations of pre-owned aircraft, have decreased over recent years and may continue to decrease if weak economic conditions continue. Declining collateral values could result in greater delinquencies, credit losses and foreclosures if customers elect to discontinue payments on loan balances that exceed asset values. Bankruptcy proceedings involving our borrowers may prevent or delay our ability to exercise our rights and remedies and realize the full value of our collateral.

We may need to obtain financing in the future; such financing may not be available to us on satisfactory terms, if at all.

We may periodically need to obtain financing in order to meet our debt obligations as they come due, to support our operations and/or to make acquisitions. Although we currently have access to the capital markets, our access and the cost of borrowings are affected by a number of factors including market conditions and the strength of our credit ratings. If we cannot obtain adequate sources of credit on favorable terms, or at all, our business, operating results, and financial condition could be adversely affected.

Failure to perform by our subcontractors or suppliers could adversely affect our performance.

We rely on other companies to provide raw materials, major components and subsystems for our products. Subcontractors also perform services that we provide to our customers in certain circumstances. We depend on these suppliers and subcontractors to meet our contractual obligations to our customers and conduct our operations. Our ability to meet our obligations to our customers may be adversely affected if suppliers or subcontractors do not provide the agreed-upon supplies or perform the agreed-upon services in compliance with customer requirements and in a timely and cost-effective manner. Likewise, the quality of our products may be adversely impacted if companies to whom we delegate manufacture of major components or subsystems for our products, or from whom we acquire such items, do not provide components or subsystems which meet required specifications and perform to our and our customers' expectations. Our suppliers may be less likely than us to be able to quickly recover from natural disasters and other events beyond their control and may be subject to additional risks such as financial problems that limit their ability to conduct their operations. The risk of these adverse effects may be greater in circumstances where we rely on only one or two subcontractors or suppliers for a particular raw material, product or service. In particular, in the aircraft industry, most vendor parts are certified by the regulatory agencies as part of the overall Type Certificate for the aircraft being produced by the manufacturer. If a vendor does not or cannot supply its parts, then the manufacturer's production line may be stopped until the manufacturer can design, manufacture and certify a similar part itself or identify and certify another similar vendor's part, resulting in significant delays in the completion of aircraft. Such events may adversely affect our financial results, damage our reputation and relationships with our customers, and result in regulatory actions and/or litigation.

Our business could be negatively impacted by information technology disruptions and security threats.

Our information technology (IT) and related systems are critical to the smooth operation of our business and essential to our ability to perform day to day operations. From time to time we update and/or replace IT systems used by our businesses. The implementation of new systems can present temporary disruptions of business activities as existing processes are transitioned to the new systems, resulting in productivity issues, delays in production, shipments or other business operations. In addition, we outsource certain support functions, including certain global IT infrastructure services, to third-party service providers. Any disruption of such outsourced processes or functions also could have a material adverse impact on our operations. In addition, as a U.S. defense contractor, we face certain security threats, including threats to our IT infrastructure, unlawful attempts to gain access to our proprietary or classified information and threats to the physical security of our facilities and employees, as do our customers, suppliers, subcontractors and joint venture partners. Cybersecurity threats, such as malicious software, attempts to gain unauthorized access to information, and other security breaches, are persistent, continue to evolve and require highly skilled IT resources. While we have experienced cyber attacks, we have not suffered any material losses relating to such attacks, and we believe our threat detection and mitigation processes and procedures are robust. Due to the evolving nature of these security threats, the possibility of any future material incidents cannot be completely mitigated. An IT system failure, issues related to implementation of new IT systems or breach of data security could disrupt our operations, cause the loss of business information or compromise confidential information. Such an incident also could require significant management attention and resources and increased costs, and could adversely affect our competitiveness and our results of operations.

Developing new products and technologies entails significant risks and uncertainties.

To continue to grow our revenues and segment profit, we must successfully develop new products and technologies or modify our existing products and technologies for our current and future markets. Our future performance depends, in part, on our ability to identify emerging technological trends and customer requirements and to develop and maintain competitive products and services. Delays or cost overruns in the development and acceptance of new products, or certification of new aircraft and other products, could affect our results of operations. These delays could be caused by unanticipated technological hurdles, production changes to meet customer demands, unanticipated difficulties in obtaining required regulatory certifications of new aircraft or other products, coordination with joint venture partners or failure on the part of our suppliers to deliver components as agreed. Changes in environmental laws and regulations, for example, those enacted in response to climate change concerns and other actions known as "green initiatives," could lead to the necessity for new or additional investment in product designs or manufacturing processes and could increase environmental compliance expenditures, including costs to defend regulatory reviews. We also could be adversely affected if our research and development investments are less successful than expected or if we do not adequately protect the intellectual property developed through these efforts. Likewise, new products and technologies could generate unanticipated safety or other concerns resulting in expanded product liability risks, potential product recalls and other regulatory issues that could have an adverse impact on us. Furthermore, because of the lengthy research and development cycle involved in bringing certain of our products to market, we cannot predict the economic conditions that will exist when any new product is complete. A reduction in capital spending in the aerospace or defense industries could have a significant effect on the demand for new products and technologies under development, which could have an adverse effect on our financial condition and results of operations. In addition, the market for our product offerings may not develop or continue to expand as we currently anticipate. Furthermore, we cannot be sure that our competitors will not develop competing technologies which gain market acceptance in advance of our products. A significant failure in our new product development efforts or the failure of our products or services to achieve market acceptance more rapidly than our competitors could have an adverse effect on our financial condition and results of operations.

We are subject to the risks of doing business in foreign countries.

Conducting business internationally, including U.S. exports, exposes us to different and additional risks than if we conducted our business solely within the U.S. Our exposure to such risks increases as our international business continues to grow. Our international business is subject to U.S. and local government regulations and procurement policies and practices, which may change from time to time, including regulations relating to import-export control; technology transfer; environmental, health and safety; investments; exchange controls; and repatriation of earnings or cash settlement challenges, as well as to varying currency, geopolitical and economic risks. These international risks may be especially significant with respect to aerospace and defense products for which we sometimes initially must obtain licenses and authorizations from various U.S. Government agencies before we are permitted to sell our products outside the U.S. Any significant impairment of our ability to sell products outside the U.S. could negatively impact our results of operations. Additionally, some international government customers require contractors to agree to specific in-country purchases, manufacturing agreements or financial support arrangements, known as offsets, as a condition for a contract award. The contracts generally extend over several years and may include penalties if we fail to meet the offset requirements, which could adversely impact our results of operations. Additionally, we are facing increasing competition in our international markets from foreign and multinational firms that may have certain home country advantages over us; as a result, our ability to compete successfully in those markets may be adversely affected, which could negatively impact our revenues and profitability.

We maintain manufacturing facilities, service centers, supply centers and other facilities worldwide, including in various emerging market countries. We also have entered into, and expect to continue to enter into, joint venture arrangements in emerging market countries, some of which may require capital investment, guaranties or other commitments. We expect that our investment in emerging market countries will continue to increase. Emerging market operations can present many risks in addition to those discussed above, including civil disturbances, economic and government instability, terrorism and related safety concerns, cultural differences in employment and business practices, difficulties in protecting intellectual property, and the imposition of exchange controls. The impact of any one or more of these or other factors could adversely affect our business, financial condition or operating results.

We also are exposed to risks associated with using foreign representatives and consultants for international sales and operations and teaming with international subcontractors and suppliers in connection with international programs. In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by laws and regulations applicable to us, such as the Foreign Corrupt Practices Act. Although we maintain policies and procedures designed to facilitate compliance with these laws, a violation of such laws by any of our international representatives, consultants, joint ventures, business partners, subcontractors or suppliers, even if prohibited by our policies, could have an adverse effect on our business and reputation.

We are subject to increasing compliance risks that could adversely affect our operating results.

As a global business, we are subject to laws and regulations in the U.S. and other countries in which we operate. Our increased focus on international sales and global operations requires importing and exporting goods and technology, some of which have military applications subjecting them to more stringent import-export controls across international borders on a regular basis. Both U.S. and foreign laws and regulations applicable to us have been increasing in scope and complexity. For example, both U.S. and foreign governments and government agencies regulate the aviation industry, and they may impose new regulations with additional aircraft security or other requirements or restrictions, including, for example, restrictions and/or fees related to carbon emissions levels. New or changing laws and regulations or related interpretation and policies could increase our costs of doing business, affect how we conduct our operations, adversely impact demand for our products, and/or limit our ability to sell our products and services. Compliance with laws and regulations of increasing scope and complexity is even more challenging in our current business environment in which reducing our operating costs is often necessary to remain competitive. In addition, a violation of U.S. and/or foreign laws by one of our employees or business partners could subject us or our employees to civil or criminal penalties, including material monetary fines, or other adverse actions, including denial of import or export privileges and debarment as a government contractor. These improper actions could damage our reputation and have an adverse effect on our business.

We are subject to legal proceedings and other claims.

We are subject to legal proceedings and other claims arising out of the conduct of our business, including proceedings and claims relating to commercial and financial transactions; government contracts; alleged lack of compliance with applicable laws and regulations; production partners; product liability; patent and trademark infringement; employment disputes; and environmental, safety and health matters. Due to the nature of our manufacturing business, we may be subject to liability claims arising from accidents involving our products, including claims for serious personal injuries or death caused by weather or by pilot, driver or user error. In the case of litigation matters for which reserves have not been established because the loss is not deemed probable, it is reasonably possible that such claims could be decided against us and could require us to pay damages or make other expenditures in amounts that are not presently estimable. In addition, we cannot be certain that our reserves are adequate and that our insurance coverage will be sufficient to cover one or more substantial claims. Furthermore, we may not be able to obtain insurance coverage at acceptable levels and costs in the future. Litigation is inherently unpredictable, and we could incur judgments, receive adverse arbitration awards or enter into settlements for current or future claims that could adversely affect our financial position or our results of operations in any particular period.

Intellectual property infringement claims of others and the inability to protect our intellectual property rights could harm our business and our customers.

Intellectual property infringement claims may be asserted by third parties against us or our customers. Any related indemnification payments or legal costs we may be obliged to pay on behalf of our businesses, our customers or other third parties could be costly. In addition, we own the rights to many patents, trademarks, brand names, trade names and trade secrets that are important to our business. The inability to enforce these intellectual property rights may have an adverse effect on our results of operations. Additionally, our intellectual property could be at risk due to various cyber threats.

Certain of our products are subject to laws regulating consumer products and could be subject to repurchase or recall as a result of safety issues.

As a distributor of consumer products in the U.S., certain of our products also are subject to the Consumer Product Safety Act, which empowers the U.S. Consumer Product Safety Commission (CPSC) to exclude from the market products that are found to be unsafe or hazardous. Under certain circumstances, the CPSC could require us to repair, replace or refund the purchase price of one or more of our products, or potentially even discontinue entire product lines, or we may voluntarily do so, but within strictures recommended by the CPSC. The CPSC also can impose fines or penalties on a manufacturer for non-compliance with its requirements. Furthermore, failure to timely notify the CPSC of a potential safety hazard can result in significant fines being assessed against us. Any repurchases or recalls of our products or an imposition of fines or penalties could be costly to us and could damage the reputation or the value of our brands. Additionally, laws regulating certain consumer products exist in some states, as well as in other countries in which we sell our products, and more restrictive laws and regulations may be adopted in the future.

The increasing costs of certain employee and retiree benefits could adversely affect our results.

Our earnings and cash flow may be adversely impacted by the amount of income or expense we expend or record for employee benefit plans. This is particularly true for our defined benefit pension plans, where required contributions to those plans and related expenses are driven by, among other things, our assumptions of the expected long-term rate of return on plan assets, the discount rate used for future payment obligations and the rates of future cost growth. Additionally, as part of our annual evaluation of these plans, significant changes in our assumptions, due to changes in economic, legislative and/or demographic experience or circumstances, or changes in our actual investment returns could negatively impact the funded status of our plans requiring us to substantially increase our pension liability with a resulting decrease in shareholders’ equity. Also, changes in pension legislation and regulations could increase the cost associated with our defined benefit pension plans.

In addition, medical costs are rising at a rate faster than the general inflation rate. Continued medical cost inflation in excess of the general inflation rate would increase the risk that we will not be able to mitigate the rising costs of medical benefits. Moreover, we expect that some of the requirements of the new comprehensive healthcare law will increase our future costs. Increases to the costs of pension and medical benefits could have an adverse effect on our results of operations.

Our business could be adversely affected by strikes or work stoppages and other labor issues.

Approximately 6,000 of our U.S. employees, or 26% of our total U.S. employees, are unionized, and approximately 2,900 of our non-U.S. employees, or 32% of our total non-U.S. employees, are represented by organized councils. As a result, we may experience work stoppages, which could negatively impact our ability to manufacture our products on a timely basis, resulting in strain on our relationships with our customers and a loss of revenues. The presence of unions also may limit our flexibility in responding to competitive pressures in the marketplace. In addition, the workforces of many of our suppliers and customers are represented by labor unions. Work stoppages or strikes at the plants of our key suppliers could disrupt our manufacturing processes; similar actions at the plants of our customers could result in delayed or canceled orders for our products. Any of these events could adversely affect our results of operations.

Currency, raw material price and interest rate fluctuations may adversely affect our results.

We are exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates, raw material prices and interest rates. Currency variations also contribute to variations in sales of products and services in impacted jurisdictions. Accordingly, fluctuations in foreign currency rates could adversely affect our profitability in future periods. We monitor and manage these exposures as an integral part of our overall risk management program. In some cases, we purchase derivatives or enter into contracts to insulate our results of operations from these fluctuations. Nevertheless, changes in currency exchange rates, raw material prices and interest rates can have substantial adverse effects on our results of operations.

We may be unable to effectively mitigate pricing pressures.

In some markets, particularly where we deliver component products and services to original equipment manufacturers, we face ongoing customer demands for price reductions, which sometimes are contractually obligated. However, if we are unable to effectively mitigate future pricing pressures through technological advances or by lowering our cost base through improved operating and supply chain efficiencies, our results of operations could be adversely affected.

Unanticipated changes in our tax rates or exposure to additional income tax liabilities could affect our profitability.

We are subject to income taxes in both the U.S. and various non-U.S. jurisdictions, and our domestic and international tax liabilities are subject to the allocation of income among these different jurisdictions. Our effective tax rate could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes to unrecognized tax benefits or changes in tax laws, which could affect our profitability. In particular, the carrying value of deferred tax assets is dependent on our ability to generate future taxable income, as well as changes to applicable statutory tax rates. In addition, the amount of income taxes we pay is subject to audits in various jurisdictions, and a material assessment by a tax authority could affect our profitability.