TEXTRON INC
Form 10-K
February 24, 2016
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended January 2, 2016

or

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____.

Commission File Number 1-5480

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**

(Address of principal executive offices) (Zip code)

Registrant s Telephone Number, Including Area Code: **(401) 421-2800**

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock par value $0.125	New York Stock Exchange

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

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ü No___

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes __ No ü

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 ü No___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ü 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. [ü]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ü] Accelerated filer [__]

Non-accelerated filer [__] Smaller reporting company [__]

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes __ No _ü

The aggregate market value of the registrant s Common Stock held by non-affiliates at July 4, 2015 was approximately $12.3 billion based on the New York Stock Exchange closing price for such shares on that date. The registrant has no non-voting common equity.

At February 6, 2016, 271,171,585 shares of Common Stock were outstanding.

Documents Incorporated by Reference

Part III of this Report incorporates information from certain portions of the registrant s Definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 27, 2016.

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Textron Inc.

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PART I

Item 1. Business

Textron Inc. is a multi-industry company that leverages its global network of aircraft, defense, industrial and finance businesses to provide customers with innovative products and services around the world. We have approximately 35,000 employees worldwide. Textron Inc. was founded in 1923 and reincorporated in Delaware on July 31, 1967. Unless otherwise indicated, references to Textron Inc., the Company, we, our and us in this Annual Report on Form 10-K refer to Textron Inc. and its consolidated subsidiaries.

We conduct our business through five operating segments: Textron Aviation, Bell, Textron Systems and Industrial, which represent our manufacturing businesses, and Finance, which represents our finance business. On March 14, 2014, we completed the acquisition of Beech Holdings, LLC, which included Beechcraft Corporation and other subsidiaries (collectively Beechcraft). We combined Beechcraft with our legacy Cessna segment to form the Textron Aviation segment.

A description of the business of each of our segments is set forth below. Our business segments include operations that are unincorporated divisions of Textron Inc. and others that are separately incorporated subsidiaries. Financial information by business segment and geographic area appears in Note 15 to the Consolidated Financial Statements on pages 66 through 67 of this Annual Report on Form 10-K. The following description of our business should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations on pages 18 through 33 of this Annual Report on Form 10-K. Information included in this Annual Report on Form 10-K refers to our continuing businesses unless otherwise indicated.

Textron Aviation Segment

Textron Aviation is a leader in general aviation. Textron Aviation manufactures, sells and services Beechcraft and Cessna aircraft, and services the Hawker brand of business jets. The segment has two principal product lines: aircraft sales and aftermarket. Aircraft sales include business jets, turboprop aircraft, piston engine aircraft, and military trainer and defense aircraft. Aftermarket includes commercial parts sales, and maintenance, inspection and repair services. Revenues in the Textron Aviation segment accounted for approximately 36%, 33% and 23% of our total revenues in 2015, 2014 and 2013, respectively. Revenues for Textron Aviation s principal lines of business were as follows:

(*In millions*)	**2015**	**2014**	**2013**
Aircraft sales	$ 3,404	$ 3,182	$ 1,868
Aftermarket	1,418	1,386	916
Total revenues	$ 4,822	$ 4,568	$ 2,784

The family of jets currently produced by Textron Aviation includes the Mustang, Citation M2, Citation CJ3+, Citation CJ4, Citation XLS+, Citation Latitude, which entered into service during 2015, Citation Sovereign+, and the Citation X+, the fastest civilian jet in the world. In addition, Textron Aviation is developing the Citation Longitude, a super-midsize jet expected to enter into service in 2017, and recently announced the Citation Hemisphere, a large-cabin jet for which first flight is targeted in 2019.

Textron Aviation s turboprop aircraft include the Beechcraft King Air, which offers the King Air C90GTx, King Air 250, King Air 350ER and King Air 350i, and the Cessna Caravan, a utility turboprop. Textron Aviation also offers the T-6 trainer and AT-6 light attack military aircraft. More than 20 countries utilize the T-6 aircraft as a part of their military training fleet.

Textron Aviation s piston engine aircraft include the Beechcraft Baron and Bonanza, and the Cessna Skyhawk, Skylane, Turbo Stationair and the high performance TTx.

In support of its family of aircraft, Textron Aviation operates a global network of 21 service centers, two of which are co-located with Bell Helicopter, along with more than 400 authorized independent service centers located in 50 countries throughout the world. Textron Aviation-owned service centers provide customers with 24-hour service and maintenance. Textron Aviation provides its customers with around-the-clock parts support and also offers ServiceDirect® for Citation, King Air and Hawker aircraft. ServiceDirect® delivers service capabilities directly to customer locations with a mobile service unit fleet in the U.S., Canada and Europe.

Textron Aviation markets its products worldwide through its own sales force, as well as through a network of authorized independent sales representatives. Textron Aviation has several competitors domestically and internationally in various market segments. Textron Aviation s aircraft compete with other aircraft that vary in size, speed, range, capacity and handling characteristics on the basis of price, product quality and reliability, direct operating costs, product support and reputation.

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Bell Segment

Bell Helicopter is one of the leading suppliers of military and commercial helicopters, tiltrotor aircraft, and related spare parts and services in the world. Revenues for Bell accounted for approximately 26%, 31% and 37% of our total revenues in 2015, 2014 and 2013, respectively. Revenues by Bell s principal lines of business were as follows:

(*In millions*)	**2015**	**2014**	**2013**
Military:			
V-22 Program	$ 1,194	$ 1,771	$ 1,755
Other Military	839	860	959
Commercial	1,421	1,614	1,797
Total revenues	$ 3,454	$ 4,245	$ 4,511

Bell supplies advanced military helicopters and support to the U.S. Government and to military customers outside the United States. Bell s primary U.S. Government programs are the V-22 tiltrotor aircraft and the H-1 helicopters. Bell is one of the leading suppliers of helicopters to the U.S. Government and, in association with The Boeing Company (Boeing), the only supplier of military tiltrotor aircraft. Tiltrotor aircraft are designed to provide the benefits of both helicopters and fixed-wing aircraft. Through its strategic alliance with Boeing, Bell produces and supports the V-22 tiltrotor aircraft for the U.S. Department of Defense (DoD), and recently entered into its first contract to sell the V-22 tiltrotor aircraft under the U.S. Government sponsored foreign military sales program. The U.S. Marine Corps H-1 helicopter program includes a utility model, the UH-1Y, and an advanced attack model, the AH-1Z, which have 84% parts commonality between them.

Through its commercial business, Bell is a leading supplier of commercially certified helicopters and support to corporate, offshore petroleum exploration and development, utility, charter, police, fire, rescue, emergency medical helicopter operators and foreign governments. Bell produces a variety of commercial aircraft types, including light single- and twin-engine helicopters and medium twin-engine helicopters, along with other related products. The helicopters currently offered by Bell for commercial applications include the 206L-4, 407, 407GT, 407GXP, 412EP, 412EPI, 429 and Huey II. The new 505 Jet Ranger X, a short-light single helicopter, is expected to receive certification and begin deliveries in 2016. In addition, Bell achieved first flight in 2015 for the 525 Relentless, its first super medium commercial helicopter, and expects certification in 2017.

For both its military programs and its commercial products, Bell provides post-sale support and service for an installed base of approximately 13,000 helicopters through a network of eight Bell-operated service centers, five global parts distribution centers and over 100 independent service centers located in 34 countries. Collectively, these service sites offer a complete range of logistics support, including parts, support equipment, technical data, training devices, pilot and maintenance training, component repair and overhaul, engine repair and overhaul, aircraft modifications, aircraft customizing, accessory manufacturing, contractor maintenance, field service and product support engineering.

Bell competes against a number of competitors throughout the world for its helicopter business and its parts and support business. Competition is based primarily on price, product quality and reliability, product support, performance and reputation.

Textron Systems Segment

Textron Systems product lines consist of unmanned aircraft systems, marine and land systems, weapons and sensors, simulation, training and other defense and aviation mission support products and services. Textron Systems is a supplier to the defense, aerospace and general aviation

markets, and represents approximately 11%, 12% and 14% of our total revenues in 2015, 2014 and 2013, respectively. This segment sells its products to U.S. Government customers and to customers outside the U.S. through foreign military sales sponsored by the U.S. Government and directly through commercial sales channels. Textron Systems competes on the basis of technology, contract performance, price, product quality and reliability, product support and reputation. Revenues by Textron Systems product lines were as follows:

(*In millions*)	**2015**	**2014**	**2013**
Unmanned Systems	$ 686	$ 797	$ 666
Weapons and Sensors	255	264	311
Marine and Land Systems	188	158	392
Simulation, Training and Other	391	405	296
Total revenues	$ 1,520	$ 1,624	$ 1,665

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Unmanned Systems

Unmanned Systems consists of the Unmanned Systems and Support Solutions businesses. The Unmanned Systems business has designed, manufactured and fielded combat-proven unmanned aircraft systems for more than 25 years, including the U.S. Army s premier tactical unmanned aircraft system, the Shadow. This business s unmanned aircraft and interoperable command and control technologies provide critical situational awareness and actionable intelligence for users worldwide. Our Support Solutions business provides logistical support for various unmanned systems as well as training and supply chain services to government and commercial customers worldwide.

Weapons and Sensors

The Weapons and Sensors business consists of state-of-the-art smart weapons; airborne and ground-based sensors and surveillance systems; and protection systems for the defense and aerospace industries. It primarily sells its products to international allies through foreign military sales.

Marine and Land Systems

The Marine and Land Systems business is a world leader in the design, production and support of armored vehicles, turrets and related subsystems as well as advanced marine craft. It produces a family of extremely mobile, highly protective vehicles for the U.S. Army and international allies, and is developing the U.S. Navy s next generation Landing Craft Air Cushion as part of the Ship-to-Shore Connector program.

Simulation, Training and Other

Simulation, Training and Other includes five businesses: TRU Simulation + Training, Lycoming, Electronic Systems, Advanced Information Solutions and Geospatial Solutions. TRU Simulation + Training designs, develops, manufactures, installs, and provides maintenance of advanced flight training courseware and devices, including full flight simulators, for both rotary- and fixed-wing aircraft for commercial airlines, aircraft original equipment manufacturers (OEMs), flight training centers and training organizations worldwide. Through its training centers, TRU Simulation + Training provides initial type-rating and recurrency training for pilots, as well as maintenance training in its recently opened Aviation Maintenance Training Academy. Lycoming specializes in the engineering, manufacture, service and support of piston aircraft engines for the general aviation and remotely piloted aircraft markets. Electronic Systems provides high technology test equipment and electronic warfare test and training solutions. Advanced Information Solutions and Geospatial Solutions provide intelligence software solutions for U.S. and international defense, intelligence and law enforcement communities.

Industrial Segment

Our Industrial segment designs and manufactures a variety of products within three principal product lines. Industrial segment revenues were as follows:

(*In millions*)	**2015**	**2014**	**2013**
Fuel Systems and Functional Components	$ 2,078	$ 1,975	$ 1,853
Specialized Vehicles and Equipment	1,021	868	713
Tools and Test Equipment	445	495	446
Total revenues	$ 3,544	$ 3,338	$ 3,012

Fuel Systems and Functional Components

Our Fuel Systems and Functional Components product line is operated by our Kautex business unit, which is headquartered in Bonn, Germany. Kautex is a leading developer and manufacturer of blow-molded plastic fuel systems for cars, light trucks, all-terrain vehicles, windshield and headlamp washer systems for automobiles and selective catalytic reduction systems used to reduce emissions from diesel engines. Kautex serves the global automobile market, with operating facilities near its major customers around the world. Kautex also produces cast iron engine camshafts and develops and produces plastic bottles and containers for food, household, laboratory and industrial uses. Revenues of Kautex accounted for approximately 15%, 14% and 15% of our total revenues in 2015, 2014 and 2013, respectively.

Our automotive products have several major competitors worldwide, some of which are affiliated with the OEMs that comprise our targeted customer base. Competition typically is based on a number of factors including price, technology, environmental performance, product quality and reliability, prior experience and available manufacturing capacity.

Specialized Vehicles and Equipment

Our Specialized Vehicles and Equipment product line includes the products designed, manufactured and sold by our Textron Specialized Vehicles and Jacobsen businesses. Textron Specialized Vehicles, which includes the E-Z-GO, Bad Boy Off Road, Cushman, TUG Technologies and Douglas Equipment businesses and brands, designs, manufactures and sells golf cars, off-road utility vehicles, light transportation vehicles and aviation ground support equipment. Although Textron Specialized Vehicles is

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best known for its electric-vehicle technology, it also manufactures and sells models powered by internal combustion engines. Textron Specialized Vehicles diversified customer base includes golf courses and resorts, government agencies and municipalities, consumers, and commercial and industrial users such as factories, warehouses, airports, planned communities, hunting preserves and educational and corporate campuses. Sales are made through a combination of factory direct resources and a network of independent distributors and dealers worldwide. Textron Specialized Vehicles has two major competitors for golf cars and several other competitors for off-road and light transportation vehicles and for aviation ground support equipment. Competition is based primarily on price, product quality and reliability, product support and reputation.

Jacobsen designs, manufactures and sells professional turf-maintenance equipment, as well as specialized turf-care vehicles. Brand names include Ransomes, Jacobsen, Cushman and Dixie Chopper. Jacobsen s customers include golf courses, resort communities, sporting venues, municipalities and landscaping professionals. Products are sold primarily through a worldwide network of distributors and dealers, as well as factory direct. Jacobsen has two major competitors for professional turf-maintenance equipment and several other major competitors for specialized turf-care products. Competition is based primarily on price, product features, product quality and reliability and product support.

Tools and Test Equipment

The Tools and Test Equipment product line includes products sold by businesses that design and manufacture powered equipment, electrical test and measurement instruments, mechanical and hydraulic tools, cable connectors, fiber optic assemblies, underground and aerial transmission and distribution products and power utility products. These businesses also encompass the Greenlee, Greenlee Communications, Greenlee Utility, HD Electric, Klauke, Sherman+Reilly and Endura brand names, and their products are used principally in the construction, maintenance, telecommunications, data communications, electrical, utility and plumbing industries. Their products are distributed through a global network of sales representatives and distributors and are also sold directly to home improvement retailers and OEMs. The businesses have plant operations in five countries with almost 50% of their combined revenue coming from outside the United States. These businesses face competition from numerous manufacturers based primarily on price, delivery lead time, product quality and reliability.

Finance Segment

Our Finance segment, or the Finance group, is a commercial finance business that consists of Textron Financial Corporation (TFC) and its consolidated subsidiaries. The Finance segment provides financing primarily to purchasers of new and pre-owned Textron Aviation aircraft and Bell helicopters. The majority of new finance receivables are cross-border transactions for aircraft sold outside of the U.S. New originations in the U.S. are primarily for purchasers who had difficulty in accessing other sources of financing for the purchase of Textron-manufactured products. In 2015, 2014 and 2013, our Finance group paid our Manufacturing group $194 million, $215 million and $248 million, respectively, related to the sale of Textron-manufactured products to third parties that were financed by the Finance group.

The commercial finance business traditionally is extremely competitive. Our Finance segment is subject to competition from various types of financing institutions, including banks, leasing companies, commercial finance companies and finance operations of equipment vendors. Competition within the commercial finance industry primarily is focused on price, term, structure and service.

Our Finance segment s largest business risk is the collectability of its finance receivable portfolio. See Finance Portfolio Quality in Management s Discussion and Analysis of Financial Condition and Results of Operations on page 27 for information about the Finance segment s credit performance.

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Backlog

Our backlog at the end of 2015 and 2014 is summarized below:

(*In millions*)	**January 2, 2016**	**January 3, 2015**
Bell	$ 5,224	$ 5,524
Textron Systems	2,328	2,790
Textron Aviation	1,074	1,365
Total backlog	$ 8,626	$ 9,679

Approximately 44% of our total backlog at January 2, 2016 represents orders that are not expected to be filled in 2016.

At the end of 2015, approximately 68% of our total backlog was with the U.S. Government, which included only funded amounts as the U.S. Government is obligated only up to the amount of funding formally appropriated for a contract. Bell s 2015 backlog included $2.0 billion related to a multi-year procurement contract with the U.S. Government for the purchase of V-22 tiltrotor aircraft.

U.S. Government Contracts

In 2015, approximately 24% of our consolidated revenues were generated by or resulted from contracts with the U.S. Government, excluding those contracts under the U.S. Government sponsored foreign military sales program. This business is subject to competition, changes in procurement policies and regulations, the continuing availability of funding, which is dependent upon congressional appropriations, national and international priorities for defense spending, world events, and the size and timing of programs in which we may participate.

Our contracts with the U.S. Government generally may be terminated by the U.S. Government for convenience or if we default in whole or in part by failing to perform under the terms of the applicable contract. If the U.S. Government terminates a contract for convenience, we normally will be entitled to payment for the cost of contract work performed before the effective date of termination, including, if applicable, reasonable profit on such work, as well as reasonable termination costs. If, however, the U.S. Government terminates a contract for default, generally: (a) we will be paid the contract price for completed supplies delivered and accepted and services rendered, an agreed-upon amount for manufacturing materials delivered and accepted and for the protection and preservation of property, and an amount for partially completed products accepted by the U.S. Government; (b) the U.S. Government may not be liable for our costs with respect to unaccepted items and may be entitled to repayment of advance payments and progress payments related to the terminated portions of the contract; (c) the U.S. Government may not be liable for assets we own and utilize to provide services under the fee-for-service contracts; and (d) we may be liable for excess costs incurred by the U.S. Government in procuring undelivered items from another source.

Research and Development

Information regarding our research and development expenditures is contained in Note 1 to the Consolidated Financial Statements on page 46 of this Annual Report on Form 10-K.

Patents and Trademarks

We own, or are licensed under, numerous patents throughout the world relating to products, services and methods of manufacturing. Patents developed while under contract with the U.S. Government may be subject to use by the U.S. Government. We also own or license active trademark registrations and pending trademark applications in the U.S. and in various foreign countries or regions, as well as trade names and service marks. While our intellectual property rights in the aggregate are important to the operation of our business, we do not believe that any existing patent, license, trademark or other intellectual property right is of such importance that its loss or termination would have a material adverse effect on our business taken as a whole. Some of these trademarks, trade names and service marks are used in this Annual Report on Form 10-K and other reports, including: Aeronautical Accessories; AAI; acAlert; Ascent; Aerosonde; AH-1Z; Ambush; Arc Horizon; AVCOAT; Bad Boy Off Road; Baron; BattleHawk; Beechcraft; Beechcraft T-6: Bell; Bell Helicopter; Bonanza; Bravo; Cadillac Gage; Caravan; Caravan Amphibian; Caravan 675; Cessna; Cessna 350; Cessna 400; Cessna Turbo Skylane JT-A; Cessna Turbo Skyhawk JT-A; Citation; CITATION ALPINE EDITION; Citation Encore+; Citation Latitude; Citation Longitude; Citation M2; Citation Sovereign; Citation X; Citation X+; Citation XLS+; CJ1+; CJ2+; CJ3; CJ3+; CJ4; Clairity; CLAW; CLEARTEST; Commando; Cushman; DataScout; Dixie Chopper; Dixie Chopper Stryker; Eclipse; ENFORCER; Excel; E-Z-GO; E-Z-GO EXPRESS; FAST-N-LATCH; Fury; G3 Tugger; GatorEye; Gator Grips; GLOBAL MISSION SUPPORT; Grand Caravan; Greenlee; H-1; HAULER; HDE; Hawker; Hemisphere; Huey; Huey II; iCommand; IE2; Instinct; Integrated Command Suite; INTELLIBRAKE; Jacobsen; Jacobsen HoverKing; Jet Ranger X; Kautex; King Air; King Air C90GTx; King Air 250; King Air 350; Kiowa Warrior; Klauke; LF; Lycoming; M1117 ASV; MADE FOR THE TRADE; McCauley; Mechtronix; Millenworks; Mission Critical Support (MCS); MissionLink (IVHM); Mustang; Next Generation Carbon Canister; Next Generation Fuel System; NGCC; NGFS; Odyssey;

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ONSLAUGHT; OPINICUS; Overwatch; PDCue; Power Advantage; Pro-Fit; ProParts; Ransomes; REALCue; REALFeel; Recoil; Relentless; ROCONNECT; RT2; RXV; SABER; Scorpion; Sensor Fuzed Weapon; ServiceDirect; Shadow; Shadow Knight; Shadow Master; Sherman+Reilly; Skyhawk; Skyhawk SP; Skylane; SkyPLUS; Sovereign; Speed Punch; Spider; Stationair; ST 4X4; Super Cargomaster; Super Medium; SuperCobra; SYMTX; TDCue; Textron; Textron Aviation; Textron Defense Systems; Textron Financial Corporation; Textron Marine & Land Systems; Textron Systems; TI-Metal; TRUESET; TRU Simulation + Training; TRUCKSTER; TTx; TUG; Turbo Skylane; Turbo Stationair; UH-1Y; V-Watch Connect; VALOR; V-22 Osprey; V-280; Wolverine; 2FIVE; 206; 407; 407GT; 407GX; 412, 429, 505; 525 and 525 Relentless. These marks and their related trademark designs and logotypes (and variations of the foregoing) are trademarks, trade names or service marks of Textron Inc., its subsidiaries, affiliates or joint ventures.

Environmental Considerations

Our operations are subject to numerous laws and regulations designed to protect the environment. Compliance with these laws and expenditures for environmental control facilities has not had a material effect on our capital expenditures, earnings or competitive position. Additional information regarding environmental matters is contained in Note 13 to the Consolidated Financial Statements on page 65 of this Annual Report on Form 10-K.

We do not believe that existing or pending climate change legislation, regulation, or international treaties or accords are reasonably likely to have a material effect in the foreseeable future on our business or markets nor on our results of operations, capital expenditures or financial position. We will continue to monitor emerging developments in this area.

Employees

At January 2, 2016, we had approximately 35,000 employees.

Executive Officers of the Registrant

The following table sets forth certain information concerning our executive officers as of February 24, 2016.

Name	Age	Current Position with Textron Inc.
Scott C. Donnelly	54	Chairman, President and Chief Executive Officer
Frank T. Connor	56	Executive Vice President and Chief Financial Officer
Cheryl H. Johnson	55	Executive Vice President, Human Resources
E. Robert Lupone	56	Executive Vice President, General Counsel, Secretary and Chief Compliance Officer

Mr. Donnelly joined Textron in June 2008 as Executive Vice President and Chief Operating Officer and was promoted to President and Chief Operating Officer in January 2009. He was appointed to the Board of Directors in October 2009 and became Chief Executive Officer of Textron in December 2009, at which time the Chief Operating Officer position was eliminated. In July 2010, Mr. Donnelly was appointed Chairman of the Board of Directors effective September 1, 2010. Previously, Mr. Donnelly was the President and CEO of General Electric Company s Aviation business unit, a position he had held since July 2005. GE s Aviation business unit is a $16 billion maker of commercial and military jet engines and components, as well as integrated digital, electric power and mechanical systems for aircraft. Prior to July 2005, Mr. Donnelly

served as Senior Vice President of GE Global Research, one of the world s largest and most diversified industrial research organizations with facilities in the U.S., India, China and Germany and held various other management positions since joining General Electric in 1989.

Mr. Connor joined Textron in August 2009 as Executive Vice President and Chief Financial Officer. Previously, Mr. Connor was head of Telecom Investment Banking at Goldman, Sachs & Co from 2003 to 2008. Prior to that position, he served as Chief Operating Officer of Telecom, Technology and Media Investment Banking at Goldman, Sachs from 1998 to 2003. Mr. Connor joined the Corporate Finance Department of Goldman, Sachs in 1986 and became a Vice President in 1990 and a Managing Director in 1996.

Ms. Johnson was named Executive Vice President, Human Resources in July 2012. Ms. Johnson joined Textron in 1996 and has held various human resources leadership positions across Textron s businesses, including Senior Human Resources Business Partner for Greenlee and Vice President of Human Resources for E-Z-GO, a position she held from 2006 until joining Bell in 2009. At Bell, she most recently served as Director of Talent and Organizational Development. Prior to Textron, Ms. Johnson held roles in human resources, marketing and sales, and finance disciplines at several organizations, including IBM and Hamilton Sundstrand, a United Technologies Company.

Mr. Lupone joined Textron in February 2012 as Executive Vice President, General Counsel, Secretary and Chief Compliance Officer. Previously, he was senior vice president and general counsel of Siemens Corporation (U.S.) since 1999 and general counsel of Siemens AG for the Americas since 2008. Prior to joining Siemens in 1992, Mr. Lupone was vice president and general counsel of Price Communications Corporation.

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Available Information

We make available free of charge on our Internet Web site (www.textron.com) our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Forward-Looking Information

Certain statements in this Annual Report on Form 10-K and other oral and written statements made by us from time to time are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements, which may describe strategies, goals, outlook or other non-historical matters, or project revenues, income, returns or other financial measures, often include words such as believe, expect, anticipate, intend, plan, estimate, guidance, project, target, potential, will, should, could, li expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results to differ materially from those expressed or implied by such forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update or revise any forward-looking statements. In addition to those factors described herein under RISK FACTORS, among the factors that could cause actual results to differ materially from past and projected future results are the following:

- Interruptions in the U.S. Government s ability to fund its activities and/or pay its obligations;
- Changing priorities or reductions in the U.S. Government defense budget, including those related to military operations in foreign countries;
- Our ability to perform as anticipated and to control costs under contracts with the U.S. Government;
- The U.S. Government s ability to unilaterally modify or terminate its contracts with us for the U.S. Government s convenience or for our failure to perform, to change applicable procurement and accounting policies, or, under certain circumstances, to withhold payment or suspend or debar us as a contractor eligible to receive future contract awards;
- Changes in foreign military funding priorities or budget constraints and determinations, or changes in government regulations or policies on the export and import of military and commercial products;
- Volatility in the global economy or changes in worldwide political conditions that adversely impact demand for our products;
- Volatility in interest rates or foreign exchange rates;
- Risks related to our international business, including establishing and maintaining facilities in locations around the world and relying on joint venture partners, subcontractors, suppliers, representatives, consultants and other business partners in connection with international business, including in emerging market countries;
- Our Finance segment s ability to maintain portfolio credit quality or to realize full value of receivables;

- Performance issues with key suppliers or subcontractors;
- Legislative or regulatory actions, both domestic and foreign, impacting our operations or demand for our products;
- Our ability to control costs and successfully implement various cost-reduction activities;
- The efficacy of research and development investments to develop new products or unanticipated expenses in connection with the launching of significant new products or programs;
- The timing of our new product launches or certifications of our new aircraft products;
- Our ability to keep pace with our competitors in the introduction of new products and upgrades with features and technologies desired by our customers;
- Pension plan assumptions and future contributions;
- Demand softness or volatility in the markets in which we do business; and
- Cybersecurity threats, including the potential misappropriation of assets or sensitive information, corruption of data or operational disruption.

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Item 1A. Risk Factors

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 2015, we derived approximately 24% 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 and the U.S. Government budget process which includes enacting relevant legislation, such as appropriations bills and accords on the debt ceiling. 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. 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 U.S. Government contracts generally require us to continue to perform even if the U.S. Government is unable to make timely payments; if, for example, the debt ceiling is not raised, and, as a result, our customer does not pay us on a timely basis, we would need to finance our continued performance of the impacted contracts from our other resources. 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 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.

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

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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.

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 government 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. Additionally, U.S. Government procurement policies increasingly favor fixed-price incentive-based fee arrangements rather than traditional fixed-price contracts; these fee arrangements could negatively impact our profitability. Other current U.S. Government policies could negatively impact our working capital and cash flow. For example, the government has expressed a preference for requiring progress payments rather than performance based payments on new fixed-price contracts, which if implemented, delays our ability to recover a significant amount of costs incurred on a contract and thus affects the timing of our cash flows. 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.

Demand for our aircraft products is cyclical and could adversely affect our financial results.

Demand for business jets, turbo props and commercial helicopters has been cyclical and difficult to forecast. Therefore, future demand for these products could be significantly and unexpectedly less than anticipated and/or less than previous period deliveries. Similarly, there is uncertainty as to when or whether our existing commercial backlog for aircraft products will convert to revenues as the conversion depends on production capacity, customer needs and credit availability. Changes in economic conditions may cause customers to request that firm orders be rescheduled or cancelled. Reduced demand for our aircraft products or delays or cancellations of orders could result in a material adverse effect on our cash flows, results of operations and financial condition.

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.

If our Finance segment is unable to maintain portfolio credit quality, our financial performance could be adversely affected.

A key determinant of the financial performance of our Finance segment is the quality of loans, leases and other assets in its portfolio. Portfolio quality may be adversely affected by several factors, including finance receivable underwriting procedures,

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collateral value, geographic or industry concentrations, and the effect of general economic conditions. In addition, a majority of the new originations in our finance receivable portfolio are cross-border transactions for aircraft sold outside of the U.S. Cross-border transactions present additional challenges and risks in realizing upon collateral in the event of borrower default, which may result in difficulty or delay in collecting on the related finance receivables. If our Finance segment has difficulty successfully collecting its finance receivable portfolio, our cash flow, results of operations and financial condition could be adversely affected.

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. Our access to the debt capital markets 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, including 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 our confidential, classified or otherwise proprietary information or that of our employees or customers, as well as other security breaches, are persistent, continue to evolve and require highly skilled IT resources. While we have experienced cybersecurity 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 future material incidents cannot be completely mitigated. An IT system failure, issues related to implementation of new IT systems or breach of data security, whether of our systems or the systems of our service providers or other third parties who may have access to our data for business purposes, 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. We also could be adversely affected if our research and development investments are less successful than expected or if we do not adequately

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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 superior market acceptance compared to our products. A significant failure in our new product development efforts or the failure of our products or services to achieve market acceptance relative to our competitors products or services 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.

During 2015, we derived approximately 38% of our revenues from international business, including U.S. exports, and we expect international revenues to continue to increase. Conducting business internationally exposes us to additional risks than if we conducted our business solely within the U.S. 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. Risks related to international operations include import, export and other trade restrictions; changing U.S. and foreign procurement policies and practices; restrictions on technology transfer; difficulties in protecting intellectual property; increasing complexity of employment and environmental, health and safety regulations; foreign investment laws; exchange controls; repatriation of earnings or cash settlement challenges, competition from foreign and multinational firms with home country advantages; economic and government instability, acts of terrorism and related safety concerns. The impact of any one or more of these or other factors could adversely affect our business, financial condition or operating results.

Additionally, some international government customers require contractors to agree to specific in-country purchases, technology transfers, 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 perform in accordance with the offset requirements which are often subjective. 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. For example, we sometimes initially must obtain licenses and authorizations from various U.S. Government agencies before we are permitted to sell certain of our aerospace and defense products outside the U.S. 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. Changes in environmental laws and regulations, including 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. 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, such as denial of import or export privileges and/or debarment as a government contractor which could damage our reputation and have an adverse effect on our business.

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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 cybersecurity 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.

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

Approximately 7,200, or 28%, of our U.S. employees are unionized, and many of our 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

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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 OEMs, 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.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

On January 2, 2016, we operated a total of 59 plants located throughout the U.S. and 52 plants outside the U.S. We own 57 plants and lease the remainder for a total manufacturing space of approximately 24.3 million square feet. We consider the productive capacity of the plants operated by each of our business segments to be adequate. We also own or lease offices, warehouses, training and service centers and other space at various locations. In general, our 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

On October 7, 2014, the Federal Aviation Administration of the U.S. Department of Transportation (DOT) issued a Notice of Proposed Civil Penalty to McCauley Propeller Systems, a Division of Cessna Aircraft Company, for alleged violations of DOT s hazardous materials shipment regulations in connection with the shipment of resin product by air from McCauley s Columbus, GA facility. The DOT has proposed a civil

penalty of $238,000, and Cessna Aircraft Company is currently negotiating the disposition of the matter.

We also are subject to actual and threatened 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, health and safety matters. Some of these legal proceedings and claims seek damages, fines or penalties in substantial amounts or remediation of environmental contamination. As a government contractor, we are subject to audits, reviews and investigations to determine whether our operations are being conducted in accordance with applicable regulatory requirements. Under federal government procurement regulations, certain claims brought by the U.S. Government could result in our suspension or debarment from U.S. Government contracting for a period of time. On the basis of information presently available, we do not believe that existing proceedings and claims will have a material effect on our financial position or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The principal market on which our common stock is traded is the New York Stock Exchange under the symbol TXT. At January 2, 2016, there were approximately 10,000 record holders of Textron common stock. The high and low sales prices per share of our common stock as reported on the New York Stock Exchange and the dividends paid per share are provided in the following table:

	2015			2014		
	High	Low	Dividends per Share	High	Low	Dividends per Share
First quarter	$ 45.61	$ 40.95	$ 0.02	$ 40.18	$ 34.28	$ 0.02
Second quarter	46.93	42.97	0.02	40.93	36.96	0.02
Third quarter	44.98	32.20	0.02	39.03	35.54	0.02
Fourth quarter	43.93	38.18	0.02	44.23	32.28	0.02

Issuer Repurchases of Equity Securities

The following provides information about our fourth quarter 2015 repurchases of equity securities that are registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended:

Period *(shares in thousands)*	Total Number of Shares Purchased (1)	Average Price Paid per Share (excluding commissions)	Total Number of Shares Purchased as part of Publicly Announced Plan (1)	Maximum Number of Shares that may yet be Purchased under the Plan
October 4, 2015 November 7, 2015	208	$ 37.63	208	10,882
November 8, 2015 December 5, 2015				10,882
December 6, 2015 January 2, 2016				10,882
Total	208	$ 37.63	208	

(1) These shares were purchased pursuant to a plan authorizing the repurchase of up to 25 million shares of Textron common stock that had been announced on January 23, 2013. This plan has no expiration date.

Stock Performance Graph

The following graph compares the total return on a cumulative basis at the end of each year of $100 invested in our common stock on December 31, 2010 with the Standard & Poor s (S&P) 500 Stock Index, the S&P 500 Aerospace & Defense (A&D) Index and the S&P 500 Industrials Index, all of which include Textron. The values calculated assume dividend reinvestment.

	2010	2011	2012	2013	2014	2015
Textron Inc.	$ 100.00	$ 78.53	$ 105.62	$ 157.05	$ 180.27	$ 180.18
S&P 500	100.00	102.11	118.45	156.82	178.29	180.75
S&P 500 A&D	100.00	105.28	120.61	186.85	208.21	219.52
S&P 500 Industrials	100.00	105.43	120.98	159.26	178.94	184.13

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Item 6. Selected Financial Data

(*Dollars in millions, except per share amounts*)	2015	2014	2013	2012	2011
Revenues					
Textron Aviation	$ 4,822	$ 4,568	$ 2,784	$ 3,111	$ 2,990
Bell	3,454	4,245	4,511	4,274	3,525
Textron Systems	1,520	1,624	1,665	1,737	1,872
Industrial	3,544	3,338	3,012	2,900	2,785
Finance	83	103	132	215	103
Total revenues	$ 13,423	$ 13,878	$ 12,104	$ 12,237	$ 11,275
Segment profit					
Textron Aviation (a)	$ 400	$ 234	$ (48)	$ 82	$ 60
Bell	400	529	573	639	521
Textron Systems	129	150	147	132	141
Industrial	302	280	242	215	202
Finance (b)	24	21	49	64	(333)
Total segment profit	1,255	1,214	963	1,132	591
Corporate expenses and other, net	(154)	(161)	(166)	(148)	(114)
Interest expense, net for Manufacturing group	(130)	(148)	(123)	(143)	(140)
Acquisition and restructuring costs (c)		(52)			
Income tax expense	(273)	(248)	(176)	(260)	(95)
Income from continuing operations	$ 698	$ 605	$ 498	$ 581	$ 242
Per share of common stock					
Income from continuing operations basic	$ 2.52	$ 2.17	$ 1.78	$ 2.07	$ 0.87
Income from continuing operations diluted	$ 2.50	$ 2.15	$ 1.75	$ 1.97	$ 0.79
Dividends declared	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.08
Book value at year-end	$ 18.10	$ 15.45	$ 15.54	$ 11.03	$ 9.84
Common stock price: High	$ 46.93	$ 44.23	$ 37.43	$ 29.18	$ 28.87
Low	$ 32.20	$ 32.28	$ 23.94	$ 18.37	$ 14.66
Year-end	$ 42.01	$ 42.17	$ 36.61	$ 24.12	$ 18.49
Common shares outstanding *(In thousands)*					
Basic average	276,682	279,409	279,299	280,182	277,684
Diluted average	278,727	281,790	284,428	294,663	307,255
Year-end	274,228	276,582	282,059	271,263	278,873
Financial position					
Total assets	$ 14,708	$ 14,605	$ 12,944	$ 13,033	$ 13,615
Manufacturing group debt	$ 2,697	$ 2,811	$ 1,931	$ 2,301	$ 2,459
Finance group debt	$ 913	$ 1,063	$ 1,256	$ 1,686	$ 1,974
Shareholders equity	$ 4,964	$ 4,272	$ 4,384	$ 2,991	$ 2,745
Manufacturing group debt-to-capital (net of cash)	26%	33%	15%	24%	37%
Manufacturing group debt-to-capital	35%	40%	31%	44%	47%
Investment data					
Capital expenditures	$ 420	$ 429	$ 444	$ 480	$ 423
Depreciation	$ 391	$ 389	$ 349	$ 336	$ 343

(a) Segment profit includes amortization of $12 million and $63 million in 2015 and 2014, respectively, related to fair value step-up adjustments of Beechcraft acquired inventories sold during the period.

(b) For 2011, segment profit includes a $186 million initial mark-to-market adjustment for finance receivables in the Golf Mortgage portfolio that were transferred to the held for sale classification.

(c) Acquisition and restructuring costs are related to the acquisition of Beech Holdings, LLC, the parent of Beechcraft Corporation, which was completed on March 14, 2014.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview and Consolidated Results of Operations

For Textron, 2015 was a year of solid execution across our business segments. We improved operational performance enabling us to increase profitability despite an overall decline in revenues. In addition, we continued our strategy of development and investment in new products to position our businesses for future growth. Several highlights of 2015 include the following:

- Improved gross margin by 60 basis-points from 17.1% to 17.7%.
- Grew segment profit to $1.3 billion, a 3% increase, despite a 3% decline in revenues.
- Raised diluted earnings per share from continuing operations by 16%, from $2.15 to $2.50.
- Generated $1.0 billion in cash from operating activities of our manufacturing businesses.
- Increased our investment in research and development activities by 12% to $778 million.
- Invested $420 million in capital expenditures and $81 million in complementary acquisitions.
- Returned $241 million to our shareholders through share repurchases and dividend payments.
- Reduced our debt-to-capital, net of cash ratio to 26% from 33%.

An analysis of our consolidated operating results is set forth below. A more detailed analysis of our segments operating results is provided in the Segment Analysis section on pages 20 to 27.

Revenues

(Dollars in millions)		**2015**	**2014**	**2013**	**% Change 2015**	**2014**
Revenues	$	13,423	$ 13,878	$ 12,104	(3)%	15%

Revenues decreased $455 million, 3%, in 2015, compared with 2014, as decreases in the Bell and Textron Systems segments were partially offset by higher revenues in the Textron Aviation and Industrial segments. The net revenue decrease included the following factors:

- Lower Bell revenues of $791 million, largely due to a decrease of $577 million in V-22 program revenues, primarily reflecting lower aircraft deliveries, a decrease of $193 million in commercial revenues, largely related to a change in mix of commercial aircraft sold during the period, and lower commercial aftermarket volume of $92 million.
- Lower Textron Systems revenues of $104 million, primarily due to lower volume in the Unmanned Systems product line, largely reflecting lower deliveries in the fourth quarter.
- Higher Textron Aviation revenues of $254 million, primarily due to the first quarter impact of the Beechcraft acquisition of $219 million and higher volume and mix of $35 million. We completed the acquisition of Beechcraft on March 14, 2014, and as a result, 2014 does not reflect a full twelve months of its revenues.
- Higher Industrial segment revenues of $206 million, primarily due to higher volume of $357 million, largely in the Fuel Systems and Functional Components product line, and the impact from acquisitions of $103 million, partially offset by an unfavorable foreign exchange impact of $240 million.

Revenues increased $1.8 billion, 15%, in 2014, compared with 2013, as increases in the Textron Aviation and Industrial segments were partially offset by lower revenues in the Bell, Textron Systems and Finance segments. The net revenue increase included the following factors:

- Higher Textron Aviation revenues of $1.8 billion, primarily due to a $1.5 billion impact from the Beechcraft acquisition and a $263 million increase in volume, largely related to Citation jets.

- Higher Industrial segment revenues of $326 million, primarily due to $181 million in higher volume, largely in the Fuel Systems and Functional Components product line, and a $142 million impact from acquisitions.

- Lower Bell revenues of $266 million, largely due to a $183 million decrease in commercial revenues reflecting lower sales activity across the commercial helicopter market, and $99 million in lower other military volume, largely related to the H-1 program reflecting lower aircraft deliveries and production support.

- Lower Textron Systems revenues of $41 million, primarily due to lower volume of $233 million in the Marine and Land Systems product line, reflecting lower vehicle deliveries, partially offset by higher volume of $130 million in the Unmanned Systems product line and a $62 million impact from acquisitions.

- Lower Finance revenues of $29 million, primarily attributable to gains on the disposition of finance receivables held for sale during 2013.

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Cost of Sales and Selling and Administrative Expense

(Dollars in millions)		2015	2014	2013	% Change 2015	% Change 2014
Operating expenses	$	12,283	$ 12,782	$ 11,257	(4)%	14%
Cost of sales		10,979	11,421	10,131	(4)%	13%
Gross margin as a percentage of Manufacturing revenues		17.7%	17.1%	15.4%		
Selling and administrative expenses	$	1,304	$ 1,361	$ 1,126	(4)%	21%

Manufacturing cost of sales and selling and administrative expenses together comprise our operating expenses. Cost of sales decreased $442 million, 4%, in 2015, compared with 2014, largely due to lower volume at the Bell segment and a $217 million favorable foreign exchange impact mostly from the strengthening of the U.S. dollar against the Euro, partially offset by higher volume at the Industrial segment, and an increase from acquired businesses, primarily Beechcraft. The 60 basis-point improvement in gross margin was largely driven by the Textron Aviation segment, primarily reflecting the net impact of the Beechcraft acquisition, which includes the benefit of the integrated cost structure of Beechcraft and Cessna, and lower amortization of fair value step-up adjustments related to acquired Beechcraft inventories.

Selling and administrative expense decreased $57 million, 4%, in 2015, compared with 2014. Significant factors contributing to the decrease in expense include a favorable impact from ongoing cost reduction activities at the Bell Segment and lower share-based compensation expense of $22 million, which were partially offset by an increase from acquired businesses, primarily Beechcraft.

Manufacturing cost of sales increased $1.3 billion, 13%, in 2014, compared with 2013, largely due to the impact of acquired businesses, primarily Beechcraft. In 2014, gross margin as a percentage of manufacturing revenues increased 170 basis-points largely due to improved leverage resulting from higher revenues primarily at the Textron Aviation segment.

Selling and administrative expense increased $235 million, 21%, in 2014, compared with 2013, largely related to businesses acquired in the past year and compensation expense. These increases were partially offset by $28 million in severance costs incurred in 2013 in connection with a voluntary separation program at the Textron Aviation segment.

Acquisition and Restructuring Costs

In 2014, we executed a restructuring program in our Textron Aviation segment to align the Cessna and Beechcraft businesses, reduce operating redundancies and maximize efficiencies. During 2014, we recorded charges of $41 million related to these restructuring activities, along with $11 million of transaction costs, which were included in the Acquisition and restructuring costs line on the Consolidated Statements of Operations.

Interest Expense

(Dollars in millions)		2015	2014	2013	% Change 2015	2014
Interest expense	$	169	$ 191	173	(12)%	10%

Interest expense on the Consolidated Statements of Operations includes interest for both the Finance and Manufacturing borrowing groups with interest related to intercompany borrowings eliminated. Interest expense for the Finance segment is included within segment profit and includes intercompany interest. Consolidated interest expense decreased $22 million, 12%, in 2015, compared with 2014, primarily due to favorable borrowing costs and lower average debt outstanding. In 2014, consolidated interest expense increased $18 million, 10%, compared with 2013, primarily due to a $31 million impact related to financing the Beechcraft acquisition, partially offset by $9 million of lower interest expense due to the maturity of our convertible notes in the second quarter of 2013.

Income Tax Expense

Our effective tax rate was 28.1%, 29.1% and 26.1% in 2015, 2014 and 2013, respectively. This rate generally differs from the U.S. federal statutory tax rate of 35% due to certain earnings from operations in lower-tax jurisdictions throughout the world, as well as the domestic manufacturing deduction and the research and development credit. The jurisdictions with favorable tax rates that have the most significant effective tax rate impact in the periods presented include Canada, Germany, United Kingdom, Belgium and China. We have not provided for U.S. taxes for those earnings because we plan to reinvest all of those earnings indefinitely outside of the U.S.

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In 2013, our effective tax rate was reduced by approximately 4.0% due to the tax benefit recognized upon the retroactive reinstatement and extension of the Federal Research and Development Tax Credit for the period from January 1, 2012 to December 31, 2013. This credit was subsequently extended in 2014 and in 2015, resulting in a 1.5% reduction in our effective tax rate for each year.

For a full reconciliation of our effective tax rate to the U.S. federal statutory tax rate of 35% see Note 12 to the Consolidated Financial Statements.

Segment Analysis

We operate in, and report financial information for, the following five business segments: Textron Aviation, Bell, Textron Systems, Industrial and Finance. Segment profit is an important measure used for evaluating performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense, certain corporate expenses and acquisition and restructuring costs related to the Beechcraft acquisition. The measurement for the Finance segment includes interest income and expense along with intercompany interest income and expense.

In our discussion of comparative results for the Manufacturing group, changes in revenues and segment profit typically are expressed for our commercial business in terms of volume, pricing, foreign exchange and acquisitions. Additionally, changes in segment profit may be expressed in terms of mix, inflation and cost performance. Volume changes in revenues represent increases/decreases in the number of units delivered or services provided. Pricing represents changes in unit pricing. Foreign exchange is the change resulting from translating foreign-denominated amounts into U.S. dollars at exchange rates that are different from the prior period. Revenues generated by acquired businesses are reflected in Acquisitions for a twelve-month period. For segment profit, mix represents a change due to the composition of products and/or services sold at different profit margins. Inflation represents higher material, wages, benefits, pension or other costs. Performance reflects an increase or decrease in research and development, depreciation, selling and administrative costs, warranty, product liability, quality/scrap, labor efficiency, overhead, product line profitability, start-up, ramp up and cost-reduction initiatives or other manufacturing inputs.

Approximately 24% of our 2015 revenues were derived from contracts with the U.S. Government. For our segments that have significant contracts with the U.S. Government, we typically express changes in segment profit related to the government business in terms of volume, changes in program performance or changes in contract mix. Changes in volume that are discussed in net sales typically drive corresponding changes in our segment profit based on the profit rate for a particular contract. Changes in program performance typically relate to profit recognition associated with revisions to total estimated costs at completion that reflect improved or deteriorated operating performance or award fee rates. Changes in contract mix refers to changes in operating margin due to a change in the relative volume of contracts with higher or lower fee rates such that the overall average margin rate for the segment changes.

Textron Aviation

(Dollars in millions)		**2015**	**2014**	**2013**	**% Change 2015**	**% Change 2014**
Revenues	$	4,822	$ 4,568	$ 2,784	6%	64%
Operating expenses		4,422	4,334	2,832	2%	53%
Segment profit (loss)		400	234	(48)	71%	
Profit margin		8.3%	5.1%	(1.7)%		

Backlog	$ 1,074	$ 1,365	$ 1,018	(21)%	34%

Textron Aviation Revenues and Operating Expenses

Factors contributing to the 2015 year-over-year revenue change are provided below:

(*In millions*)	**2015 versus 2014**
Acquisitions	$ 219
Volume and mix	35
Total change	$ 254

Textron Aviation s revenues increased $254 million, 6%, in 2015, compared with 2014, primarily due to the first quarter impact of the Beechcraft acquisition of $219 million and higher volume and mix of $35 million. We delivered 166 Citation jets and 117 King Air turboprops in 2015, compared with 159 Citation jets and 113 King Air turboprops in 2014. The portion of the segment s revenues derived from aftermarket sales and services represented 29% of its total revenues in 2015, compared with 30% in 2014.

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Textron Aviation s operating expenses increased $88 million in 2015, compared with 2014, primarily due to the incremental operating costs related to the Beechcraft acquisition and higher volume, partially offset by lower amortization of $51 million related to fair value step-up adjustments of acquired Beechcraft inventories sold during the period.

Factors contributing to the 2014 year-over-year revenue change are provided below:

(*In millions*)	**2014 versus 2013**
Acquisitions	$ 1,480
Volume	263
Pricing	41
Total change	$ 1,784

Textron Aviation s revenues increased $1.8 billion, 64%, in 2014, compared with 2013, primarily due to the impact of the Beechcraft acquisition of $1.5 billion and higher volume of $263 million. The increase in volume was primarily the result of higher Citation jet volume of $344 million, partially offset by lower CitationAir volume of $78 million related to exiting our fractional share business. We delivered 159 Citation jets and 113 King Air turboprops in 2014, compared with 139 Citation jets in 2013. During 2014, the portion of the segment s revenues derived from aftermarket sales and services represented 30% of its total revenues, compared with 33% in 2013.

Textron Aviation s operating expenses increased $1.5 billion, 53%, in 2014, compared with 2013, primarily due to the incremental operating costs related to the Beechcraft acquisition, and higher net volume as described above. Textron Aviation s operating expenses exclude acquisition and restructuring costs incurred across the segment as a result of the Beechcraft integration, which are reported separately and are discussed in the Acquisition and Restructuring Costs section above.

Textron Aviation Segment Profit (Loss)

Factors contributing to 2015 year-over-year segment profit change are provided below:

(*In millions*)	**2015 versus 2014**
Performance and other	$ 119
Volume and mix	47
Total change	$ 166

Segment profit at Textron Aviation increased $166 million, 71%, in 2015, compared with 2014, primarily due to an increase in performance and other, reflecting the net profit impact from the Beechcraft acquisition, which includes the benefit of the integrated cost structure of Beechcraft and Cessna, and lower amortization of $51 million related to fair value step-up adjustments as described above. Segment profit was also favorably impacted by higher volume as well as the mix of products sold.

Factors contributing to 2014 year-over-year segment profit (loss) change are provided below:

(*In millions*)	**2014 versus 2013**
Performance and other	$ 117
Volume	89
Pricing and inflation	48
2013 Voluntary Separation Program	28
Total change	$ 282

Textron Aviation segment profit increased $282 million in 2014, compared with 2013, primarily due to an increase in performance and other, higher volume as described above, favorable pricing and inflation and $28 million in severance costs incurred in 2013. During the second quarter of 2014, the cost structures of Beechcraft and Cessna were significantly integrated, and as a result, performance and other reflects the net profit impact of Beechcraft, including the benefit of the integrated cost structure. Performance and other also includes amortization of $63 million in 2014, related to fair value step-up adjustments of acquired inventories sold during the periods.

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Textron Aviation Backlog

Textron Aviation s backlog decreased $291 million, 21%, in 2015, primarily due to deliveries on military contracts. In 2014, backlog increased $347 million, 34%, which included the impact of the Beechcraft acquisition.

Bell

(Dollars in millions)		2015	2014	2013	% Change 2015	% Change 2014
Revenues:						
V-22 program	$	1,194	$ 1,771	$ 1,755	(33)%	1%
Other military		839	860	959	(2)%	(10)%
Commercial		1,421	1,614	1,797	(12)%	(10)%
Total revenues		3,454	4,245	4,511	(19)%	(6)%
Operating expenses		3,054	3,716	3,938	(18)%	(6)%
Segment profit		400	529	573	(24)%	(8)%
Profit margin		11.6%	12.5%	12.7%		
Backlog	$	5,224	$ 5,524	$ 6,450	(5)%	(14)%

Bell s major U.S. Government programs at this time are the V-22 tiltrotor aircraft and the H-1 helicopter platforms, which are both in the production stage and represent a significant portion of Bell s revenues from the U.S. Government.

Bell Revenues and Operating Expenses

Factors contributing to the 2015 year-over-year revenue change are provided below:

(*In millions*)	2015 versus 2014
Volume and mix	$ (807)
Other	16
Total change	$ (791)

Bell s revenues decreased $791 million, 19%, in 2015, compared with 2014, primarily due to the following factors:

- $577 million decrease in V-22 program revenues, primarily reflecting lower aircraft deliveries, as we delivered 24 V-22 aircraft in 2015, compared with 37 V-22 aircraft in 2014.
- $193 million decrease in commercial revenues, largely related to a change in mix of commercial aircraft sold during the period, reflecting lower sales activity across the commercial helicopter market, and $92 million of lower aftermarket volume. Bell delivered 175 commercial aircraft in 2015, compared with 178 commercial aircraft in 2014.
- $21 million decrease in other military, which included $41 million recorded in the second quarter of 2014 related to the settlement of the SDD phase of the ARH program. Bell delivered 24 H-1 aircraft in both periods.

Bell s operating expenses decreased $662 million, 18%, in 2015, compared with 2014, primarily due to lower net sales volume as described above and the favorable impact of ongoing cost reduction activities.

As a result of cost reduction actions announced in April 2015, Bell incurred approximately $40 million in severance and benefit costs during the second quarter of 2015. The initial impact of the restructuring on Bell s segment profit in the second quarter of 2015 was not significant due to cost savings from headcount reductions and the impact of including a portion of these costs in our indirect cost rates. These actions reduced Bell s headcount by approximately 1,100 employees representing approximately 12% of the Bell workforce at that time.

Factors contributing to the 2014 year-over-year revenue change are provided below:

(*In millions*)	**2014 versus 2013**
Volume and mix	$ (300)
Other	34
Total change	$ (266)

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Bell s revenues decreased $266 million, 6%, in 2014, compared with 2013, primarily due to the following factors:

- $183 million decrease in commercial revenues, largely related to lower volume reflecting lower sales activity across the commercial helicopter market. Bell delivered 178 commercial aircraft in 2014, compared with 213 commercial aircraft in 2013.
- $99 million decrease in other military volume, primarily related to the H-1 program, largely reflecting lower aircraft deliveries and production support. Lower volume was partially offset by $41 million recorded in the second quarter of 2014, related to the settlement of the SDD phase of the ARH program. Bell delivered 24 H-1 aircraft in 2014, compared with 25 aircraft in 2013.
- $16 million increase in V-22 program revenues, reflecting higher product support volume of $115 million. This increase was largely offset by lower aircraft deliveries, as we delivered 37 V-22 aircraft in 2014 compared to 41 V-22 aircraft in 2013.

Bell s operating expenses decreased $222 million, 6% in 2014, compared with 2013, primarily due to lower net volume as described above. In addition, Bell experienced favorable profit adjustments on its long-term contracts, primarily driven by cost reduction activities in 2014 as well as unfavorable performance in 2013.

Bell Segment Profit

Factors contributing to 2015 year-over-year segment profit change are provided below:

(*In millions*)	**2015 versus 2014**
Volume and mix	$ (223)
Performance and other	94
Total change	$ (129)

Bell s segment profit decreased $129 million, 24%, in 2015, compared with 2014, primarily due to a $223 million unfavorable impact from lower volume and mix and a $16 million favorable program profit adjustment in 2014 related to the ARH program, as described above. Volume and mix was partially offset by favorable performance and other of $94 million, largely related to ongoing cost reduction activities.

Factors contributing to 2014 year-over-year segment profit change are provided below:

(*In millions*)	**2014 versus 2013**
Volume and Mix	$ (72)
Performance	23
Other	5
Total change	$ (44)

Bell s segment profit decreased $44 million, 8%, in 2014, compared with 2013. The impact of volume and mix was largely driven by lower commercial volume and an unfavorable mix of commercial aircraft deliveries, partially offset by a $16 million favorable program profit adjustment related to the ARH program as described above. Favorable performance primarily reflected our cost reduction activities in 2014 as well as unfavorable performance in 2013.

Bell Backlog

In 2015, Bell s backlog decreased $300 million, 5%, primarily related to the commercial business. In 2014, Bell s backlog decreased $926 million, 14%, primarily due to V-22 aircraft deliveries in excess of orders.

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Textron Systems

(Dollars in millions)		2015	2014	2013	% Change 2015	% Change 2014
Revenues	$	1,520	$ 1,624	$ 1,665	(6)%	(2)%
Operating expenses		1,391	1,474	1,518	(6)%	(3)%
Segment profit		129	150	147	(14)%	2%
Profit margin		8.5%	9.2%	8.8%		
Backlog	$	2,328	$ 2,790	$ 2,803	(17)%	

Textron Systems Revenues and Operating Expenses

Factors contributing to the 2015 year-over-year revenue change are provided below:

(*In millions*)	2015 versus 2014
Volume	$ (105)
Other	1
Total change	$ (104)

Revenues at Textron Systems decreased $104 million, 6%, in 2015, compared with 2014, primarily due to lower volume in the Unmanned Systems product line.

Textron Systems operating expenses decreased $83 million, 6%, in 2015, compared with 2014, primarily due to lower volume as described above, partially offset by an unfavorable mix of products delivered in 2015.

Factors contributing to the 2014 year-over-year revenue change are provided below:

(*In millions*)	2014 versus 2013
Volume	$ (106)
Acquisitions	62
Other	3
Total change	$ (41)

Revenues at Textron Systems decreased $41 million, 2%, in 2014, compared with 2013, primarily due to lower volume in the Marine and Land Systems product line of $233 million, reflecting fewer vehicle deliveries, partially offset by higher volume in the Unmanned Systems product line of $130 million and a $62 million impact largely related to the acquisition of two flight simulation and training businesses in December 2013.

Textron Systems operating expenses decreased $44 million, 3%, in 2014, compared with 2013, primarily due to lower volume as described above, as well as the impact of a $15 million charge recorded in 2013 related to Unmanned Systems fee-for-service program. Operating expenses also included the impact of costs related to acquisitions.

Textron Systems Segment Profit

Factors contributing to 2015 year-over-year segment profit change are provided below:

(*In millions*)	**2015 versus 2014**
Volume and mix	$ (24)
Performance	8
Other	(5)
Total change	$ (21)

Textron Systems segment profit decreased $21 million, 14%, in 2015, compared with 2014, primarily resulting from lower volume and unfavorable product mix in 2015.

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Factors contributing to 2014 year-over-year segment profit change are provided below:

(*In millions*)	2014 versus 2013
Performance	$ 22
Volume	(12)
Other	(7)
Total change	$ 3

Segment profit at Textron Systems increased $3 million, 2%, in 2014, compared with 2013, primarily driven by $22 million of improved performance, partially offset by $12 million from lower volume as described above. Performance primarily reflects the impact of unfavorable profit adjustments in 2013, including a $15 million charge related to Unmanned Systems fee-for-service program.

Systems Backlog

Textron Systems backlog decreased $462 million, 17%, in 2015, primarily due to deliveries in excess of orders in the Weapons and Sensors and Unmanned Systems product lines.

Industrial

(Dollars in millions)	2015	2014	2013	% Change 2015	% Change 2014
Revenues:					
Fuel Systems and Functional Components	$ 2,078	$ 1,975	$ 1,853	5%	7%
Other Industrial	1,466	1,363	1,159	8%	18%
Total revenues	3,544	3,338	3,012	6%	11%
Operating expenses	3,242	3,058	2,770	6%	10%
Segment profit	302	280	242	8%	16%
Profit margin	8.5%	8.4%	8.0%		

Industrial Revenues and Operating Expenses

Factors contributing to the 2015 year-over-year revenue change are provided below:

(*In millions*)	2015 versus 2014
Volume	$ 357
Foreign exchange	(240)
Acquisitions	103
Other	(14)
Total change	$ 206

Industrial segment revenues increased $206 million, 6%, in 2015, compared with 2014, primarily due to higher volume of $357 million and the impact from acquisitions of $103 million, partially offset by an unfavorable foreign exchange impact of $240 million mostly related to the strengthening of the U.S. dollar primarily against the Euro. Higher volume reflected a $283 million increase in the Fuel Systems and Functional Components product line, primarily due to automotive industry demand in Europe and North America, and a $74 million increase in the Other Industrial product lines.

Operating expenses for the Industrial segment increased $184 million, 6%, in 2015, compared with 2014, largely due to the impact from higher volume as described above and additional operating expenses from acquisitions of $105 million, partially offset by a favorable impact of $225 million from changes in foreign exchange rates.

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Factors contributing to the 2014 year-over-year revenue change are provided below:

(*In millions*)	**2014 versus 2013**
Volume	$ 181
Acquisitions	142
Other	3
Total change	$ 326

Industrial segment revenues increased $326 million, 11%, in 2014, compared with 2013, primarily due to higher volume of $181 million and an impact from acquisitions of $142 million, primarily within our Specialized Vehicles and Equipment product line. Higher volume resulted from a $142 million increase in the Fuel Systems and Functional Components product line, principally reflecting automotive industry demand in North America and Europe, and a $39 million increase in the Other Industrial product lines.

Operating expenses for the Industrial segment increased $288 million, 10%, in 2014, compared with 2013, largely due to the impact from higher volume as described above and additional operating expenses from recently acquired businesses.

Industrial Segment Profit

Factors contributing to 2015 year-over-year segment profit change are provided below:

(*In millions*)	**2015 versus 2014**
Volume	$ 42
Performance	(15)
Foreign exchange	(15)
Other	10
Total change	$ 22

Segment profit for the Industrial segment increased $22 million, 8%, in 2015, compared with 2014, largely due to the impact from higher volume as described above, partially offset by unfavorable performance of $15 million and an unfavorable impact of $15 million from changes in foreign exchange rates.

Factors contributing to 2014 year-over-year segment profit change are provided below:

(*In millions*)	**2014 versus 2013**
Volume and mix	$ 20
Performance	15
Other	3

Total change	$ 38

Segment profit for the Industrial segment increased $38 million, 16%, in 2014, compared with 2013, largely due to the impact from higher volume as described above. Profit was also impacted by improved performance of $15 million, primarily driven by the Fuel Systems and Functional Components product line.

Finance

(In millions)	**2015**	**2014**	**2013**
Revenues	$ 83	$ 103	$ 132
Segment profit	24	21	49

Finance Revenues

Finance segment revenues decreased $20 million in 2015, compared with 2014, primarily attributable to average finance receivables being lower by $187 million.

Finance segment revenues decreased $29 million in 2014, compared with 2013, primarily attributable to a $31 million impact from gains on the disposition of finance receivables held for sale during 2013. These gains resulted from the payoff of loans in amounts,

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and sale of loans at prices, in excess of the values established in previous periods.

Finance Segment Profit

Finance segment profit increased $3 million in 2015, compared with 2014, primarily due to lower provision for loan losses.

Finance segment profit decreased $28 million in 2014, compared with 2013, primarily due to a change in provision for loan losses of $29 million, largely reflecting reserve reversals in 2013 primarily related to the non-captive business, and the impact from gains on finance receivables held for sale as described above. These decreases in segment profit were partially offset by lower administrative expense of $19 million in 2014, primarily associated with the exit of the non-captive business.

Finance Portfolio Quality

The following table reflects information about the Finance segment s credit performance related to finance receivables.

(Dollars in millions)	**January 2, 2016**	**January 3, 2015**
Finance receivables*	$ 1,105	$ 1,254
Nonaccrual finance receivables	84	81
Ratio of nonaccrual finance receivables to finance receivables	7.60%	6.46%
60+ days contractual delinquency	$ 69	$ 57
60+ days contractual delinquency as a percentage of finance receivables	6.24%	4.55%

** Excludes finance receivables held for sale.*

Liquidity and Capital Resources

Our financings are conducted through two separate borrowing groups. The Manufacturing group consists of Textron consolidated with its majority-owned subsidiaries that operate in the Textron Aviation, Bell, Textron Systems and Industrial segments. The Finance group, which also is the Finance segment, consists of Textron Financial Corporation and its consolidated subsidiaries. We designed this framework to enhance our borrowing power by separating the Finance group. Our Manufacturing group operations include the development, production and delivery of tangible goods and services, while our Finance group provides financial services. Due to the fundamental differences between each borrowing group s activities, investors, rating agencies and analysts use different measures to evaluate each group s performance. To support those evaluations, we present balance sheet and cash flow information for each borrowing group within the Consolidated Financial Statements.

Key information that is utilized in assessing our liquidity is summarized below:

(Dollars in millions)	**January 2, 2016**	**January 3, 2015**
Manufacturing group		

Cash and equivalents	$ 946	$ 731
Debt	2,697	2,811
Shareholders equity	4,964	4,272
Capital (debt plus shareholders equity)	7,661	7,083
Net debt (net of cash and equivalents) to capital	26%	33%
Debt to capital	35%	40%
Finance group		
Cash and equivalents	$ 59	$ 91
Debt	913	1,063

We believe that our calculations of debt to capital and net debt to capital are useful measures as they provide a summary indication of the level of debt financing (i.e., leverage) that is in place to support our capital structure, as well as to provide an indication of the capacity to add further leverage. We believe that we will have sufficient cash to meet our future needs, based on our existing cash balances, the cash we expect to generate from our manufacturing operations and other available funding alternatives, as appropriate.

Textron has a senior unsecured revolving credit facility that expires in October 2018 for an aggregate principal amount of $1.0 billion, of which up to $100 million is available for the issuance of letters of credit. At January 2, 2016, there were no amounts borrowed against the facility, and there were $33 million of letters of credit issued against it. We also maintain an effective shelf

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registration statement filed with the Securities and Exchange Commission that authorizes us to issue an unlimited amount of public debt and other securities.

Manufacturing Group Cash Flows

Cash flows from continuing operations for the Manufacturing group as presented in our Consolidated Statement of Cash Flows are summarized below:

(In millions)	**2015**	**2014**	**2013**
Operating activities	$ 1,038	$ 1,097	$ 658
Investing activities	(496)	(2,065)	(624)
Financing activities	(308)	552	(240)

Cash flows provided by operating activities was $1,038 million in 2015, compared with $1,097 million in 2014, a decrease of 5%. This decrease was largely due to a change in working capital, partially offset by higher income from continuing operations of $94 million and dividends received from the Finance group of $63 million in 2015. A significant factor contributing to the decrease in cash flows related to working capital was a reduction in customer deposits of $304 million at Textron Aviation, largely reflecting advance deposits received on military contracts in 2014 for 2015 deliveries.

Cash flows from operating activities increased $439 million during 2014, compared with 2013, largely due to a change in working capital, higher income from continuing operations of $120 million and lower contributions of $118 million to our pension plans, partially offset by $175 million of dividends received from the Finance group in 2013. Working capital was favorably impacted by an increase of $226 million in customer deposits, primarily at Textron Aviation, and a $174 million increase in cash from accounts receivable, largely at Bell, partially offset by an increase in net tax payments of $43 million.

Net tax payments were $187 million, $266 million and $223 million in 2015, 2014 and 2013, respectively. Pension contributions were $68 million, $76 million and $194 million in 2015, 2014 and 2013, respectively.

Cash flows used in investing activities included capital expenditures of $420 million, $429 million and $444 million in 2015, 2014 and 2013, respectively. In 2014, investing cash flows also included a $1.5 billion aggregate cash payment to acquire Beechcraft.

In 2015, 2014 and 2013, cash flows used in financing activities included the repayment of outstanding debt of $100 million, $559 million and $528 million, respectively. In 2014, cash flows from financing activities included proceeds from long-term debt of $1.4 billion, most of which was used to finance a portion of the Beechcraft acquisition.

Share Repurchases

Under a 2013 share repurchase authorization, we repurchased an aggregate of 5.2 million shares of our outstanding common stock for $219 million in 2015 and an aggregate of 8.9 million shares of our outstanding common stock for $340 million in 2014.

Dividends

Dividend payments to shareholders totaled $22 million, $28 million and $22 million in 2015, 2014 and 2013, respectively.

Dividends from the Finance group are included within cash flows from operating activities for the Manufacturing group as they represent a return on investment. Dividends paid by the Finance group were $63 million and $175 million in 2015 and 2013, respectively.

Finance Group Cash Flows

The cash flows from continuing operations for the Finance group are summarized below:

(In millions)	**2015**	**2014**	**2013**
Operating activities	$ 30	$ 5	$ 66
Investing activities	197	255	624
Financing activities	(259)	(217)	(677)

In 2015, 2014 and 2013, the Finance group s cash flows from operating activities were primarily impacted by changes in net taxes paid/received. Net tax (payments)/receipts were $(11) million, $(23) million and $49 million in 2015, 2014 and 2013, respectively.

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Cash flows from investing activities primarily included collections on finance receivables and proceeds from sales of receivables and other finance assets totaling $389 million, $499 million and $853 million in 2015, 2014 and 2013, respectively, partially offset by financial receivable originations of $194 million, $215 million and $271 million, respectively.

Cash used in financing activities included payments on long-term and nonrecourse debt of $256 million, $345 million and $743 million in 2015, 2014 and 2013, respectively, which were partially offset by proceeds from long-term debt of $61 million, $128 million and $298 million, respectively. In 2015 and 2013, dividend payments to the Manufacturing group totaled $63 million and $175 million, respectively.

Consolidated Cash Flows

The consolidated cash flows from continuing operations, after elimination of activity between the borrowing groups, are summarized below:

(In millions)	**2015**	**2014**	**2013**
Operating activities	$ 1,094	$ 1,211	$ 813
Investing activities	(388)	(1,919)	(264)
Financing activities	(504)	335	(742)

Cash flows provided by operating activities was $1,094 million in 2015, compared with $1,211 million in 2014, a decrease of 10%. This decrease was largely due to a change in working capital, partially offset by higher income from continuing operations of $93 million. A significant factor contributing to the decrease in cash flows related to working capital was a reduction in customer deposits of $304 million at Textron Aviation, largely reflecting advance deposits received on military contracts in 2014 for 2015 deliveries.

Cash flows from operating activities increased $398 million during 2014, compared with 2013, largely due to a change in working capital, lower contributions of $118 million to our pension plans and higher income from continuing operations of $107 million. Working capital was favorably impacted by an increase of $226 million in customer deposits, primarily at Textron Aviation, and a $174 million increase in cash from accounts receivable, largely at Bell, partially offset by an increase in net tax payments of $115 million and lower net cash receipts from captive finance receivables of $87 million.

Net tax payments were $198 million, $289 million and $174 million in 2015, 2014 and 2013, respectively.

Cash flows from investing activities included capital expenditures of $420 million, $429 million and $444 million in 2015, 2014 and 2013, respectively. In 2014, cash flows from investing activities also included a $1.5 billion aggregate cash payment to acquire Beechcraft. Collections on finance receivables and proceeds from sales of receivables and other finance assets totaled $105 million, $134 million and $368 million in 2015, 2014 and 2013, respectively.

Cash used in financing activities included $219 million and $340 million of share repurchases in 2015 and 2014, respectively. In 2015, 2014 and 2013, financing activities also include the repayment of outstanding long-term debt of $356 million, $904 million and $1.3 billion, respectively. Cash flows from financing activities also included proceeds of $1.6 billion from long-term debt in 2014, most of which was used to finance a portion of the Beechcraft acquisition, and proceeds of $448 million from long-term debt in 2013.

Captive Financing and Other Intercompany Transactions

The Finance group finances retail purchases and leases for new and pre-owned aircraft and helicopters manufactured by our Manufacturing group, otherwise known as captive financing. In the Consolidated Statements of Cash Flows, cash received from customers or from the sale of receivables is reflected as operating activities when received from third parties. However, in the cash flow information provided for the separate borrowing groups, cash flows related to captive financing activities are reflected based on the operations of each group. For example, when product is sold by our Manufacturing group to a customer and is financed by the Finance group, the origination of the finance receivable is recorded within investing activities as a cash outflow in the Finance group s statement of cash flows. Meanwhile, in the Manufacturing group s statement of cash flows, the cash received from the Finance group on the customer s behalf is recorded within operating cash flows as a cash inflow. Although cash is transferred between the two borrowing groups, there is no cash transaction reported in the consolidated cash flows at the time of the original financing. These captive financing activities, along with all significant intercompany transactions, are reclassified or eliminated from the Consolidated Statements of Cash Flows.

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Reclassification adjustments included in the Consolidated Statement of Cash Flows are summarized below:

(In millions)	**2015**	**2014**	**2013**
Reclassifications adjustments from investing activities:			
Finance receivable originations for Manufacturing group inventory sales	$ (194)	$ (215)	$ (248)
Cash received from customers	284	365	485
Other	(1)	(41)	27
Total reclassifications adjustments from investing activities	89	109	264
Reclassifications adjustments from financing activities:			
Dividends received by Manufacturing group from Finance group	(63)		(175)
Total reclassifications adjustments to cash flow from operating activities	$ 26	$ 109	$ 89

Under a Support Agreement between Textron and TFC, Textron is required to maintain a controlling interest in TFC. The agreement, which was amended in December 2015, also requires Textron to ensure that TFC maintains fixed charge coverage of no less than 125% and consolidated shareholder s equity of no less than $125 million. There were no cash contributions required to be paid to TFC in 2015, 2014 and 2013 to maintain compliance with the support agreement.

Contractual Obligations

Manufacturing Group

The following table summarizes the known contractual obligations, as defined by reporting regulations, of our Manufacturing group as of January 2, 2016:

		Payments Due by Period		
(In millions)	**Total**	**Year 1**	**Years 2-3**	**Years 4-5**	**More Than 5 Years**
Liabilities reflected in balance sheet:					
Long-term debt	$ 2,701	$ 262	$ 513	$ 687	$ 1,239
Interest on borrowings	626	128	211	154	133
Pension benefits for unfunded plans	371	26	49	44	252
Postretirement benefits other than pensions	364	40	71	59	194
Other long-term liabilities	477	92	134	105	146
Liabilities not reflected in balance sheet:					
Purchase obligations	2,847	2,038	730	60	19
Operating leases	380	74	101	74	131
Total Manufacturing group	$ 7,766	$ 2,660	$ 1,809	$ 1,183	$ 2,114

Pension and Postretirement Benefits

We maintain defined benefit pension plans and postretirement benefit plans other than pensions as described in Note 11 to the Consolidated Financial Statements. Included in the above table are discounted estimated benefit payments we expect to make related to unfunded pension and other postretirement benefit plans. Actual benefit payments are dependent on a number of factors, including mortality assumptions, expected retirement age, rate of compensation increases and medical trend rates, which are subject to change in future years. Our policy for funding pension plans is to make contributions annually, consistent with applicable laws and regulations; however, future contributions to our pension plans are not included in the above table. In 2016, we expect to make approximately $33 million of contributions to our funded pension plans and the Retirement Account Plan. Based on our current assumptions, which may change with changes in market conditions, our current contribution for each of the years from 2017 through 2020 are estimated to be in the range of approximately $60 million to $125 million under the plan provisions in place at this time.

Other Long-Term Liabilities

Other long-term liabilities consist of undiscounted amounts in the Consolidated Balance Sheets that primarily include obligations under deferred compensation arrangements and estimated environmental remediation costs. Payments under deferred compensation arrangements have been estimated based on management s assumptions of expected retirement age, mortality, stock price and rates of return on participant deferrals. The timing of cash flows associated with environmental remediation costs is largely based on historical experience. Certain other long-term liabilities, such as deferred taxes, unrecognized tax benefits and product liability, warranty and litigation reserves, have been excluded from the table due to the uncertainty of the timing of payments combined with the absence of historical trends to be used as a predictor for such payments.

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Purchase Obligations

Purchase obligations include undiscounted amounts committed under legally enforceable contracts or purchase orders for goods and services with defined terms as to price, quantity and delivery dates. Approximately 30% of the purchase obligations we disclose represent purchase orders issued for goods and services to be delivered under firm contracts with the U.S. Government for which we have full recourse under customary contract termination clauses.

Finance Group

The following table summarizes the known contractual obligations, as defined by reporting regulations, of our Finance group as of January 2, 2016:

		Payments Due by Period			
(In millions)	**Total**	**Year 1**	**Years 2-3**	**Years 4-5**	**More Than 5 Years**
Liabilities reflected in balance sheet:					
Term debt	$ 573	$ 135	$ 278	$ 95	$ 65
Subordinated debt	299				299
Securitized debt	41	20	17	3	1
Interest on borrowings	201	33	31	18	119
Total Finance group	$ 1,114	$ 188	$ 326	$ 116	$ 484

Securitized debt payments do not represent contractual obligations of the Finance group, and we do not provide legal recourse to investors who purchase interests in the securitizations beyond the credit enhancement inherent in the retained subordinate interests.

At January 2, 2016, the Finance group also had $28 million in other liabilities that are payable within the next 12 months.

Critical Accounting Estimates

To prepare our Consolidated Financial Statements to be in conformity with generally accepted accounting principles, we must make complex and subjective judgments in the selection and application of accounting policies. The accounting policies that we believe are most critical to the portrayal of our financial condition and results of operations are listed below. We believe these policies require our most difficult, subjective and complex judgments in estimating the effect of inherent uncertainties. This section should be read in conjunction with Note 1 to the Consolidated Financial Statements, which includes other significant accounting policies.

Long-Term Contracts

We make a substantial portion of our sales to government customers pursuant to long-term contracts. These contracts require development and delivery of products over multiple years and may contain fixed-price purchase options for additional products. We account for these long-term contracts under the percentage-of-completion method of accounting. Under this method, we estimate profit as the difference between total estimated revenues and cost of a contract. The percentage-of-completion method of accounting involves the use of various estimating techniques to project costs at completion and, in some cases, includes estimates of recoveries asserted against the customer for changes in specifications. Due to the size, length of time and nature of many of our contracts, the estimation of total contract costs and revenues through completion is complicated and subject to many variables relative to the outcome of future events over a period of several years. We are required to make numerous assumptions and estimates relating to items such as expected engineering requirements, complexity of design and related development costs, product performance, performance of subcontractors, availability and cost of materials, labor productivity and cost, overhead and capital costs, manufacturing efficiencies and the achievement of contract milestones, including product deliveries, technical requirements, or schedule.

Our cost estimation process is based on the professional knowledge and experience of engineers and program managers along with finance professionals. We update our projections of costs at least semiannually or when circumstances significantly change. Adjustments to projected costs are recognized in earnings when determinable. Anticipated losses on contracts are recognized in full in the period in which the losses become probable and estimable. Due to the significance of judgment in the estimation process described above, it is likely that materially different revenues and/or cost of sales amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Our earnings could be reduced by a material amount resulting in a charge to earnings if (a) total estimated contract costs are significantly higher than expected due to changes in customer specifications prior to contract amendment, (b) total estimated contract costs are significantly higher than previously estimated due to cost overruns or inflation, (c) there is a change in engineering efforts required during the development stage of the contract or (d) we are unable to meet contract milestones.

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At the outset of each contract, we estimate the initial profit booking rate. The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements (for example, a newly-developed product versus a mature product), schedule (for example, the number and type of milestone events), and costs by contract requirements in the initial estimated costs at completion. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule, and costs aspects of the contract. Likewise, the profit booking rate may decrease if we are not successful in retiring the risks; and, as a result, our estimated costs at completion increase. All of the estimates are subject to change during the performance of the contract and, therefore, may affect the profit booking rate. When adjustments are required, any changes from prior estimates are recognized using the cumulative catch-up method with the impact of the change from inception-to-date recorded in the current period.

The following table sets forth the aggregate gross amount of all program profit adjustments that are included within segment profit for the three years ended January 2, 2016:

(In millions)	**2015**	**2014**	**2013**
Gross favorable	$ 111	$ 132	$ 51
Gross unfavorable	(33)	(37)	(22)
Net adjustments	$ 78	$ 95	$ 29

Goodwill

We evaluate the recoverability of goodwill annually in the fourth quarter or more frequently if events or changes in circumstances, such as declines in sales, earnings or cash flows, or material adverse changes in the business climate, indicate that the carrying value of a reporting unit might be impaired. The reporting unit represents the operating segment unless discrete financial information is prepared and reviewed by segment management for businesses one level below that operating segment, in which case such component is the reporting unit. In certain instances, we have aggregated components of an operating segment into a single reporting unit based on similar economic characteristics.

We calculate the fair value of each reporting unit, primarily using discounted cash flows. These cash flows incorporate assumptions for short- and long-term revenue growth rates, operating margins and discount rates that represent our best estimates of current and forecasted market conditions, cost structure, anticipated net cost reductions, and the implied rate of return that we believe a market participant would require for an investment in a business having similar risks and business characteristics to the reporting unit being assessed. The revenue growth rates and operating margins used in our discounted cash flow analysis are based on our strategic plans and long-range planning forecasts. The long-term growth rate we use to determine the terminal value of the business is based on our assessment of its minimum expected terminal growth rate, as well as its past historical growth and broader economic considerations such as gross domestic product, inflation and the maturity of the markets we serve. We utilize a weighted-average cost of capital in our impairment analysis that makes assumptions about the capital structure that we believe a market participant would make and include a risk premium based on an assessment of risks related to the projected cash flows of each reporting unit. We believe this approach yields a discount rate that is consistent with an implied rate of return that an independent investor or market participant would require for an investment in a company having similar risks and business characteristics to the reporting unit being assessed.

If the reporting unit s estimated fair value exceeds its carrying value, there is no impairment, and no further analysis is performed. Otherwise, the amount of the impairment is determined by comparing the carrying amount of the reporting unit s goodwill to the implied fair value of that goodwill. The implied fair value of goodwill is determined by assigning a fair value to all of the reporting unit s assets and liabilities, including any unrecognized intangible assets, as if the reporting unit had been acquired in a business combination. If the carrying amount of the goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

Based on our annual impairment review, the fair value of all of our reporting units exceeded their carrying values, and we do not believe that there is a reasonable possibility that any units might fail the initial step of the impairment test in the foreseeable future.

Retirement Benefits

We maintain various pension and postretirement plans for our employees globally. These plans include significant pension and postretirement benefit obligations, which are calculated based on actuarial valuations. Key assumptions used in determining these obligations and related expenses include expected long-term rates of return on plan assets, discount rates and healthcare cost projections. We also make assumptions regarding employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increases. We evaluate and update these assumptions annually.

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To determine the weighted-average expected long-term rate of return on plan assets, we consider the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on plan assets will increase pension expense. For 2015, the assumed expected long-term rate of return on plan assets used in calculating pension expense was 7.57%, compared with 7.60% in 2014. For the last four years, the assumed rate of return for our domestic plans, which represent approximately 91% of our total pension assets, was 7.75%. A 50 basis-point decrease in this long-term rate of return in 2015 would have increased pension cost for our domestic plans by approximately $29 million.

The discount rate enables us to state expected future benefit payments as a present value on the measurement date, reflecting the current rate at which the pension liabilities could be effectively settled. This rate should be in line with rates for high-quality fixed income investments available for the period to maturity of the pension benefits, which fluctuate as long-term interest rates change. A lower discount rate increases the present value of the benefit obligations and increases pension expense. In 2015, the weighted-average discount rate used in calculating pension expense was 4.25%, compared with 4.92% in 2014. For our domestic plans, the assumed discount rate was 4.25% in 2015, compared with 5.00% for 2014. In the second quarter of 2015, our Bell segment announced cost reduction actions that resulted in a headcount reduction that was deemed a curtailment. As a result, we remeasured Bell s pension plan incorporating a 50 basis-point increase in our discount rate to 4.75%. A 50 basis-point decrease in the weighted-average discount rate that includes the remeasurement would have increased pension cost for our domestic plans by approximately $34 million in 2015.

The trend in healthcare costs is difficult to estimate, and it has an important effect on postretirement liabilities. The 2015 medical and prescription drug healthcare cost trend rates represent the weighted-average annual projected rate of increase in the per capita cost of covered benefits. In 2015, we assumed a trend rate of 7.50% for both medical and prescription drug healthcare rates and assumed this rate would gradually decline to 5.00% by 2024 and then remain at that level. See Note 11 to the Consolidated Financial Statements for the impact of a one-percentage-point change in the cost trend rate.

Income Taxes

Deferred income tax balances reflect the effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and their tax bases, as well as from net operating losses and tax credit carryforwards, and are stated at enacted tax rates in effect for the year taxes are expected to be paid or recovered. Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including the future reversal of existing taxable temporary differences, taxable income in carryback years, available tax planning strategies and estimated future taxable income.

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which may result in proposed assessments. Our estimate of the potential outcome for any uncertain tax issue is highly judgmental. We assess our income tax positions and record tax benefits for all years subject to examination based upon our evaluation of the facts, circumstances and information available at the reporting date. For those tax positions for which it is more likely than not that a tax benefit will be sustained, we record the largest amount of tax benefit with a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. Interest and penalties are accrued, where applicable. We recognize net tax-related interest and penalties for continuing operations in income tax expense. If we do not believe that it is more likely than not that a tax benefit will be sustained, no tax benefit is recognized. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities due to settlement of income tax examinations, new regulatory or judicial pronouncements, or other relevant events. As a result, our effective tax rate may fluctuate significantly on a quarterly and annual basis.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Risks

Our financial results are affected by changes in foreign currency exchange rates in the various countries in which our products are manufactured and/or sold. For our manufacturing operations, we manage exposures to foreign currency assets and earnings primarily by funding certain foreign currency-denominated assets with liabilities in the same currency so that certain exposures are naturally offset. We primarily use borrowings denominated in British pound sterling for these purposes. In managing our foreign currency transaction exposures, we also enter into foreign currency exchange contracts. These contracts generally are used to fix the local currency cost of purchased goods or services or selling prices denominated in currencies other than the functional currency. The notional amount of outstanding foreign currency exchange contracts was approximately $706 million and $696 million at the end of 2015 and 2014, respectively. Foreign currency exchange rate changes decreased both revenues and segment profit in 2015 by $244 million and $20 million, respectively. The impact of foreign currency exchange rate changes on revenues and segment profit for 2014 and 2013 was not significant.

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Interest Rate Risks

Our financial results are affected by changes in interest rates. As part of managing this risk, we seek to achieve a prudent balance between floating- and fixed-rate exposures. We continually monitor our mix of these exposures and adjust the mix, as necessary. For our Finance group, we limit our risk to changes in interest rates with a strategy of matching floating-rate assets with floating-rate liabilities.

Quantitative Risk Measures

In the normal course of business, we enter into financial instruments for purposes other than trading. The financial instruments that are subject to market risk include finance receivables (excluding leases), debt (excluding capital lease obligations) and foreign currency exchange contracts. To quantify the market risk inherent in these financial instruments, we utilize a sensitivity analysis that includes a hypothetical change in fair value assuming a 10% decrease in interest rates and a 10% strengthening in foreign exchange rates against the U.S. dollar. The fair value of these financial instruments is estimated using discounted cash flow analysis and indicative market pricing as reported by leading financial news and data providers.

At the end of each year, the table below provides the carrying and fair values of these financial instruments along with the sensitivity of fair value to the hypothetical changes discussed above. This sensitivity analysis is most likely not indicative of actual results in the future.

	2015			2014		
(*In millions*)	Carrying Value*	Fair Value*	Sensitivity of Fair Value to a 10% Change	Carrying Value*	Fair Value*	Sensitivity of Fair Value to a 10% Change
Manufacturing group						
Foreign exchange rate risk						
Debt	$ (224)	$ (250)	$ (25)	$ (236)	$ (277)	$ (28)
Foreign currency exchange contracts	(21)	(21)	31	(11)	(11)	52
	$ (245)	$ (271)	$ 6	$ (247)	$ (288)	$ 24
Interest rate risk						
Debt	$ (2,628)	$ (2,744)	$ (18)	$ (2,742)	$ (2,944)	$ (21)
Finance group						
Interest rate risk						
Finance receivables	$ 894	$ 850	$ 21	$ 1,039	$ 1,056	$ 20
Debt, including intergroup	(913)	(840)	19	(1,063)	(1,051)	9

** The value represents an asset or (liability).*

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Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements and the related report of our independent registered public accounting firm thereon are included in this Annual Report on Form 10-K on the pages indicated below:

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Consolidated Statements of Operations for each of the years in the three-year period ended January 2, 2016	36
Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended January 2, 2016	37
Consolidated Balance Sheets as of January 2, 2016 and January 3, 2015	38
Consolidated Statements of Shareholders Equity for each of the years in the three-year period ended January 2, 2016	39
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All other schedules are omitted either because they are not applicable or not required or because the required information is included in the financial statements or notes thereto.

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Consolidated Statements of Operations

For each of the years in the three-year period ended January 2, 2016

(In millions, except per share data)	**2015**	**2014**	**2013**
Revenues			
Manufacturing revenues	$ 13,340	$ 13,775	$ 11,972
Finance revenues	83	103	132
Total revenues	13,423	13,878	12,104
Costs and expenses			
Cost of sales	10,979	11,421	10,131
Selling and administrative expense	1,304	1,361	1,126
Interest expense	169	191	173
Acquisition and restructuring costs		52	
Total costs and expenses	12,452	13,025	11,430
Income from continuing operations before income taxes	971	853	674
Income tax expense	273	248	176
Income from continuing operations	698	605	498
Loss from discontinued operations, net of income taxes	(1)	(5)	
Net income	$ 697	$ 600	$ 498
Basic earnings per share			
Continuing operations	$ 2.52	$ 2.17	$ 1.78
Discontinued operations		(0.02)	
Basic earnings per share	$ 2.52	$ 2.15	$ 1.78
Diluted earnings per share			
Continuing operations	$ 2.50	$ 2.15	$ 1.75
Discontinued operations		(0.02)	
Diluted earnings per share	$ 2.50	$ 2.13	$ 1.75

See Notes to the Consolidated Financial Statements.

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Consolidated Statements of Comprehensive Income

For each of the years in the three-year period ended January 2, 2016

(In millions)	**2015**	**2014**	**2013**
Net income	$ 697	$ 600	$ 498
Other comprehensive income (loss), net of tax:			
Pension and postretirement benefits adjustments, net of reclassifications	184	(401)	747
Foreign currency translation adjustments	(65)	(75)	12
Deferred losses on hedge contracts, net of reclassifications	(11)	(3)	(16)
Other comprehensive income (loss)	108	(479)	743
Comprehensive income	$ 805	$ 121	$ 1,241

See Notes to the Consolidated Financial Statements.

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Consolidated Balance Sheets

(In millions, except share data)	January 2, 2016	January 3, 2015
Assets		
Manufacturing group		
Cash and equivalents	$ 946	$ 731
Accounts receivable, net	1,047	1,035
Inventories	4,144	3,928
Other current assets	341	320
Total current assets	6,478	6,014
Property, plant and equipment, net	2,492	2,497
Goodwill	2,023	2,027
Other assets	2,399	2,538
Total Manufacturing group assets	13,392	13,076
Finance group		
Cash and equivalents	59	91
Finance receivables, net	1,087	1,238
Other assets	170	200
Total Finance group assets	1,316	1,529
Total assets	$ 14,708	$ 14,605
Liabilities and shareholders equity		
Liabilities		
Manufacturing group		
Short-term debt and current portion of long-term debt	$ 262	$ 8
Accounts payable	1,063	1,014
Accrued liabilities	2,467	2,616
Total current liabilities	3,792	3,638
Other liabilities	2,376	2,587
Long-term debt	2,435	2,803
Total Manufacturing group liabilities	8,603	9,028
Finance group		
Other liabilities	228	242
Debt	913	1,063
Total Finance group liabilities	1,141	1,305
Total liabilities	9,744	10,333
Shareholders equity		
Common stock (288.3 million and 285.5 million shares issued, respectively, and 274.2 million and 276.6 million shares outstanding, respectively)	36	36
Capital surplus	1,587	1,459
Treasury stock	(559)	(340)
Retained earnings	5,298	4,623
Accumulated other comprehensive loss	(1,398)	(1,506)
Total shareholders equity	4,964	4,272
Total liabilities and shareholders equity	$ 14,708	$ 14,605

See Notes to the Consolidated Financial Statements.

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Consolidated Statements of Shareholders Equity

(In millions, except per share data)	Common Stock	Capital Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance at December 29, 2012	$ 35	$ 1,177	$ (275)	$ 3,824	$ (1,770)	$ 2,991
Net income				498		498
Other comprehensive income					743	743
Dividends declared ($0.08 per share)				(22)		(22)
Share-based compensation activity		99				99
Purchases/conversions of convertible notes	2	39	(41)			
Settlement of capped call		75				75
Retirement of treasury stock	(2)	(59)	316	(255)		
Balance at December 28, 2013	35	1,331		4,045	(1,027)	4,384
Net income				600		600
Other comprehensive loss					(479)	(479)
Dividends declared ($0.08 per share)				(22)		(22)
Share-based compensation activity	1	134				135
Purchases of common stock			(340)			(340)
Other		(6)				(6)
Balance at January 3, 2015	36	1,459	(340)	4,623	(1,506)	4,272
Net income				697		697
Other comprehensive income					108	108
Dividends declared ($0.08 per share)				(22)		(22)
Share-based compensation activity		126				126
Purchases of common stock			(219)			(219)
Other		2				2
Balance at January 2, 2016	$ 36	$ 1,587	$ (559)	$ 5,298	$ (1,398)	$ 4,964

See Notes to the Consolidated Financial Statements.

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Consolidated Statements of Cash Flows

For each of the years in the three-year period ended January 2, 2016

	Consolidated		
(In millions)	**2015**	**2014**	**2013**
Cash flows from operating activities			
Net income	$ 697	$ 600	$ 498
Less: Loss from discontinued operations	(1)	(5)	
Income from continuing operations	698	605	498
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Non-cash items:			
Depreciation and amortization	461	459	389
Deferred income taxes	4	(19)	86
Other, net	106	100	61
Changes in assets and liabilities:			
Accounts receivable, net	(14)	56	(118)
Inventories	(239)	(209)	(118)
Other assets	(36)	(33)	(42)
Accounts payable	43	(228)	65
Accrued and other liabilities	(155)	311	(182)
Pension, net	69	46	17
Income taxes, net	71	(22)	(84)
Captive finance receivables, net	90	150	237
Other operating activities, net	(4)	(5)	4
Net cash provided by operating activities of continuing operations	1,094	1,211	813
Net cash used in operating activities of discontinued operations	(4)	(3)	(3)
Net cash provided by operating activities	1,090	1,208	810
Cash flows from investing activities			
Capital expenditures	(420)	(429)	(444)
Net cash used in acquisitions	(81)	(1,628)	(196)
Finance receivables repaid	67	91	190
Proceeds from sales of receivables and other finance assets	38	43	178
Other investing activities, net	8	4	8
Net cash used in investing activities	(388)	(1,919)	(264)
Cash flows from financing activities			
Principal payments on long-term debt and nonrecourse debt	(356)	(904)	(1,056)
Proceeds from long-term debt	61	1,567	448
Purchases of Textron common stock	(219)	(340)	
Settlement of convertible notes			(215)
Proceeds from settlement of capped call			75
Proceeds from exercise of stock options	32	50	31
Dividends paid	(22)	(28)	(22)
Other financing activities, net		(10)	(3)
Net cash provided by (used in) financing activities	(504)	335	(742)
Effect of exchange rate changes on cash and equivalents	(15)	(13)	(6)
Net increase (decrease) in cash and equivalents	183	(389)	(202)
Cash and equivalents at beginning of year	822	1,211	1,413
Cash and equivalents at end of year	$ 1,005	$ 822	$ 1,211

See Notes to the Consolidated Financial Statements.

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Consolidated Statements of Cash Flows continued

For each of the years in the three-year period ended January 2, 2016

	Manufacturing Group			Finance Group		
(In millions)	**2015**	**2014**	**2013**	**2015**	**2014**	**2013**
Cash flows from operating activities						
Net income	$ 683	$ 585	$ 470	$ 14	$ 15	$ 28
Less: Loss from discontinued operations	(1)	(5)				
Income from continuing operations	684	590	470	14	15	28
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:						
Non-cash items:						
Depreciation and amortization	449	446	371	12	13	18
Deferred income taxes	14	(7)	51	(10)	(12)	35
Other, net	97	86	86	9	14	(25)
Changes in assets and liabilities:						
Accounts receivable, net	(14)	56	(118)			
Inventories	(241)	(168)	(135)			
Other assets	(40)	(18)	(41)	4	(15)	
Accounts payable	43	(228)	65			
Accrued and other liabilities	(144)	316	(171)	(8)	(5)	(21)
Pension, net	69	46	21			(4)
Income taxes, net	62	(17)	(119)	9	(5)	35
Dividends received from Finance group	63		175			
Other operating activities, net	(4)	(5)	3			
Net cash provided by operating activities of continuing operations	1,038	1,097	658	30	5	66
Net cash used in operating activities of discontinued operations	(4)	(3)	(3)			
Net cash provided by operating activities	1,034	1,094	655	30	5	66
Cash flows from investing activities						
Capital expenditures	(420)	(429)	(444)			
Net cash used in acquisitions	(81)	(1,628)	(196)			
Finance receivables repaid				351	456	675
Finance receivables originated				(194)	(215)	(271)
Proceeds from sales of receivables and other finance assets				38	43	178
Other investing activities, net	5	(8)	16	2	(29)	42
Net cash provided by (used in) investing activities	(496)	(2,065)	(624)	197	255	624
Cash flows from financing activities						
Principal payments on long-term and nonrecourse debt	(100)	(559)	(313)	(256)	(345)	(743)
Proceeds from long-term debt		1,439	150	61	128	298
Purchases of Textron common stock	(219)	(340)				
Settlement of convertible notes			(215)			
Proceeds from settlement of capped call			75			

Proceeds from exercise of stock options	32	50	31			
Dividends paid	(22)	(28)	(22)	(63)		(175)
Intergroup financing			57			(57)
Other financing activities, net	1	(10)	(3)	(1)		
Net cash provided by (used in) financing activities	(308)	552	(240)	(259)	(217)	(677)
Effect of exchange rate changes on cash and equivalents	(15)	(13)	(6)			
Net increase (decrease) in cash and equivalents	215	(432)	(215)	(32)	43	13
Cash and equivalents at beginning of year	731	1,163	1,378	91	48	35
Cash and equivalents at end of year	$ 946	$ 731	$ 1,163	$ 59	$ 91	$ 48

See Notes to the Consolidated Financial Statements.

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Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation and Financial Statement Presentation

Our Consolidated Financial Statements include the accounts of Textron Inc. and its majority-owned subsidiaries. Our financings are conducted through two separate borrowing groups. The Manufacturing group consists of Textron Inc. consolidated with its majority-owned subsidiaries that operate in the Textron Aviation, Bell, Textron Systems and Industrial segments. The Finance group, which also is the Finance segment, consists of Textron Financial Corporation (TFC) and its consolidated subsidiaries. We designed this framework to enhance our borrowing power by separating the Finance group. Our Manufacturing group operations include the development, production and delivery of tangible goods and services, while our Finance group provides financial services. Due to the fundamental differences between each borrowing group s activities, investors, rating agencies and analysts use different measures to evaluate each group s performance. To support those evaluations, we present balance sheet and cash flow information for each borrowing group within the Consolidated Financial Statements.

Our Finance group provides captive financing for retail purchases and leases for new and pre-owned aircraft manufactured by our Manufacturing group. In the Consolidated Statements of Cash Flows, cash received from customers or from the sale of receivables is reflected as operating activities when received from third parties. However, in the cash flow information provided for the separate borrowing groups, cash flows related to captive financing activities are reflected based on the operations of each group. For example, when product is sold by our Manufacturing group to a customer and is financed by the Finance group, the origination of the finance receivable is recorded within investing activities as a cash outflow in the Finance group s statement of cash flows. Meanwhile, in the Manufacturing group s statement of cash flows, the cash received from the Finance group on the customer s behalf is recorded within operating cash flows as a cash inflow. Although cash is transferred between the two borrowing groups, there is no cash transaction reported in the consolidated cash flows at the time of the original financing. These captive financing activities, along with all significant intercompany transactions, are reclassified or eliminated in consolidation.

Collaborative Arrangements

Our Bell segment has a strategic alliance agreement with The Boeing Company (Boeing) to provide engineering, development and test services related to the V-22 aircraft, as well as to produce the V-22 aircraft, under a number of separate contracts with the U.S. Government (V-22 Contracts). The alliance created by this agreement is not a legal entity and has no employees, no assets and no true operations. This agreement creates contractual rights and does not represent an entity in which we have an equity interest. We account for this alliance as a collaborative arrangement with Bell and Boeing reporting costs incurred and revenues generated from transactions with the U.S. Government in each company s respective income statement. Neither Bell nor Boeing is considered to be the principal participant for the transactions recorded under this agreement. Profits on cost-plus contracts are allocated between Bell and Boeing on a 50%-50% basis. Negotiated profits on fixed-price contracts are also allocated 50%-50%; however, Bell and Boeing are each responsible for their own cost overruns and are entitled to retain any cost underruns. Based on the contractual arrangement established under the alliance, Bell accounts for its rights and obligations under the specific requirements of the V-22 Contracts allocated to Bell under the work breakdown structure. We account for all of our rights and obligations, including warranty, product and any contingent liabilities, under the specific requirements of the V-22 Contracts allocated to us under the agreement. Revenues and cost of sales reflect our performance under the V-22 Contracts with revenues recognized using the units-of-delivery method. We include all assets used in performance of the V-22 Contracts that we own, including inventory and unpaid receivables and all liabilities arising from our obligations under the V-22 Contracts in our Consolidated Balance Sheets.

Use of Estimates

We prepare our financial statements in conformity with generally accepted accounting principles, which require us to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. Our estimates and assumptions are reviewed periodically, and the effects of changes, if any, are reflected in the Consolidated Statements of Operations in the period that they are determined.

During 2015, 2014 and 2013, we changed our estimates of revenues and costs on certain long-term contracts that are accounted for under the percentage-of-completion method of accounting. These changes in estimates increased income from continuing operations before income taxes in 2015, 2014 and 2013 by $78 million, $95 million and $29 million, respectively, ($49 million, $60 million and $18 million after tax, or $0.18, $0.21 and $0.06 per diluted share, respectively). For 2015, 2014 and 2013, the gross favorable program profit adjustments totaled $111 million, $132 million and $51 million, respectively. For 2015, 2014 and 2013, the gross unfavorable program profit adjustments totaled $33 million, $37 million and $22 million, respectively. The increase in net program profit adjustments in 2014, compared with 2013, is largely driven by the Bell segment related to the impact of cost reduction activities in 2014 as well as unfavorable performance in 2013 related to manufacturing inefficiencies. In addition, gross favorable program profit adjustments in 2014 included $16 million related to the settlement of the System

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Development and Demonstration phase of the Armed Reconnaissance Helicopter (ARH) program, which was terminated in October 2008.

Revenue Recognition

We generally recognize revenue for the sale of products, which are not under long-term contracts, upon delivery. For commercial aircraft, delivery is upon completion of manufacturing, customer acceptance, and the transfer of the risk and rewards of ownership. Taxes collected from customers and remitted to government authorities are recorded on a net basis.

When a sale arrangement involves multiple deliverables, such as sales of products that include customization and other services, we evaluate the arrangement to determine whether there are separate items that are required to be delivered under the arrangement that qualify as separate units of accounting. These arrangements typically involve the customization services we offer to customers who purchase Bell helicopters, and the services generally are provided within the first six months after the customer accepts the aircraft and assumes risk of loss. We consider the aircraft and the customization services to be separate units of accounting and allocate contract price between the two on a relative selling price basis using the best evidence of selling price for each of the arrangement deliverables, typically by reference to the price charged when the same or similar items are sold separately by us, taking into consideration any performance, cancellation, termination or refund-type provisions. We recognize revenue when the recognition criteria for each unit of accounting are met.

Long-Term Contracts Revenues under long-term contracts are accounted for under the percentage-of-completion method of accounting. Under this method, we estimate profit as the difference between the total estimated revenues and cost of a contract. We then recognize that estimated profit over the contract term based on either the units-of-delivery method or the cost-to-cost method (which typically is used for development effort as costs are incurred), as appropriate under the circumstances. Revenues under fixed-price contracts generally are recorded using the units-of-delivery method. Revenues under cost-reimbursement contracts are recorded using the cost-to-cost method.

Long-term contract profits are based on estimates of total contract cost and revenues utilizing current contract specifications, expected engineering requirements, the achievement of contract milestones and product deliveries. Certain contracts are awarded with fixed-price incentive fees that also are considered when estimating revenues and profit rates. Contract costs typically are incurred over a period of several years, and the estimation of these costs requires substantial judgment. Our cost estimation process is based on the professional knowledge and experience of engineers and program managers along with finance professionals. We update our projections of costs at least semiannually or when circumstances significantly change. When adjustments are required, any changes from prior estimates are recognized using the cumulative catch-up method with the impact of the change from inception-to-date recorded in the current period. Anticipated losses on contracts are recognized in full in the period in which the losses become probable and estimable.

Finance Revenues Finance revenues primarily include interest on finance receivables, capital lease earnings and portfolio gains/losses. Portfolio gains/losses include impairment charges related to repossessed assets and properties and gains/losses on the sale or early termination of finance assets. We recognize interest using the interest method, which provides a constant rate of return over the terms of the receivables. Accrual of interest income is suspended if credit quality indicators suggest full collection of principal and interest is doubtful. In addition, we automatically suspend the accrual of interest income for accounts that are contractually delinquent by more than three months unless

collection is not doubtful. Cash payments on nonaccrual accounts, including finance charges, generally are applied to reduce the net investment balance. Once we conclude that the collection of all principal and interest is no longer doubtful, we resume the accrual of interest and recognize previously suspended interest income at the time either a) the loan becomes contractually current through payment according to the original terms of the loan, or b) if the loan has been modified, following a period of performance under the terms of the modification.

Cash and Equivalents

Cash and equivalents consist of cash and short-term, highly liquid investments with original maturities of three months or less.

Inventories

Inventories are stated at the lower of cost or estimated net realizable value. We value our inventories generally using the first-in, first-out (FIFO) method or the last-in, first-out (LIFO) method for certain qualifying inventories where LIFO provides a better matching of costs and revenues. We determine costs for our commercial helicopters on an average cost basis by model considering the expended and estimated costs for the current production release. Inventoried costs related to long-term contracts are stated at actual production costs, including allocable operating overhead, advances to suppliers, and, in the case of contracts with the U.S. Government, allocable research and development and general and administrative expenses. Since our inventoried costs include amounts related to contracts with long production cycles, a portion of these costs is not expected to be realized within one year. Pursuant to contract provisions, agencies of the U.S. Government have title to, or security interest in, inventories related to such contracts as a result of advances, performance-based payments and progress payments. Such advances and payments are reflected

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as an offset against the related inventory balances. Customer deposits are recorded against inventory when the right of offset exists. All other customer deposits are recorded in accrued liabilities.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated primarily using the straight-line method. We capitalize expenditures for improvements that increase asset values and extend useful lives. Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying value of the asset exceeds the sum of the undiscounted expected future cash flows, the asset generally is written down to fair value.

Goodwill and Intangible Assets

For our business acquisitions, we estimate the fair value of intangible assets primarily using discounted cash flow analysis of anticipated cash flows reflecting incremental revenues and/or cost savings resulting from the acquired intangible asset using market participant assumptions. Goodwill represents the excess of cost over the fair values assigned to intangible and other net assets of acquired businesses. Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to an annual impairment test. We evaluate the recoverability of these assets in the fourth quarter of each year or more frequently if events or changes in circumstances, such as declines in sales, earnings or cash flows, or material adverse changes in the business climate, indicate a potential impairment.

For our impairment test, we calculate the fair value of each reporting unit and indefinite-lived intangible asset primarily using discounted cash flows. A reporting unit represents the operating segment unless discrete financial information is prepared and reviewed by segment management for businesses one level below that operating segment, in which case such component is the reporting unit. In certain instances, we have aggregated components of an operating segment into a single reporting unit based on similar economic characteristics. For the goodwill impairment test, the discounted cash flows incorporate assumptions for revenue growth, operating margins and discount rates that represent our best estimates of current and forecasted market conditions, cost structure, anticipated net cost reductions, and the implied rate of return that we believe a market participant would require for an investment in a business having similar risks and characteristics to the reporting unit being assessed. If the reporting unit s estimated fair value exceeds its carrying value, there is no impairment. Otherwise, the amount of the impairment is determined by comparing the carrying amount of the reporting unit s goodwill to the implied fair value of that goodwill. The implied fair value of goodwill is determined by assigning a fair value to all of the reporting unit s assets and liabilities as if the reporting unit had been acquired in a business combination. If the carrying amount of the goodwill exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. For indefinite-lived intangible assets, if the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

Acquired intangible assets with finite lives are subject to amortization. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Amortization of these intangible assets is recognized over their estimated useful lives using a method that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized. Approximately 76% of our gross intangible assets are amortized based on the cash flow streams used to value the assets, with the remaining assets amortized using the straight-line method.

Finance Receivables

Finance receivables primarily include loans provided to purchasers of new and pre-owned Textron Aviation aircraft and Bell helicopters. Finance receivables are generally recorded at the amount of outstanding principal less allowance for losses.

We maintain an allowance for losses on finance receivables at a level considered adequate to cover inherent losses in the portfolio based on management s evaluation. For larger balance accounts specifically identified as impaired, a reserve is established based on comparing the expected future cash flows, discounted at the finance receivable s effective interest rate, or the fair value of the underlying collateral if the finance receivable is collateral dependent, to its carrying amount. The expected future cash flows consider collateral value; financial performance and liquidity of our borrower; existence and financial strength of guarantors; estimated recovery costs, including legal expenses; and costs associated with the repossession and eventual disposal of collateral. When there is a range of potential outcomes, we perform multiple discounted cash flow analyses and weight the potential outcomes based on their relative likelihood of occurrence. The evaluation of our portfolio is inherently subjective, as it requires estimates, including the amount and timing of future cash flows expected to be received on impaired finance receivables and the estimated fair value of the underlying collateral, which may differ from actual results. While our analysis is specific to each individual account, critical factors included in this analysis include industry valuation guides, age and physical condition of the collateral, payment history and existence and financial strength of guarantors.

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We also establish an allowance for losses to cover probable but specifically unknown losses existing in the portfolio. This allowance is established as a percentage of non-recourse finance receivables, which have not been identified as requiring specific reserves. The percentage is based on a combination of factors, including historical loss experience, current delinquency and default trends, collateral values and both general economic and specific industry trends.

Finance receivables are charged off at the earlier of the date the collateral is repossessed or when no payment has been received for six months, unless management deems the receivable collectible. Repossessed assets are recorded at their fair value, less estimated cost to sell.

Pension and Postretirement Benefit Obligations

We maintain various pension and postretirement plans for our employees globally. These plans include significant pension and postretirement benefit obligations, which are calculated based on actuarial valuations. Key assumptions used in determining these obligations and related expenses include expected long-term rates of return on plan assets, discount rates and healthcare cost projections. We evaluate and update these assumptions annually in consultation with third-party actuaries and investment advisors. We also make assumptions regarding employee demographic factors such as retirement patterns, mortality, turnover and rate of compensation increases. We recognize the overfunded or underfunded status of our pension and postretirement plans in the Consolidated Balance Sheets and recognize changes in the funded status of our defined benefit plans in comprehensive income in the year in which they occur. Actuarial gains and losses that are not immediately recognized as net periodic pension cost are recognized as a component of other comprehensive income (loss) (OCI) and are amortized into net periodic pension cost in future periods.

Derivatives and Hedging Activities

We are exposed to market risk primarily from changes in currency exchange rates and interest rates. We do not hold or issue derivative financial instruments for trading or speculative purposes. To manage the volatility relating to our exposures, we net these exposures on a consolidated basis to take advantage of natural offsets. For the residual portion, we enter into various derivative transactions pursuant to our policies in areas such as counterparty exposure and hedging practices. Credit risk related to derivative financial instruments is considered minimal and is managed by requiring high credit standards for counterparties and through periodic settlements of positions.

All derivative instruments are reported at fair value in the Consolidated Balance Sheets. Designation to support hedge accounting is performed on a specific exposure basis. For financial instruments qualifying as cash flow hedges, we record changes in the fair value of derivatives (to the extent they are effective as hedges) in OCI, net of deferred taxes. Changes in fair value of derivatives not qualifying as hedges are recorded in earnings.

Foreign currency denominated assets and liabilities are translated into U.S. dollars. Adjustments from currency rate changes are recorded in the cumulative translation adjustment account in shareholders equity until the related foreign entity is sold or substantially liquidated. We use foreign currency financing transactions 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 cumulative translation adjustment account.

Product Liabilities

We accrue for product liability claims and related defense costs when a loss is probable and reasonably estimable. Our estimates are generally based on the specifics of each claim or incident and our best estimate of the probable loss using historical experience.

Environmental Liabilities and Asset Retirement Obligations

Liabilities for environmental matters are recorded on a site-by-site basis when it is probable that an obligation has been incurred and the cost can be reasonably estimated. We estimate our accrued environmental liabilities using currently available facts, existing technology, and presently enacted laws and regulations, all of which are subject to a number of factors and uncertainties. Our environmental liabilities are not discounted and do not take into consideration possible future insurance proceeds or significant amounts from claims against other third parties.

We have incurred asset retirement obligations primarily related to costs to remove and dispose of underground storage tanks and asbestos materials used in insulation, adhesive fillers and floor tiles. There is no legal requirement to remove these items, and there currently is no plan to remodel the related facilities or otherwise cause the impacted items to require disposal. Since these asset retirement obligations are not estimable, there is no related liability recorded in the Consolidated Balance Sheets.

Warranty and Product Maintenance Liabilities

We provide limited warranty and product maintenance programs for certain products for periods ranging from one to five years. A significant portion of these liabilities arises from our commercial aircraft businesses. For our product maintenance contracts,

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revenue is recognized on a straight-line basis over the contract period, unless sufficient historical evidence indicates that the cost of providing these services is incurred on a basis other than straight-line. In those circumstances, revenue is recognized over the contract period in proportion to the costs expected to be incurred in performing the service.

For our warranty programs, we estimate the costs that may be incurred and record a liability in the amount of such costs at the time product revenues are recognized. Factors that affect this liability include the number of products sold, historical costs per claim, contractual recoveries from vendors and historical and anticipated rates of warranty claims, including production and warranty patterns for new models. We assess the adequacy of our recorded warranty liability periodically and adjust the amounts as necessary. Additionally, we may establish a warranty liability related to the issuance of aircraft service bulletins for aircraft no longer covered under the limited warranty programs.

Research and Development Costs

Our customer-funded research and development costs are charged directly to the related contracts, which primarily consist of U.S. Government contracts. In accordance with government regulations, we recover a portion of company-funded research and development costs through overhead rate charges on our U.S. Government contracts. Research and development costs that are not reimbursable under a contract with the U.S. Government or another customer are charged to expense as incurred. Company-funded research and development costs were $778 million, $694 million, and $651 million in 2015, 2014 and 2013, respectively, and are included in cost of sales.

Income Taxes

Deferred income tax balances reflect the effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and their tax bases, as well as from net operating losses and tax credit carryforwards, and are stated at enacted tax rates in effect for the year taxes are expected to be paid or recovered. Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. We evaluate the recoverability of these future tax deductions and credits by assessing the adequacy of future expected taxable income from all sources, including the future reversal of existing taxable temporary differences, taxable income in carryback years, available tax planning strategies and estimated future taxable income. We recognize net tax-related interest and penalties for continuing operations in income tax expense.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers, that outlines a comprehensive five-step revenue recognition model based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. In July 2015, the FASB approved a one-year deferral of the effective date of the standard to the beginning of 2018 for public companies, with an option that would permit companies to adopt the standard as early as the original effective date of 2017. The new standard may be adopted either retrospectively or on a modified retrospective basis whereby it would be applied to new contracts and existing contracts with remaining performance obligations as of the effective date, with a cumulative catch-up adjustment recorded to beginning retained earnings at the effective date for those contracts. We are currently evaluating the impacts of adoption on our consolidated financial position, results of operations and related disclosures, along with the implementation approach to be used.

Note 2. Business Acquisitions, Goodwill and Intangible Assets

2015 Acquisitions

During 2015, we made aggregate cash payments for acquisitions of $81 million, which included three businesses within our Industrial and Textron Aviation segments.

2014 Beechcraft Acquisition

On March 14, 2014, we completed the acquisition of all of the outstanding equity interests in Beech Holdings, LLC, which included Beechcraft Corporation and other subsidiaries, (collectively Beechcraft), for an aggregate cash payment of $1.5 billion. The acquisition of Beechcraft and the formation of the Textron Aviation segment has provided increased scale and complementary product offerings, allowing us to strengthen our position across the aviation industry and enhance our ability to support our customers. We financed $1.1 billion of the purchase price with the issuance of long-term debt and the remaining balance was paid from cash on hand.

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The consideration paid for this business was allocated to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date as presented below.

(In millions)

[redacted]	$ 129
	775
	175
	261
	581
	228
	172
	(143)
	(294)
	(406)
	$ 1,478

Goodwill of $228 million was primarily related to expected synergies from combining operations and the value of the existing workforce. Intangible assets of $581 million included unpatented technology related to original equipment manufactured parts and designs and customer relationships valued at $373 million and trade names valued at $208 million. The unpatented technology and customer relationships assets have a life of 15 years, resulting in amortization expense in the range of approximately $17 million to $31 million annually. Substantially all of the trade names have an indefinite life and therefore are not subject to amortization. We acquired tax-deductible goodwill of approximately $260 million in this transaction.

We executed a restructuring program in our Textron Aviation segment to align the Cessna and Beechcraft businesses, reduce operating redundancies and maximize efficiencies. During 2014, we recorded charges of $41 million related to these restructuring activities along with $11 million of transaction costs, which were included in the Acquisition and restructuring costs line on the Consolidated Statements of Operations.

Other 2014 Acquisitions

During 2014, we also made aggregate cash payments of $149 million for seven acquisitions within our Industrial and Systems Segments, including Tug Technologies Corporation, a manufacturer of ground support equipment in the aviation industry.

Actual and Pro-Forma Impact from 2014 Acquisitions

The operating results for the 2014 acquisitions are included in the Consolidated Statement of Operations since their respective closing dates. From the closing dates through January 3, 2015, revenues related to these acquisitions totaled $1.6 billion. The cost structures of the Beechcraft and Cessna businesses have been significantly integrated since the acquisition of Beechcraft; therefore, it is not possible to separately report earnings for this acquisition. The earnings related to the other 2014 acquisitions were not significant for this period.

The unaudited supplemental pro-forma data included in the table below presents consolidated information as if our 2014 acquisitions had been completed at the beginning of the year prior to acquisition. This pro-forma data should not be considered indicative of the results that would have occurred if the acquisitions and related financing had been consummated at the beginning of the year prior to acquisition, nor are they necessarily indicative of future results as they do not reflect the potential realization of cost savings and synergies associated with the acquisitions.

(In millions, except per share amounts)		**2014**		**2013**
Revenues	$	14,240	$	13,956
Income from continuing operations, net of income taxes		689		482
Diluted earnings per share from continuing operations	$	2.45	$	1.69

Certain pro-forma adjustments were made to reflect the purchase price allocated to the acquired net assets of each business, including depreciation and intangible amortization expense resulting from the valuation of tangible and intangible assets, amortization of inventory fair value step-up adjustments and the related tax effects. The pro-forma results for 2013 were also adjusted to include transaction and restructuring costs of $52 million, related to the Beechcraft acquisition; these costs were excluded from the 2014 pro-forma results. In addition, the pro-forma results exclude the financial impact related to Beechcraft s emergence from bankruptcy in 2013.

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Goodwill

The changes in the carrying amount of goodwill by segment are as follows:

(In millions)	Textron Aviation	Bell	Textron Systems	Industrial	Total
Balance at December 28, 2013	$ 326	$ 31	$ 1,026	$ 352	$ 1,735
Acquisitions	228		35	50	313
Foreign currency translation			(4)	(17)	(21)
Balance at January 3, 2015	554	31	1,057	385	2,027
Acquisitions	6			10	16
Foreign currency translation			(6)	(14)	(20)
Balance at January 2, 2016	$ 560	$ 31	$ 1,051	$ 381	$ 2,023

Intangible Assets

Our intangible assets are summarized below:

		January 2, 2016			January 3, 2015		
(Dollars in millions)	Weighted-Average Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Patents and technology	15	$ 513	$ (120)	$ 393	$ 513	$ (92)	$ 421
Customer relationships and contractual agreements	15	375	(220)	155	364	(192)	172
Trade names and trademarks	16	263	(32)	231	263	(28)	235
Other	9	23	(19)	4	23	(18)	5
Total		$ 1,174	$ (391)	$ 783	$ 1,163	$ (330)	$ 833

Trade names and trademarks in the table above include $204 million of indefinite-lived intangible assets for both January 2, 2016 and January 3, 2015.

Amortization expense totaled $61 million, $62 million and $37 million in 2015, 2014 and 2013, respectively. Amortization expense is estimated to be approximately $64 million, $64 million, $60 million, $59 million and $55 million in 2016, 2017, 2018, 2019 and 2020, respectively.

Note 3. Accounts Receivable and Finance Receivables

Accounts Receivable

Accounts receivable is composed of the following:

(*In millions*)	**January 2, 2016**	**January 3, 2015**
Commercial	$ 841	$ 765
U.S. Government contracts	239	300
	1,080	1,065
Allowance for doubtful accounts	(33)	(30)
Total	$ 1,047	$ 1,035

We have unbillable receivables, primarily on U.S. Government contracts, that arise when the revenues we have appropriately recognized based on performance cannot be billed yet under terms of the contract. Unbillable receivables within accounts receivable totaled $135 million at January 2, 2016 and $151 million at January 3, 2015.

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Finance Receivables

Finance receivables are presented in the following table.

(*In millions*)	January 2, 2016	January 3, 2015
Finance receivables*	$ 1,135	$ 1,289
Allowance for losses	(48)	(51)
Total finance receivables, net	$ 1,087	$ 1,238

** Includes finance receivables held for sale of $30 million and $35 million at January 2, 2016 and January 3, 2015, respectively.*

Finance receivables primarily includes loans provided to purchasers of new and pre-owned Textron Aviation aircraft and Bell helicopters. These loans typically have initial terms ranging from five to ten years, amortization terms ranging from eight to fifteen years and an average balance of $1 million at January 2, 2016. Loans generally require the customer to pay a significant down payment, along with periodic scheduled principal payments that reduce the outstanding balance through the term of the loan.

Our finance receivables are diversified across geographic region and borrower industry. At January 2, 2016, 38% of our finance receivables were distributed throughout the U.S. compared with 37% at the end of 2014. At January 2, 2016 and January 3, 2015, finance receivables of $493 million and $565 million, respectively, have been pledged as collateral for TFC s debt of $352 million and $434 million, respectively. In addition, at January 2, 2016 and January 3, 2015, finance receivables included $51 million and $113 million, respectively, of receivables that have been legally sold to a special purpose entity (SPE), which is a consolidated subsidiary of TFC. The assets of the SPE are pledged as collateral for its debt, which is reflected as securitized on-balance sheet debt in Note 7. Third-party investors have no legal recourse to TFC beyond the credit enhancement provided by the assets of the SPE.

Finance Receivable Portfolio Quality

Credit Quality Indicators and Nonaccrual Finance Receivables

We internally assess the quality of our finance receivables based on a number of key credit quality indicators and statistics such as delinquency, loan balance to estimated collateral value and the financial strength of individual borrowers and guarantors. Because many of these indicators are difficult to apply across an entire class of receivables, we evaluate individual loans on a quarterly basis and classify these loans into three categories based on the key credit quality indicators for the individual loan. These three categories are performing, watchlist and nonaccrual.

We classify finance receivables as nonaccrual if credit quality indicators suggest full collection of principal and interest is doubtful. In addition, we automatically classify accounts as nonaccrual once they are contractually delinquent by more than three months unless collection of principal and interest is not doubtful. Accounts are classified as watchlist when credit quality indicators have deteriorated as compared with typical underwriting criteria, and we believe collection of full principal and interest is probable but not certain. All other finance receivables that do not meet the watchlist or nonaccrual categories are classified as performing.

Delinquency

We measure delinquency based on the contractual payment terms of our finance receivables. In determining the delinquency aging category of an account, any/all principal and interest received is applied to the most past-due principal and/or interest amounts due. If a significant portion of the contractually due payment is delinquent, the entire finance receivable balance is reported in accordance with the most past-due delinquency aging category.

Finance receivables categorized based on the credit quality indicators and by delinquency aging category are summarized as follows:

(*In millions*)	**January 2, 2016**	**January 3, 2015**
Performing	$ 891	$ 1,062
Watchlist	130	111
Nonaccrual	84	81
Nonaccrual as a percentage of finance receivables	7.60%	6.46%
Less than 31 days past due	$ 950	$ 1,080
31-60 days past due	86	117
61-90 days past due	42	28
Over 90 days past due	27	29
60+ days contractual delinquency as a percentage of finance receivables	6.24%	4.55%

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Impaired Loans

On a quarterly basis, we evaluate individual finance receivables for impairment in non-homogeneous portfolios and larger balance accounts in homogeneous loan portfolios. A finance receivable is considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement based on our review of the credit quality indicators described above. Impaired finance receivables include both nonaccrual accounts and accounts for which full collection of principal and interest remains probable, but the account s original terms have been, or are expected to be, significantly modified. If the modification specifies an interest rate equal to or greater than a market rate for a finance receivable with comparable risk, the account is not considered impaired in years subsequent to the modification. Interest income recognized on impaired loans was not significant in 2015 or 2014.

A summary of impaired finance receivables, excluding leveraged leases, and the average recorded investment is provided below:

(*In millions*)	**January 2, 2016**	**January 3, 2015**
Recorded investment:		
Impaired loans with related allowance for losses	$ 62	$ 68
Impaired loans with no related allowance for losses	42	42
Total	$ 104	$ 110
Unpaid principal balance	$ 113	$ 115
Allowance for losses on impaired loans	17	20
Average recorded investment	102	115

Allowance for Losses

A rollforward of the allowance for losses on finance receivables and a summary of its composition, based on how the underlying finance receivables are evaluated for impairment, is provided below. The finance receivables reported in this table specifically exclude $118 million and $121 million of leveraged leases at January 2, 2016 and January 3, 2015, respectively, in accordance with U.S. generally accepted accounting principles.

(*In millions*)	**January 2, 2016**	**January 3, 2015**
Balance at the beginning of year	$ 51	$ 55
Provision for losses	(2)	6
Charge-offs	(14)	(17)
Recoveries	13	7
Balance at the end of year	$ 48	$ 51
Allowance based on collective evaluation	31	31
Allowance based on individual evaluation	17	20
Finance receivables evaluated collectively	883	1,023
Finance receivables evaluated individually	104	110

Note 4. Inventories

Inventories are composed of the following:

(*In millions*)	**January 2, 2016**	**January 3, 2015**
Finished goods	$ 1,735	$ 1,582
Work in process	2,921	2,683
Raw materials and components	605	546
	5,261	4,811
Progress/milestone payments	(1,117)	(883)
Total	$ 4,144	$ 3,928

Inventories valued by the LIFO method totaled $1.6 billion and $1.4 billion at January 2, 2016 and January 3, 2015, respectively, and the carrying values of these inventories would have been higher by approximately $463 million and $468 million, respectively, had our LIFO inventories been valued at current costs. Inventories related to long-term contracts, net of progress/milestone payments, were $611 million and $447 million at January 2, 2016 and January 3, 2015, respectively.

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Note 5. Property, Plant and Equipment, Net

Our Manufacturing group s property, plant and equipment, net are composed of the following:

(Dollars in millions)	Useful Lives (in years)	January 2, 2016	January 3, 2015
Land and buildings	3 - 40	$ 1,859	$ 1,818
Machinery and equipment	1 - 20	4,548	4,364
		6,407	6,182
Accumulated depreciation and amortization		(3,915)	(3,685)
Total		$ 2,492	$ 2,497

At January 2, 2016 and January 3, 2015, assets under capital leases totaled $275 million and $279 million, respectively, and had accumulated amortization of $87 million and $68 million, respectively. The Manufacturing group s depreciation expense, which included amortization expense on capital leases, totaled $383 million, $379 million and $335 million in 2015, 2014 and 2013, respectively.

Note 6. Accrued Liabilities

The accrued liabilities of our Manufacturing group are summarized below:

(In millions)	January 2, 2016	January 3, 2015
Customer deposits	$ 1,323	$ 1,412
Salaries, wages and employer taxes	315	332
Current portion of warranty and product maintenance contracts	137	169
Other	692	703
Total	$ 2,467	$ 2,616

Changes in our warranty liability are as follows:

(*In millions*)	2015	2014	2013
Beginning of period	$ 148	$ 121	$ 133
Provision	78	75	53
Settlements	(72)	(71)	(60)
Acquisitions	3	43	
Adjustments*	(14)	(20)	(5)
End of period	$ 143	$ 148	$ 121

** Adjustments include changes to prior year estimates, new issues on prior year sales and currency translation adjustments.*

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Note 7. Debt and Credit Facilities

Our debt is summarized in the table below:

(In millions)	January 2, 2016	January 3, 2015
Manufacturing group		
4.625% due 2016	$ 250	$ 250
5.60% due 2017	350	350
Variable-rate note due 2018 (1.58% and 1.48%, respectively)	150	150
7.25% due 2019	250	250
Variable-rate note due 2019 (1.59% and 1.67%, respectively)	200	300
6.625% due 2020	222	234
5.95% due 2021	250	250
3.65% due 2021	250	250
4.30% due 2024	350	350
3.875% due 2025	350	350
Other (weighted-average rate of 1.29% and 1.32%, respectively)	75	77
Total Manufacturing group debt	$ 2,697	$ 2,811
Less: Short-term and current portion of long-term debt	(262)	(8)
Total Long-term debt	$ 2,435	$ 2,803
Finance group		
Fixed-rate notes due 2016-2017 (weighted-average rate of 4.59%) (a)	$ 21	$ 32
Variable-rate notes due 2016 and 2018 (weighted-average rate of 1.53% and 1.73%, respectively)	200	200
Fixed-rate notes due 2017-2025 (weighted-average rate of 2.79% and 2.76%, respectively) (a) (b)	300	381
Variable-rate notes due 2016-2025 (weighted-average rate of 1.54% and 1.18%, respectively) (a) (b)	52	52
Securitized debt (weighted-average rate of 1.71%) (b)	41	98
6% Fixed-to-Floating Rate Junior Subordinated Notes	299	299
Fair value adjustments and unamortized discount		1
Total Finance group debt	$ 913	$ 1,063

(a) *Notes amortize on a quarterly or semi-annual basis.*

(b) *Notes are secured by finance receivables as described in Note 3.*

The following table shows required payments during the next five years on debt outstanding at January 2, 2016:

(In millions)	2016	2017	2018	2019	2020
Manufacturing group	$ 262	$ 358	$ 155	$ 455	$ 232
Finance group	155	91	204	50	48
Total	$ 417	$ 449	$ 359	$ 505	$ 280

Textron has a senior unsecured revolving credit facility that expires in October 2018 for an aggregate principal amount of $1.0 billion, of which up to $100 million is available for the issuance of letters of credit. At January 2, 2016, there were no amounts borrowed against the facility, and

there were $33 million of letters of credit issued against it.

6% Fixed-to-Floating Rate Junior Subordinated Notes

The Finance group s $299 million of 6% Fixed-to-Floating Rate Junior Subordinated Notes are unsecured and rank junior to all of its existing and future senior debt. The notes mature on February 15, 2067; however, we have the right to redeem the notes at par on or after February 15, 2017 and are obligated to redeem the notes beginning on February 15, 2042. Interest on the notes is fixed at 6% until February 15, 2017 and floats at the three-month London Interbank Offered Rate + 1.735% thereafter.

Support Agreement

Under a Support Agreement, as amended in December 2015, Textron Inc. is required to ensure that TFC maintains fixed charge coverage of no less than 125% and consolidated shareholder s equity of no less than $125 million. There were no cash contributions required to be paid to TFC in 2015, 2014 and 2013 to maintain compliance with the support agreement.

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Note 8. Derivative Instruments and Fair Value Measurements

We measure fair value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We prioritize the assumptions that market participants would use in pricing the asset or liability into a three-tier fair value hierarchy. This fair value hierarchy gives the highest priority (Level 1) to quoted prices in active markets for identical assets or liabilities and the lowest priority (Level 3) to unobservable inputs in which little or no market data exist, requiring companies to develop their own assumptions. Observable inputs that do not meet the criteria of Level 1, which include quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets and liabilities in markets that are not active, are categorized as Level 2. Level 3 inputs are those that reflect our estimates about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. Valuation techniques for assets and liabilities measured using Level 3 inputs may include methodologies such as the market approach, the income approach or the cost approach and may use unobservable inputs such as projections, estimates and management s interpretation of current market data. These unobservable inputs are utilized only to the extent that observable inputs are not available or cost effective to obtain.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

We manufacture and sell our products in a number of countries throughout the world, and, therefore, we are exposed to movements in foreign currency exchange rates. We utilize foreign currency exchange contracts to manage this volatility. Our foreign currency exchange contracts are measured at fair value using the market method valuation technique. The inputs to this technique utilize current foreign currency exchange forward market rates published by third-party leading financial news and data providers. These are observable data that represent the rates that the financial institution uses for contracts entered into at that date; however, they are not based on actual transactions so they are classified as Level 2. At January 2, 2016 and January 3, 2015, we had foreign currency exchange contracts with notional amounts upon which the contracts were based of $706 million and $696 million, respectively. At January 2, 2016, the fair value amounts of our foreign currency exchange contracts were a $7 million asset and a $28 million liability. At January 3, 2015, the fair value amounts of our foreign currency exchange contracts were a $16 million asset and a $26 million liability.

We primarily utilize forward exchange contracts which have maturities of no more than three years. These contracts qualify as cash flow hedges and are intended to offset the effect of exchange rate fluctuations on forecasted sales, inventory purchases and overhead expenses. At January 2, 2016, we had a net deferred loss of $24 million in Accumulated other comprehensive loss related to these cash flow hedges. Net gains and losses recognized in earnings and Accumulated other comprehensive loss on cash flow hedges, including gains and losses related to hedge ineffectiveness, were not significant in the periods presented.

We hedge our net investment position in major currencies and generate foreign currency interest payments that offset other transactional exposures in these currencies. To accomplish this, we borrow directly in foreign currency and designate a portion of foreign currency debt as a hedge of a net investment. We record changes in the fair value of these contracts in other comprehensive income to the extent they are effective as cash flow hedges. Currency effects on the effective portion of these hedges, which are reflected in the foreign currency translation adjustments within Accumulated other comprehensive loss, were not significant in the periods presented.

Assets Recorded at Fair Value on a Nonrecurring Basis

During the years ended January 2, 2016 and January 3, 2015, the Finance group s impaired nonaccrual finance receivables of $45 million and $49 million, respectively, were measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3). Impaired nonaccrual finance receivables represent assets recorded at fair value on a nonrecurring basis since the measurement of required reserves on our impaired finance receivables is significantly dependent on the fair value of the underlying collateral. For impaired nonaccrual finance

receivables secured by aviation assets, the fair values of collateral are determined primarily based on the use of industry pricing guides. Fair value measurements recorded on impaired finance receivables resulted in charges to provision for loan losses totaling $13 million and $18 million for 2015 and 2014, respectively.

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Assets and Liabilities Not Recorded at Fair Value

The carrying value and estimated fair value of our financial instruments that are not reflected in the financial statements at fair value are as follows:

	January 2, 2016		January 3, 2015	
(In millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Manufacturing group				
Long-term debt, excluding leases	$ (2,628)	$ (2,744)	$ (2,742)	$ (2,944)
Finance group				
Finance receivables, excluding leases	863	820	1,004	1,021
Debt	(913)	(840)	(1,063)	(1,051)

Fair value for the Manufacturing group debt is determined using market observable data for similar transactions (Level 2). At January 2, 2016 and January 3, 2015, approximately 74% and 75%, respectively, of the fair value of term debt for the Finance group was determined based on discounted cash flow analyses using observable market inputs from debt with similar duration, subordination and credit default expectations (Level 2). The remaining Finance group debt was determined based on observable market transactions (Level 1). Fair value estimates for finance receivables were determined based on internally developed discounted cash flow models primarily utilizing significant unobservable inputs (Level 3), which include estimates of the rate of return, financing cost, capital structure and/or discount rate expectations of current market participants combined with estimated loan cash flows based on credit losses, payment rates and expectations of borrowers ability to make payments on a timely basis.

Note 9. Shareholders Equity

Capital Stock

We have authorization for 15 million shares of preferred stock with a par value of $0.01 and 500 million shares of common stock with a par value of $0.125. Outstanding common stock activity for the three years ended January 2, 2016 is presented below:

(In thousands)	2015	2014	2013
Beginning balance	276,582	282,059	271,263
Exercise of stock options	1,335	1,910	1,333
Issued to Textron Savings Plan	1,392	1,490	1,921
Stock repurchases	(5,197)	(8,921)	
Exercise of warrants			7,435
Issued upon vesting of restricted stock units	116	44	107
Ending balance	274,228	276,582	282,059

Earnings Per Share

We calculate basic and diluted earnings per share (EPS) based on net income, which approximates income available to common shareholders for each period. Basic EPS is calculated using the two-class method, which includes the weighted-average number of common shares outstanding during the period and restricted stock units to be paid in stock that are deemed participating securities as they provide nonforfeitable rights to

dividends. Diluted EPS considers the dilutive effect of all potential future common stock, including stock options and, prior to the maturity of our convertible notes on May 1, 2013, the shares that could have been issued upon the conversion of the notes and upon the exercise of the related warrants. In addition, diluted EPS for 2014 includes the impact of the initial delivery of shares under an Accelerated Share Repurchase agreement (ASR). In February 2014, we entered into the ASR with a counterparty and repurchased 4.3 million shares of our outstanding common stock. We settled the ASR in December 2014 for a final purchase price of $167 million.

The weighted-average shares outstanding for basic and diluted EPS are as follows:

(In thousands)	**2015**	**2014**	**2013**
Basic weighted-average shares outstanding	276,682	279,409	279,299
Dilutive effect of:			
Stock options	2,045	2,049	328
ASR		332	
Convertible notes and warrants			4,801
Diluted weighted-average shares outstanding	278,727	281,790	284,428

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In 2015, 2014 and 2013, options to purchase 2 million, 2 million and 5 million shares, respectively, of common stock are excluded from the calculation of diluted weighted-average shares outstanding as their effect would have been anti-dilutive.

Accumulated Other Comprehensive Loss

The components of Accumulated Other Comprehensive Loss are presented below:

(In millions)	Pension and Postretirement Benefits Adjustments	Foreign Currency Translation Adjustments	Deferred Losses on Hedge Contracts	Accumulated Other Comprehensive Loss
Balance at December 28, 2013	$ (1,110)	$ 93	$ (10)	$ (1,027)
Other comprehensive loss before reclassifications	(471)	(75)	(12)	(558)
Reclassified from Accumulated other comprehensive loss	70		9	79
Other comprehensive loss	(401)	(75)	(3)	(479)
Balance at January 3, 2015	(1,511)	18	(13)	(1,506)
Other comprehensive income (loss) before reclassifications	92	(65)	(26)	1
Reclassified from Accumulated other comprehensive loss	92		15	107
Other comprehensive income (loss)	184	(65)	(11)	108
Balance at January 2, 2016	$ (1,327)	$ (47)	$ (24)	$ (1,398)

Other Comprehensive Income (Loss)

The before and after-tax components of other comprehensive income (loss) are presented below:

	2015			2014			2013		
(In millions)	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Pension and postretirement benefits adjustments:									
Unrealized gains (losses)	$ 136	$ (44)	$ 92	$ (734)	$ 252	$ (482)	$ 1,019	$ (410)	$ 609
Amortization of net actuarial loss*	150	(53)	97	114	(40)	74	189	(67)	122
Amortization of prior service credit*	(7)	2	(5)	(8)	4	(4)	(2)	1	(1)
Recognition of prior service cost				18	(7)	11	29	(12)	17
Pension and postretirement benefits adjustments, net	279	(95)	184	(610)	209	(401)	1,235	(488)	747
Deferred losses on hedge contracts:									
Current deferrals	(33)	7	(26)	(16)	4	(12)	(20)	5	(15)
Reclassification adjustments	19	(4)	15	12	(3)	9	(1)		(1)
Deferred losses on hedge contracts, net	(14)	3	(11)	(4)	1	(3)	(21)	5	(16)
Foreign currency translation adjustments	(55)	(10)	(65)	(71)	(4)	(75)	13	(1)	12

Total	$ 210	$ (102)	$ 108	$ (685)	$ 206	$ (479)	$ 1,227	$ (484)	$ 743

**These components of other comprehensive income (loss) are included in the computation of net periodic pension cost. See Note 11 for additional information.*

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Note 10. Share-Based Compensation

Our 2015 Long-Term Incentive Plan (Plan), which replaced our 2007 Long-Term Incentive Plan in April 2015, authorizes awards to selected employees in the form of stock options, restricted stock, restricted stock units, stock appreciation rights, performance stock, performance share units and other awards. A maximum of 17 million shares is authorized for issuance for all purposes under the Plan plus any shares that become available upon cancellation, forfeiture or expiration of awards granted under the 2007 Long-Term Incentive Plan. No more than 17 million shares may be awarded pursuant to incentive stock options, and no more than 4.25 million shares may be issued pursuant to awards of restricted stock, restricted stock units, performance stock or other awards that are payable in shares.

Through our Deferred Income Plan for Textron Executives, we provide certain executives the opportunity to voluntarily defer up to 80% of their base salary, along with incentive and other compensation. Elective deferrals may be put into either a stock unit account or an interest-bearing account. Participants cannot move amounts between the two accounts while actively employed by us and cannot receive distributions until termination of employment. The intrinsic value of amounts paid under this deferred income plan was not significant in 2015, 2014 and 2013.

Share-based compensation costs are reflected primarily in selling and administrative expenses. Compensation expense included in net income for our share-based compensation plans is as follows:

(In millions)	**2015**	**2014**	**2013**
Compensation expense	$ 63	$ 85	$ 86
Income tax benefit	(23)	(32)	(32)
Total net compensation expense included in net income	$ 40	$ 53	$ 54

Compensation expense included approximately $21 million, $21 million and $26 million in 2015, 2014 and 2013, respectively, for a portion of the fair value of options issued and the portion of previously granted options for which the requisite service has been rendered.

Compensation cost for awards subject only to service conditions that vest ratably are recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award. As of January 2, 2016, we had not recognized $48 million of total compensation costs associated with unvested awards subject only to service conditions. We expect to recognize compensation expense for these awards over a weighted-average period of approximately two years.

Stock Options

Options to purchase our shares have a maximum term of ten years and generally vest ratably over a three-year period. The stock option compensation cost calculated under the fair value approach is recognized over the vesting period of the stock options. We estimate the fair value of options granted on the date of grant using the Black-Scholes option-pricing model. Expected volatilities are based on implied volatilities from traded options on our common stock, historical volatilities and other factors. The expected term is based on historical option exercise data, which is adjusted to reflect any anticipated changes in expected behavior.

The weighted-average fair value of options granted during the past three years and the assumptions used in our option-pricing model for such grants are as follows:

	2015	2014	2013
Fair value of options at grant date	$ 14.03	$ 12.72	$ 9.69
Dividend yield	0.2%	0.2%	0.3%
Expected volatility	34.9%	34.5%	37.0%
Risk-free interest rate	1.5%	1.5%	0.9%
Expected term (in years)	4.8	5.0	5.5

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The stock option activity during 2015 is provided below:

(Options in thousands)	Number of Options	Weighted-Average Exercise Price
Outstanding at beginning of year	8,637	$ 29.99
Granted	1,825	44.30
Exercised	(1,344)	(26.93)
Forfeited or expired	(310)	(44.58)
Outstanding at end of year	8,808	$ 32.91
Exercisable at end of year	5,275	$ 28.16

At January 2, 2016, our outstanding options had an aggregate intrinsic value of $86 million and a weighted-average remaining contractual life of six years. Our exercisable options had an aggregate intrinsic value of $75 million and a weighted-average remaining contractual life of five years at January 2, 2016. The total intrinsic value of options exercised during 2015, 2014 and 2013 was $23 million, $25 million and $10 million, respectively.

Restricted Stock Units

We issue restricted stock units settled in both cash and stock (vesting one-third each in the third, fourth and fifth year following the year of the grant), which include the right to receive dividend equivalents. The fair value of these units is based on the trading price of our common stock and is recognized ratably over the vesting period. For units payable in stock, we use the trading price on the grant date, while units payable in cash are remeasured using the price at each reporting period date. Prior to 2012, we issued restricted stock units that vested in equal installments over five years. The 2015 activity for restricted stock units is provided below:

	Units Payable in Stock		Units Payable in Cash	
(Shares/Units in thousands)	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Units	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year, nonvested	906	$ 30.59	1,666	$ 29.84
Granted	174	44.10	374	44.25
Vested	(183)	(27.20)	(459)	(24.60)
Forfeited	(17)	(30.74)	(89)	(33.65)
Outstanding at end of year, nonvested	880	$ 33.97	1,492	$ 34.84

The fair value of the restricted stock awards that vested and/or amounts paid under these awards is as follows:

(In millions)	2015	2014	2013
Fair value of awards vested	$ 25	$ 25	$ 26

Cash paid	20	23	23

Performance Share Units

The fair value of share-based compensation awards accounted for as liabilities includes performance share units, which are paid in cash in the first quarter of the year following vesting. Payouts under performance share units vary based on certain performance criteria generally set for each year of a three-year performance period. The performance share units vest at the end of three years. The fair value of these awards is based on the trading price of our common stock and is remeasured at each reporting period date.

The 2015 activity for our performance share units is as follows:

(Units in thousands)	Number of Units		Weighted-Average Grant Date Fair Value
Outstanding at beginning of year, nonvested	677	$	33.38
Granted	257		44.31
Vested	(377)		(28.47)
Forfeited	(8)		(35.29)
Outstanding at end of year, nonvested	549	$	41.84

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The fair value of the performance share units that vested and/or amounts paid under these awards is as follows:

(In millions)	2015	2014	2013
Fair value of awards vested	$ 16	$ 20	$ 13
Cash paid	17	12	11

Note 11. Retirement Plans

Our defined benefit and defined contribution plans cover substantially all of our employees. A significant number of our U.S.-based employees participate in the Textron Retirement Plan, which is designed to be a floor-offset arrangement with both a defined benefit component and a defined contribution component. The defined benefit component of the arrangement includes the Textron Master Retirement Plan (TMRP) and the Bell Helicopter Textron Master Retirement Plan (BHTMRP), and the defined contribution component is the Retirement Account Plan (RAP). The defined benefit component provides a minimum guaranteed benefit (or floor benefit). Under the RAP, participants are eligible to receive contributions from Textron of 2% of their eligible compensation but may not make contributions to the plan. Upon retirement, participants receive the greater of the floor benefit or the value of the RAP. Both the TMRP and the BHTMRP are subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Effective on January 1, 2010, the Textron Retirement Plan was closed to new participants, and employees hired after that date receive an additional 4% annual cash contribution to their Textron Savings Plan account based on their eligible compensation.

We also have other funded and unfunded defined benefit pension plans that cover certain of our U.S. and Non-U.S. employees. In addition, several defined contribution plans are sponsored by our various businesses, of which the largest plan is the Textron Savings Plan, which is a qualified 401(k) plan subject to ERISA. Our defined contribution plans cost approximately $103 million, $99 million and $93 million in 2015, 2014 and 2013, respectively; these amounts include $12 million, $16 million and $19 million, respectively, in contributions to the RAP. We also provide postretirement benefits other than pensions for certain retired employees in the U.S., which include healthcare, dental care, Medicare Part B reimbursement and life insurance benefits.

Periodic Benefit Cost

The components of net periodic benefit cost and other amounts recognized in OCI are as follows:

	Pension Benefits			Postretirement Benefits Other than Pensions		
(In millions)	2015	2014	2013	2015	2014	2013
Net periodic benefit cost						
Service cost	$ 113	$ 109	$ 133	$ 4	$ 4	$ 6
Interest cost	327	334	290	15	19	19
Expected return on plan assets	(483)	(462)	(418)			
Amortization of prior service cost (credit)	16	15	15	(25)	(23)	(17)
Amortization of net actuarial loss	148	112	183	2	2	6
Curtailment and other charges	6					
Net periodic benefit cost (credit)	$ 127	$ 108	$ 203	$ (4)	$ 2	$ 14

Other changes in plan assets and benefit obligations recognized in OCI																				
Current year actuarial loss (gain)		$	(107)			$	729		$	(964)			$	(29)			$	5		$	(55)
Current year prior service cost (credit)							12			16							(30)			(45)
Amortization of net actuarial loss			(148)				(112)			(183)				(2)			(2)			(6)
Amortization of prior service credit (cost)			(18)				(15)			(15)				25			23			17
Total recognized in OCI, before taxes		$	(273)			$	614		$	(1,146)			$	(6)			$	(4)		$	(89)
Total recognized in net periodic benefit cost and OCI		$	(146)			$	722		$	(943)			$	(10)			$	(2)		$	(75)

The estimated amount that will be amortized from Accumulated other comprehensive loss into net periodic pension costs in 2016 is as follows:

(In millions)	**Pension Benefits**	**Postretirement Benefits Other than Pensions**
Net actuarial loss	$ 105	$
Prior service cost (credit)	15	(22)
Total	$ 120	$ (22)

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Obligations and Funded Status

All of our plans are measured as of our fiscal year-end. The changes in the projected benefit obligation and in the fair value of plan assets, along with our funded status, are as follows:

	Pension Benefits		Postretirement Benefits Other than Pensions	
(In millions)	**2015**	**2014**	**2015**	**2014**
Change in benefit obligation				
Benefit obligation at beginning of year	$ 8,006	$ 6,544	$ 413	$ 445
Service cost	113	109	4	4
Interest cost	327	334	15	19
Acquisitions		570		13
Amendments		12		(30)
Plan participants contributions			5	5
Actuarial losses (gains)	(470)	886	(29)	4
Benefits paid	(423)	(400)	(44)	(47)
Curtailments and special termination benefits	(4)			
Foreign exchange rate changes and other	(73)	(49)		
Benefit obligation at end of year	$ 7,476	$ 8,006	$ 364	$ 413
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	$ 6,979	$ 6,345		
Actual return on plan assets	113	623		
Acquisitions		390		
Employer contributions	55	60		
Benefits paid	(423)	(400)		
Foreign exchange rate changes and other	(56)	(39)		
Fair value of plan assets at end of year	$ 6,668	$ 6,979		
Funded status at end of year	$ (808)	$ (1,027)	$ (364)	$ (413)

Amounts recognized in our balance sheets are as follows:

	Pension Benefits		Postretirement Benefits Other than Pensions	
(In millions)	**2015**	**2014**	**2015**	**2014**
Non-current assets	$ 73	$ 60	$	$
Current liabilities	(26)	(26)	(40)	(45)
Non-current liabilities	(855)	(1,061)	(324)	(368)
Recognized in Accumulated other comprehensive loss, pre-tax:				
Net loss	1,915	2,193	9	40
Prior service cost (credit)	92	110	(50)	(75)

The accumulated benefit obligation for all defined benefit pension plans was $7.1 billion and $7.6 billion at January 2, 2016 and January 3, 2015, respectively, which included $371 million and $392 million, respectively, in accumulated benefit obligations for unfunded plans where funding is not permitted or in foreign environments where funding is not feasible.

Pension plans with accumulated benefit obligations exceeding the fair value of plan assets are as follows:

(In millions)	2015	2014
Projected benefit obligation	$ 2,881	$ 3,096
Accumulated benefit obligation	2,708	2,900
Fair value of plan assets	2,091	2,215

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Assumptions

The weighted-average assumptions we use for our pension and postretirement plans are as follows:

	Pension Benefits			Postretirement Benefits Other than Pensions		
	2015	2014	2013	2015	2014	2013
Net periodic benefit cost						
Discount rate	4.25%	4.92%	4.23%	4.00%	4.50%	3.75%
Expected long-term rate of return on assets	7.57%	7.60%	7.56%			
Rate of compensation increase	3.49%	3.50%	3.47%			
Benefit obligations at year-end						
Discount rate	4.66%	4.18%	4.94%	4.50%	4.00%	4.50%
Rate of compensation increases	3.49%	3.49%	3.51%			

Our assumed healthcare cost trend rate for both the medical and prescription drug cost was 7.5% in 2015 and 6.6% in 2014. We expect this rate to gradually decline to 5.0% by 2024 where we assume it will remain. These assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement benefits other than pensions. A one-percentage-point change in these assumed healthcare cost trend rates would have the following effects:

(In millions)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 1	$ (1)
Effect on postretirement benefit obligations other than pensions	17	(15)

Pension Assets

The expected long-term rate of return on plan assets is determined based on a variety of considerations, including the established asset allocation targets and expectations for those asset classes, historical returns of the plans assets and other market considerations. We invest our pension assets with the objective of achieving a total rate of return, over the long term, sufficient to fund future pension obligations and to minimize future pension contributions. We are willing to tolerate a commensurate level of risk to achieve this objective based on the funded status of the plans and the long-term nature of our pension liability. Risk is controlled by maintaining a portfolio of assets that is diversified across a variety of asset classes, investment styles and investment managers. Where possible, investment managers are prohibited from owning our stock in the portfolios that they manage on our behalf.

For U.S. plan assets, which represent the majority of our plan assets, asset allocation target ranges are established consistent with our investment objectives, and the assets are rebalanced periodically. For Non-U.S. plan assets, allocations are based on expected cash flow needs and assessments of the local practices and markets. Our target allocation ranges are as follows:

U.S. Plan Assets	
Domestic equity securities	23% to 38%
International equity securities	11% to 22%
Debt securities	27% to 38%
Real estate	7% to 13%

Private investment partnerships	5% to 11%
Hedge funds	0% to 5%
Non-U.S. Plan Assets	
Equity securities	51% to 74%
Debt securities	26% to 46%
Real estate	4% to 15%

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The fair value of our pension plan assets by major category and valuation method is as follows:

	January 2, 2016			January 3, 2015		
(In millions)	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Cash and equivalents	$ 27	$ 184	$	$ 27	$ 194	$
Equity securities:						
Domestic	1,252	595		1,417	595	
International	812	360		1,185	253	
Mutual funds	251					
Debt securities:						
National, state and local governments	410	357		526	419	
Corporate debt		878			950	
Asset-backed securities		92			110	
Real estate			758			744
Private investment partnerships			441			380
Hedge funds			251			179
Total	$ 2,752	$ 2,466	$ 1,450	$ 3,155	$ 2,521	$ 1,303

Cash equivalents and equity and debt securities include comingled funds, which represent investments in funds offered to institutional investors that are similar to mutual funds in that they provide diversification by holding various equity and debt securities. Since these comingled funds are not quoted on any active market, they are priced based on the relative value of the underlying equity and debt investments and their individual prices at any given time; accordingly, they are classified as Level 2. Debt securities are valued based on same day actual trading prices, if available. If such prices are not available, we use a matrix pricing model with historical prices, trends and other factors.

Private investment partnerships represent investments in funds, which, in turn, invest in stocks and debt securities of companies that, in most cases, are not publicly traded. These partnerships are valued using income and market methods that include cash flow projections and market multiples for various comparable companies. Real estate includes owned properties and investments in partnerships. Owned properties are valued using certified appraisals at least every three years, which then are updated at least annually by the real estate investment manager based on current market trends and other available information. These appraisals generally use the standard methods for valuing real estate, including forecasting income and identifying current transactions for comparable real estate to arrive at a fair value. Real estate partnerships are valued similar to private investment partnerships, with the general partner using standard real estate valuation methods to value the real estate properties and securities held within their fund portfolios. We believe these assumptions are consistent with assumptions that market participants would use in valuing these investments.

Hedge funds represent an investment in a diversified fund of hedge funds of which we are the sole investor. The fund invests in portfolio funds that are not publicly traded and are managed by various portfolio managers. Investments in portfolio funds are typically valued on the basis of the most recent price or valuation provided by the relevant fund s administrator. The administrator for the fund aggregates these valuations with the other assets and liabilities to calculate the net asset value of the fund.

The fair value measurements of plan assets in the real estate category, which use significant unobservable inputs (Level 3), changed due to the following:

(In millions)	Real Estate	Private Investment Partnerships	Hedge Funds
Balance at December 28, 2013	$ 553	$ 305	$ 175
Unrealized gains (losses), net	6	(7)	4
Realized gains, net	28	41	
Purchases, sales and settlements, net	157	41	
Balance at January 3, 2015	744	380	179
Unrealized gains (losses), net	73	(18)	2
Realized gains (losses), net	(21)	19	
Purchases, sales and settlements, net	(38)	60	70
Balance at January 2, 2016	$ 758	$ 441	$ 251

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Estimated Future Cash Flow Impact

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. Our funding policy is consistent with applicable laws and regulations. In 2016, we expect to contribute approximately $60 million to fund our pension plans and the RAP. Benefit payments provided below reflect expected future employee service, as appropriate, and are expected to be paid, net of estimated participant contributions. These payments are based on the same assumptions used to measure our benefit obligation at the end of fiscal 2015. While pension benefit payments primarily will be paid out of qualified pension trusts, we will pay postretirement benefits other than pensions out of our general corporate assets. Benefit payments that we expect to pay on an undiscounted basis are as follows:

(In millions)	**2016**	**2017**	**2018**	**2019**	**2020**	**2021-2025**
Pension benefits	$ 401	$ 405	$ 411	$ 419	$ 427	$ 2,278
Post-retirement benefits other than pensions	41	40	38	36	34	142

Note 12. Income Taxes

We conduct business globally and, as a result, file numerous consolidated and separate income tax returns within and outside the U.S. For all of our U.S. subsidiaries, we file a consolidated federal income tax return. Income from continuing operations before income taxes is as follows:

(In millions)	**2015**	**2014**	**2013**
U.S.	$ 745	$ 553	$ 454
Non-U.S.	226	300	220
Income from continuing operations before income taxes	$ 971	$ 853	$ 674

Income tax expense for continuing operations is summarized as follows:

(In millions)	**2015**	**2014**	**2013**
Current:			
Federal	$ 212	$ 195	$ 23
State	16	18	10
Non-U.S.	41	54	56
	269	267	89
Deferred:			
Federal	17	(12)	91
State	(14)	(4)	13
Non-U.S.	1	(3)	(17)
	4	(19)	87
Income tax expense	$ 273	$ 248	$ 176

The following table reconciles the federal statutory income tax rate to our effective income tax rate for continuing operations:

	2015	2014	2013
U.S. Federal statutory income tax rate	35.0%	35.0%	35.0%
Increase (decrease) in taxes resulting from:			
State income taxes (a)	0.2	1.0	2.4
Non-U.S. tax rate differential and foreign tax credits (b)	(3.6)	(5.8)	(7.2)
Domestic manufacturing deduction	(2.7)	(1.1)	(1.1)
Research credit	(1.5)	(1.5)	(3.8)
Other, net	0.7	1.5	0.8
Effective income tax rate	28.1%	29.1%	26.1%

(a) *Includes a favorable impact of (0.7)% in 2015 and (0.2)% in 2014 related to valuation allowance releases.*

(b) *Includes a favorable impact of (1.4)% in 2015, (0.6)% in 2014 and (2.0)% in 2013 related to a net change in valuation allowances.*

The amount of income taxes we pay is subject to ongoing audits by U.S. federal, state and non-U.S. tax authorities, which may result in proposed assessments. Our estimate for the potential outcome for any uncertain tax issue is highly judgmental. We assess our income tax positions and record tax benefits for all years subject to examination based upon management s evaluation of the facts, circumstances and information available at the reporting date. For those tax positions for which it is more likely than not that a tax benefit will be sustained, we record the largest amount of tax benefit with a greater than 50% likelihood of being

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realized upon settlement with a taxing authority that has full knowledge of all relevant information. Interest and penalties are accrued, where applicable. If we do not believe that it is not more likely than not that a tax benefit will be sustained, no tax benefit is recognized.

Our future results may include favorable or unfavorable adjustments to our estimated tax liabilities due to settlement of income tax examinations, new regulatory or judicial pronouncements, expiration of statutes of limitations or other relevant events. As a result, our effective tax rate may fluctuate significantly on a quarterly and annual basis.

Our unrecognized tax benefits represent tax positions for which reserves have been established. Unrecognized state tax benefits and interest related to unrecognized tax benefits are reflected net of applicable tax benefits. A reconciliation of our unrecognized tax benefits, excluding accrued interest, is as follows:

(In millions)	**January 2, 2016**	**January 3, 2015**	**December 28, 2013**
Balance at beginning of year	$ 385	$ 284	$ 290
Additions for tax positions related to current year	12	10	15
Additions for tax positions of prior years	6		1
Additions for acquisitions	1	100	
Reductions for tax positions of prior years	(1)	(6)	(17)
Reductions for expiration of statute of limitations and settlements	(2)	(3)	(5)
Balance at end of year	$ 401	$ 385	$ 284

At January 2, 2016 and January 3, 2015, approximately $321 million and $305 million, respectively, of these unrecognized tax benefits, if recognized, would favorably affect our effective tax rate in a future period. At January 2, 2016 and January 3, 2015, the remaining $80 million in unrecognized tax benefits were related to discontinued operations.

It is reasonably possible that within the next 12 months our unrecognized tax benefits, exclusive of interest, may decrease in the range of approximately $0 to $215 million, as a result of the conclusion of audits and any related appeals or review processes, the expiration of statutes of limitations and additional worldwide uncertain tax positions. This potential decrease primarily relates to uncertainties with respect to prior dispositions and research tax credits. However, based on the process of finalizing audits and any required review process by relevant authorities, it is difficult to estimate the timing and amount of potential changes to our unrecognized tax benefits. Although the outcome of these matters cannot be determined, we believe adequate provision has been made for any potential unfavorable financial statement impact.

In the normal course of business, we are subject to examination by taxing authorities throughout the world, including major jurisdictions such as Canada, China, Germany, Mexico, United Kingdom and the U.S. With few exceptions, we no longer are subject to U.S. federal, state and local income tax examinations for years before 1997. We are no longer subject to non-U.S. income tax examinations in our major jurisdictions for years before 2010.

During 2015, 2014 and 2013, we recognized net tax-related interest expense totaling approximately $7 million, $6 million and $6 million, respectively, in the Consolidated Statements of Operations. At January 2, 2016 and January 3, 2015, we had a total of $139 million and $132 million, respectively, of net accrued interest expense included in our Consolidated Balance Sheets.

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The tax effects of temporary differences that give rise to significant portions of our net deferred tax assets and liabilities are as follows:

(In millions)	**January 2, 2016**	**January 3, 2015**
Deferred tax assets		
Obligation for pension and postretirement benefits	$ 436	$ 541
Accrued expenses*	288	287
Deferred compensation	184	190
Loss carryforwards	142	137
Inventory	71	79
Allowance for credit losses	29	36
Deferred income	9	22
Other, net	97	91
Total deferred tax assets	1,256	1,383
Valuation allowance for deferred tax assets	(115)	(167)
	$ 1,141	$ 1,216
Deferred tax liabilities		
Property, plant and equipment, principally depreciation	$ (171)	$ (167)
Leasing transactions	(146)	(165)
Amortization of goodwill and other intangibles	(156)	(118)
Prepaid pension and postretirement benefits	(21)	(14)
Total deferred tax liabilities	(494)	(464)
Net deferred tax asset	$ 647	$ 752

** Accrued expenses includes warranty reserves, self-insured liabilities and interest.*

We believe that our earnings during the periods when the temporary differences become deductible will be sufficient to realize the related future income tax benefits. For those jurisdictions where the expiration date of tax carryforwards or the projected operating results indicate that realization is not more than likely, a valuation allowance is provided.

The following table presents the breakdown of net deferred tax assets:

(In millions)	**January 2, 2016**	**January 3, 2015**
Manufacturing group:		
Other assets	$ 778	$ 889
Other liabilities	(24)	(19)
Finance group - Other liabilities	(107)	(118)
Net deferred tax asset	$ 647	$ 752

In 2015, the FASB issued ASU No. 2015-17, Income Taxes, that requires deferred tax assets and liabilities to be classified as noncurrent in the statement of financial position. We elected to adopt this standard in the fourth quarter of 2015 and have reclassified $259 million of deferred tax

assets at January 3, 2015 from Other current assets to Other assets to conform with the current year presentation.

Our net operating loss and credit carryforwards at January 2, 2016 are as follows:

(In millions)	
Non-U.S. net operating loss with no expiration	$ 78
Non-U.S. net operating loss expiring through 2035	52
U.S. federal net operating losses expiring through 2035, related to 2014 acquisitions	328
U.S. foreign tax credits expiring through 2022, related to 2014 acquisitions	8
State net operating loss and tax credits, net of tax benefits, expiring through 2035	115

We intend to reinvest the undistributed earnings of our non-U.S. subsidiaries indefinitely and have therefore not provided for deferred taxes related to U.S. income and foreign withholding taxes. The undistributed earnings of our non-U.S. subsidiaries that have not been subject to U.S. tax approximated $1.2 billion at January 2, 2016. Because of the effect of U.S. foreign tax credits, it is not practicable to estimate the amount of tax that might be payable on these earnings in the event they no longer are indefinitely reinvested.

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Note 13. Commitments and Contingencies

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. Some of these legal proceedings and claims seek damages, fines or penalties in substantial amounts or remediation of environmental contamination. As a government contractor, we are subject to audits, reviews and investigations to determine whether our operations are being conducted in accordance with applicable regulatory requirements. Under federal government procurement regulations, certain claims brought by the U.S. Government could result in our suspension or debarment from U.S. Government contracting for a period of time. On the basis of information presently available, we do not believe that existing proceedings and claims will have a material effect on our financial position or results of operations.

In the ordinary course of business, we enter into standby letter of credit agreements and surety bonds with financial institutions to meet various performance and other obligations. These outstanding letter of credit arrangements and surety bonds aggregated to approximately $612 million and $790 million at January 2, 2016 and January 3, 2015, respectively.

Environmental Remediation

As with other industrial enterprises engaged in similar businesses, we are involved in a number of remedial actions under various federal and state laws and regulations relating to the environment that impose liability on companies to clean up, or contribute to the cost of cleaning up, sites on which hazardous wastes or materials were disposed or released. Our accrued environmental liabilities relate to installation of remediation systems, disposal costs, U.S. Environmental Protection Agency oversight costs, legal fees, and operating and maintenance costs for both currently and formerly owned or operated facilities. Circumstances that can affect the reliability and precision of the accruals include the 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. We believe that any changes to the accruals that may result from these factors and uncertainties will not have a material effect on our financial position or results of operations.

Based upon information currently available, we estimate that our potential environmental liabilities are within the range of $40 million to $160 million. At January 2, 2016, environmental reserves of approximately $75 million have been established to address these specific estimated liabilities. We estimate that we will likely pay our accrued environmental remediation liabilities over the next ten years and have classified $17 million as current liabilities. Expenditures to evaluate and remediate contaminated sites approximated $15 million, $13 million and $12 million in 2015, 2014 and 2013, respectively.

Leases

Rental expense approximated $113 million, $121 million and $95 million in 2015, 2014 and 2013, respectively. Future minimum rental commitments for noncancelable operating leases in effect at January 2, 2016 approximated $74 million for 2016, $57 million for 2017, $44 million for 2018, $36 million for 2019, $38 million for 2020 and $131 million thereafter. The total future minimum rental receipts under noncancelable subleases at January 2, 2016 approximated $22 million.

Note 14. Supplemental Cash Flow Information

We have made the following cash payments:

(*In millions*)	**2015**	**2014**	**2013**
Interest paid:			
Manufacturing group	$ 123	$ 134	$ 124
Finance group	34	41	46
Net taxes paid /(received):			
Manufacturing group	187	266	223
Finance group	11	23	(49)

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Note 15. Segment and Geographic Data

We operate in, and report financial information for, the following five business segments: Textron Aviation, Bell, Textron Systems, Industrial and Finance. The accounting policies of the segments are the same as those described in Note 1.

Textron Aviation products include Citation jets, King Air turboprops, Caravan utility turboprops, piston engine aircraft, T-6 and AT-6 military aircraft, and aftermarket sales and services sold to a diverse base of corporate and individual buyers.

Bell products include military and commercial helicopters, tiltrotor aircraft and related spare parts and services. Bell supplies military helicopters and, in association with The Boeing Company, military tiltrotor aircraft, and aftermarket services to the U.S. and non-U.S. governments. Bell also supplies commercial helicopters and aftermarket services to corporate, offshore petroleum exploration and development, utility, charter, police, fire, rescue, emergency medical helicopter operators and foreign governments.

Textron Systems products include unmanned aircraft systems, marine and land systems, weapons and sensors, simulation, training and other defense and aviation mission support products and services primarily for U.S. and non-U.S. governments.

Industrial products and markets include the following:

- Kautex products include blow-molded plastic fuel systems, windshield and headlamp washer systems, selective catalytic reduction systems and engine camshafts that are marketed primarily to automobile OEMs, as well as plastic bottles and containers for various uses;

- Specialized Vehicles and Equipment products include golf cars, off-road utility and light transportation vehicles, aviation ground support equipment, professional turf-maintenance equipment and turf-care vehicles that are marketed primarily to golf courses, resort communities, municipalities, sporting venues, consumers, and commercial and industrial users; and

- Tools and Test Equipment products include powered equipment, electrical test and measurement instruments, mechanical and hydraulic tools, cable connectors, fiber optic assemblies, underground and aerial transmission and distribution products, and power utility products, principally used in the construction, maintenance, telecommunications, data communications, electrical, utility and plumbing industries.

The Finance segment provides financing primarily to purchasers of new and pre-owned Textron Aviation aircraft and Bell helicopters.

Segment profit is an important measure used for evaluating performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense, certain corporate expenses and acquisition and restructuring costs related to the Beechcraft acquisition. The measurement for the Finance segment includes interest income and expense along with intercompany interest income and expense.

Our revenues by segment, along with a reconciliation of segment profit to income from continuing operations before income taxes, are as follows:

	Revenues			Segment Profit (Loss)		
(*In millions*)	**2015**	**2014**	**2013**	**2015**	**2014**	**2013**
Textron Aviation	$ 4,822	$ 4,568	$ 2,784	$ 400	$ 234	$ (48)
Bell	3,454	4,245	4,511	400	529	573
Textron Systems	1,520	1,624	1,665	129	150	147
Industrial	3,544	3,338	3,012	302	280	242
Finance	83	103	132	24	21	49
Total	$ 13,423	$ 13,878	$ 12,104	$ 1,255	$ 1,214	$ 963
Corporate expenses and other, net				(154)	(161)	(166)
Interest expense, net for Manufacturing group				(130)	(148)	(123)
Acquisition and restructuring costs					(52)	
Income from continuing operations before income taxes				$ 971	$ 853	$ 674

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Revenues by major product type are summarized below:

(*In millions*)	2015	2014	2013
Fixed-wing aircraft	$ 4,822	$ 4,568	$ 2,784
Rotor aircraft	3,454	4,245	4,511
Unmanned aircraft systems, armored vehicles, precision weapons and other	1,520	1,624	1,665
Fuel systems and functional components	2,078	1,975	1,853
Specialized vehicles and equipment	1,021	868	713
Tools and test equipment	445	495	446
Finance	83	103	132
Total revenues	$ 13,423	$ 13,878	$ 12,104

Our revenues included sales to the U.S. Government of approximately $3.2 billion, $3.8 billion and $3.7 billion in 2015, 2014 and 2013, respectively, primarily in the Bell and Textron Systems segments.

Other information by segment is provided below:

	Assets		Capital Expenditures			Depreciation and Amortization		
(In millions)	January 2, 2016	January 3, 2015	2015	2014	2013	2015	2014	2013
Textron Aviation	$ 4,039	$ 4,085	$ 124	$ 96	$ 72	$ 134	$ 137	$ 87
Bell	2,829	2,858	97	152	197	143	132	116
Textron Systems	2,398	2,283	86	65	66	80	84	89
Industrial	2,236	2,171	105	97	89	76	76	72
Finance	1,316	1,529				12	13	18
Corporate	1,890	1,679	8	19	20	16	17	7
Total	$ 14,708	$ 14,605	$ 420	$ 429	$ 444	$ 461	$ 459	$ 389

Geographic Data

Presented below is selected financial information of our continuing operations by geographic area:

	Revenues*			Property, Plant and Equipment, net**	
				January 2,	January 3,
(*In millions*)	2015	2014	2013	2016	2015
United States	$ 8,299	$ 8,677	$ 7,512	$ 2,039	$ 2,015
Europe	1,730	1,761	1,535	251	272
Asia and Australia	1,324	1,155	1,111	72	74
Latin and South America	1,101	1,261	878	51	44
Canada	531	383	375	79	92
Middle East and Africa	438	641	693		

Total	$ 13,423	$ 13,878	$ 12,104	$ 2,492	$ 2,497

** Revenues are attributed to countries based on the location of the customer.*

*** Property, plant and equipment, net are based on the location of the asset.*

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Textron Inc.

We have audited the accompanying Consolidated Balance Sheets of Textron Inc. as of January 2, 2016 and January 3, 2015, and the related Consolidated Statements of Operations, Comprehensive Income, Shareholders Equity and Cash Flows for each of the three years in the period ended January 2, 2016. Our audits also included the financial statement schedule contained on page 70. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Textron Inc. at January 2, 2016 and January 3, 2015 and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 2, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Textron Inc. s internal control over financial reporting as of January 2, 2016, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 24, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts

February 24, 2016

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Quarterly Data

(Unaudited) *(Dollars in millions, except per share amounts)*	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4
Revenues								
Textron Aviation	$ 1,051	$ 1,124	$ 1,159	$ 1,488	$ 785	$ 1,183	$ 1,080	$ 1,520
Bell	813	850	756	1,035	873	1,119	1,182	1,071
Textron Systems	315	322	420	463	363	282	358	621
Industrial	872	927	828	917	797	894	785	862
Finance	22	24	17	20	29	27	25	22
Total revenues	$ 3,073	$ 3,247	$ 3,180	$ 3,923	$ 2,847	$ 3,505	$ 3,430	$ 4,096
Segment profit								
Textron Aviation (a)	$ 67	$ 88	$ 107	$ 138	$ 14	$ 28	$ 62	$ 130
Bell	76	101	99	124	96	141	146	146
Textron Systems	28	21	39	41	39	34	27	50
Industrial	82	86	61	73	66	94	53	67
Finance	6	10	6	2	4	7	5	5
Total segment profit	259	306	312	378	219	304	293	398
Corporate expenses and other, net	(42)	(33)	(27)	(52)	(43)	(38)	(22)	(58)
Interest expense, net for Manufacturing group	(33)	(32)	(33)	(32)	(35)	(36)	(37)	(40)
Acquisition and restructuring costs (b)					(16)	(20)	(3)	(13)
Income tax expense	(56)	(72)	(76)	(69)	(38)	(65)	(71)	(74)
Income from continuing operations	128	169	176	225	87	145	160	213
Income (loss) from discontinued operations, net of income taxes		(2)		1	(2)	(1)	(1)	(1)
Net income	$ 128	$ 167	$ 176	$ 226	$ 85	$ 144	$ 159	$ 212
Basic earnings per share								
Continuing operations	$ 0.46	$ 0.61	$ 0.64	$ 0.81	$ 0.31	$ 0.52	$ 0.57	$ 0.77
Discontinued operations		(0.01)		0.01	(0.01)			(0.01)
Basic earnings per share	$ 0.46	$ 0.60	$ 0.64	$ 0.82	$ 0.30	$ 0.52	$ 0.57	$ 0.76
Basic average shares outstanding *(In thousands)*	277,902	277,715	276,334	274,776	281,094	280,280	278,860	277,347
Diluted earnings per share								
Continuing operations	$ 0.46	$ 0.60	$ 0.63	$ 0.81	$ 0.31	$ 0.51	$ 0.57	$ 0.76
Discontinued operations				0.01	(0.01)			
Diluted earnings per share	$ 0.46	$ 0.60	$ 0.63	$ 0.82	$ 0.30	$ 0.51	$ 0.57	$ 0.76
Diluted average shares outstanding *(In thousands)*	280,077	279,935	278,039	276,653	283,327	282,764	281,030	279,771
Segment profit margins								
Textron Aviation	6.4%	7.8%	9.2%	9.3%	1.8%	2.4%	5.7%	8.6%
Bell	9.3	11.9	13.1	12.0	11.0	12.6	12.4	13.6
Textron Systems	8.9	6.5	9.3	8.9	10.7	12.1	7.5	8.1
Industrial	9.4	9.3	7.4	8.0	8.3	10.5	6.8	7.8
Finance	27.3	41.7	35.3	10.0	13.8	25.9	20.0	22.7
Segment profit margin	8.4%	9.4%	9.8%	9.6%	7.7%	8.7%	8.5%	9.7%
Common stock information								
Price range: High	$ 45.61	$ 46.93	$ 44.98	$ 43.93	$ 40.18	$ 40.93	$ 39.03	$ 44.23
Low	$ 40.95	$ 42.97	$ 32.20	$ 38.18	$ 34.28	$ 36.96	$ 35.54	$ 32.28
Dividends declared per share *(a)*	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02

Includes amortization of $5 million, $6 million and $1 million for the first, second, and third quarters of 2015, respectively, and $12 million, $33 million, $10 million and $8 million for the first, second, third and fourth quarters of 2014, respectively, related to fair value step-up adjustments of Beechcraft acquired inventories sold during the periods.

(b) *Acquisition and restructuring costs include restructuring costs of $5 million, $20 million, $3 million and $13 million for the first, second, third and fourth quarters of 2014, respectively, related to the acquisition of Beech Holdings, LLC, the parent of Beechcraft Corporation, which was completed on March 14, 2014. Transaction costs of $11 million related to the Beechcraft acquisition are also included in the first quarter of 2014.*

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Schedule II Valuation and Qualifying Accounts

(*In millions*)	2015	2014	2013
Allowance for doubtful accounts			
Balance at beginning of year	$ 30	$ 22	$ 19
Charged to costs and expenses	5	11	7
Deductions from reserves*	(2)	(3)	(4)
Balance at end of year	$ 33	$ 30	$ 22
Inventory FIFO reserves			
Balance at beginning of year	$ 169	$ 150	$ 136
Charged to costs and expenses	56	51	54
Deductions from reserves*	(19)	(32)	(40)
Balance at end of year	$ 206	$ 169	$ 150

**Deductions primarily include amounts written off on uncollectable accounts (less recoveries), inventory disposals and currency translation adjustments.*

Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We performed an evaluation of the effectiveness of our disclosure controls and procedures as of January 2, 2016. The evaluation was performed with the participation of senior management of each business segment and key Corporate functions, under the supervision of our Chairman, President and Chief Executive Officer (CEO) and our Executive Vice President and Chief Financial Officer (CFO). Based on this evaluation, the CEO and CFO concluded that our disclosure controls and procedures were operating and effective as of January 2, 2016.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of the fiscal year covered by this report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for Textron Inc. as such term is defined in Exchange Act Rules 13a-15(f). 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, the selection and training of qualified personnel as well as management oversight.

With the participation of our management, we performed an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on our evaluation under the 2013 Framework, we have concluded that Textron Inc. maintained, in all material respects, effective internal control over financial reporting as of January 2, 2016.

The independent registered public accounting firm, Ernst & Young LLP, has audited the Consolidated Financial Statements of Textron Inc. and has issued an attestation report on Textron s internal controls over financial reporting as of January 2, 2016, as stated in its report, which is included herein.

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Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

The Board of Directors and Shareholders of Textron Inc.

We have audited Textron Inc. s internal control over financial reporting as of January 2, 2016, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) (the COSO criteria). Textron Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Textron Inc. maintained, in all material respects, effective internal control over financial reporting as of January 2, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets of Textron Inc. as of January 2, 2016 and January 3, 2015, and the related Consolidated Statements of Operations, Comprehensive Income, Shareholders Equity and Cash Flows for each of the three years in the period ended January 2, 2016 of Textron Inc. and our report dated February 24, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts

February 24, 2016

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information appearing under ELECTION OF DIRECTORS Nominees for Director, CORPORATE GOVERNANCE Corporate Governance Guidelines and Policies, Code of Ethics, Board Committees *Audit Committee*, and SECTION 16(a) BENEFICIAL OWNERSHIP REPORTI COMPLIANCE in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 27, 2016 is incorporated by reference into this Annual Report on Form 10-K.

Information regarding our executive officers is contained in Part I of this Annual Report on Form 10-K.

Item 11. Executive Compensation

The information appearing under CORPORATE GOVERNANCE Compensation of Directors, COMPENSATION COMMITTEE REPORT, COMPENSATION DISCUSSION AND ANALYSIS and EXECUTIVE COMPENSATION in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 27, 2016 is incorporated by reference into this Annual Report on Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information appearing under SECURITY OWNERSHIP and EXECUTIVE COMPENSATION Equity Compensation Plan Information in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 27, 2016 is incorporated by reference into this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information appearing under CORPORATE GOVERNANCE Director Independence and EXECUTIVE COMPENSATION Transactions with Related Persons in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 27, 2016 is incorporated by reference into this Annual Report on Form 10-K.

Item 14. Principal Accountant Fees and Services

The information appearing under RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM Fees to Independent Auditors in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 27, 2016 is incorporated by reference into this Annual Report on Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements and Schedules See Index on Page 35.

Exhibits

3.1A	Restated Certificate of Incorporation of Textron as filed with the Secretary of State of Delaware on April 29, 2010. Incorporated by reference to Exhibit 3.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2010. (SEC File No. 001-05480)
3.1B	Certificate of Amendment of Restated Certificate of Incorporation of Textron Inc., filed with the Secretary of State of Delaware on April 27, 2011. Incorporated by reference to Exhibit 3.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2011.
3.2	Amended and Restated By-Laws of Textron Inc., effective April 28, 2010 and further amended April 27, 2011, July 23, 2013 and February 25, 2015. Incorporated by reference to Exhibit 3.2 to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2015.
4.1A	Support Agreement dated as of May 25, 1994, between Textron Inc. and Textron Financial Corporation. Incorporated by reference to Exhibit 4.1 to Textron s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

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4.1B	Amendment to Support Agreement, dated as of December 23, 2015, by and between Textron Inc. and Textron Financial Corporation.
NOTE:	Instruments defining the rights of holders of certain issues of long-term debt of Textron have not been filed as exhibits because the authorized principal amount of any one of such issues does not exceed 10% of the total assets of Textron and its subsidiaries on a consolidated basis. Textron agrees to furnish a copy of each such instrument to the Commission upon request.
NOTE:	Exhibits 10.1 through 10.16 below are management contracts or compensatory plans, contracts or agreements.
10.1A	Textron Inc. 2007 Long-Term Incentive Plan (Amended and Restated as of April 28, 2010). Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012.
10.1B	Form of Non-Qualified Stock Option Agreement. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007. (SEC File No. 001-05480)
10.1C	Form of Incentive Stock Option Agreement. Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007. (SEC File No. 001-05480)
10.1D	Form of Restricted Stock Unit Grant Agreement. Incorporated by reference to Exhibit 10.4 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007. (SEC File No. 001-05480)
10.1E	Form of Restricted Stock Unit Grant Agreement with Dividend Equivalents. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2008. (SEC File No. 001-05480)
10.1F	Form of Cash-Settled Restricted Stock Unit Grant Agreement with Dividend Equivalents. Incorporated by reference to Exhibit 10.1G to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2009. (SEC File No. 001-05480)
10.1G	Form of Performance Share Unit Grant Agreement. Incorporated by reference to Exhibit 10.1H to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2009. (SEC File No. 001-05480)
10.1H	Form of Non-Qualified Stock Option Agreement. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2014.
10.1I	Form of Stock-Settled Restricted Stock Unit Grant Agreement with Dividend Equivalents. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2014.
10.1J	Form of Performance Share Unit Grant Agreement. Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2014.
10.2A	Textron Inc. Short-Term Incentive Plan (As amended and restated effective January 3, 2010). Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2010. (SEC File No. 001-05480)
10.2B	Amendment No. 1 to Textron Inc. Short-Term Incentive Plan (As amended and restated effective January 3, 2010), dated July 22, 2015. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended October 3, 2015.
10.3	Textron Inc. 2015 Long-Term Incentive Plan. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 4, 2015.
10.4	Textron Spillover Savings Plan, effective October 5, 2015.

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10.5A	Textron Spillover Pension Plan, As Amended and Restated Effective January 3, 2010, including Appendix A (as amended and restated effective January 3, 2010), Defined Benefit Provisions of the Supplemental Benefits Plan for Textron Key Executives (As in effect before January 1, 2007). Incorporated by reference to Exhibit 10.4 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2010. (SEC File No. 001-05480)
10.5B	Amendments to the Textron Spillover Pension Plan, dated October 12, 2011. Incorporated by reference to Exhibit 10.5B to Textron s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.
10.5C	Second Amendment to the Textron Spillover Pension Plan, dated October 7, 2013. Incorporated by reference to Exhibit 10.5C to Textron s Annual Report on Form 10-K for the fiscal year ended December 28, 2013.
10.6	Deferred Income Plan for Textron Executives, Effective October 5, 2015.
10.7A	Deferred Income Plan for Non-Employee Directors, As Amended and Restated Effective January 1, 2009, including Appendix A, Prior Plan Provisions (As in effect before January 1, 2008). Incorporated by reference to Exhibit 10.9 to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2009. (SEC File No. 001-05480)
10.7B	Amendment No. 1 to Deferred Income Plan for Non-Employee Directors, as Amended and Restated Effective January 1, 2009, dated as of November 6, 2012. Incorporated by reference to Exhibit 10.8B to Textron s Annual Report on Form 10-K for the fiscal year ended December 29, 2012.
10.8A	Severance Plan for Textron Key Executives, As Amended and Restated Effective January 1, 2010. Incorporated by reference to Exhibit 10.10 to Textron s Annual Report on Form 10-K for the fiscal year ended January 2, 2010. (SEC File No. 001-05480)
10.8B	First Amendment to the Severance Plan for Textron Key Executives, dated October 26, 2010. Incorporated by reference to Exhibit 10.10B to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2011. (SEC File No. 001-05480)
10.8C	Second Amendment to the Severance Plan for Textron Key Executives, dated March 24, 2014. Incorporated by reference to Exhibit 10.5 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2014.
10.9	Form of Indemnity Agreement between Textron and its executive officers. Incorporated by reference to Exhibit A to Textron s Proxy Statement for its Annual Meeting of Shareholders on April 29, 1987. (SEC File No. 001-05480)
10.10	Form of Indemnity Agreement between Textron and its non-employee directors (approved by the Nominating and Corporate Governance Committee of the Board of Directors on July 21, 2009 and entered into with all non-employee directors, effective as of August 1, 2009). Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended October 3, 2009. (SEC File No. 001-05480)
10.11A	Letter Agreement between Textron and Scott C. Donnelly, dated June 26, 2008. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 2008. (SEC File No. 001-05480)
10.11B	Amendment to Letter Agreement between Textron and Scott C. Donnelly, dated December 16, 2008, together with Addendum No.1 thereto, dated December 23, 2008. Incorporated by reference to Exhibit 10.15B to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2009. (SEC File No. 001-05480)
10.11C	Agreement between Textron and Scott C. Donnelly, dated May 1, 2009, related to Mr. Donnelly s personal use of a portion of hangar space at T.F. Green Airport which is leased by Textron. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 4, 2009. (SEC File No. 001-05480)

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10.11D	Hangar License and Services Agreement made and entered into on April 25, 2011 to be effective as of December 5, 2010, between Textron Inc. and Mr. Donnelly s limited liability company. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2011.
10.11E	Amended and Restated Hangar License and Services Agreement, made and entered into as of October 1, 2015, between Textron Inc. and Mr. Donnelly s limited liability company. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended October 3, 2015.
10.12A	Letter Agreement between Textron and Frank Connor, dated July 27, 2009. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended October 3, 2009. (SEC File No. 001-05480)
10.12B	Hangar License and Services Agreement made and entered into on April 25, 2011 to be effective as of December 5, 2010, between Textron Inc. and Mr. Connor s limited liability company. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2011.
10.12C	Amended and Restated Hangar License and Services Agreement, made and entered into on July 24, 2015, between Textron Inc. and Mr. Connor s limited liability company. Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended October 3, 2015.
10.13	Letter Agreement between Textron and Cheryl H. Johnson, dated June 12, 2012. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012.
10.14A	Letter Agreement between Textron and E. Robert Lupone, dated December 22, 2011. Incorporated by reference to Exhibit 10.17 to Textron s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.
10.14B	Amendment to letter agreement between Textron and E. Robert Lupone, dated July 27, 2012. Incorporated by reference to Exhibit 10.5 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended September 29, 2012.
10.15	Director Compensation.
10.16	Form of Aircraft Time Sharing Agreement between Textron and its executive officers. Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended September 27, 2008. (SEC File No. 001-05480)
10.17	Credit Agreement, dated as of October 4, 2013, among Textron, the Lenders listed therein, JPMorgan Chase Bank, N.A., as Administrative Agent, Citibank, N.A. and Bank of America, N.A., as Syndication Agents, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Documentation Agent. Incorporated by reference to Exhibit 10.1 to Textron s Current Report on Form 8-K filed on October 4, 2013.
10.18A	Master Services Agreement between Textron Inc. and Computer Sciences Corporation dated October 27, 2004. Incorporated by reference to Exhibit 10.26 to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2005. * (SEC File No. 001-05480)
10.18B	Amendment No. 4 to Master Services Agreement between Textron Inc. and Computer Sciences Corporation, dated July 1, 2007. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended September 29, 2007. (SEC File No. 001-05480)
10.18C	Amendment No. 5 to Master Services Agreement between Textron Inc. and Computer Sciences Corporation, dated as of March 13, 2008. * Incorporated by reference to Exhibit 10.22C to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2011. (SEC File No. 001-05480)
10.18D	Amendment No. 6 to Master Services Agreement between Textron Inc. and Computer Sciences Corporation, dated as of June 17, 2009. Incorporated by reference to Exhibit 10.22D to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2011. (SEC File No. 001-05480)

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10.18E	Amendment No. 7 to Master Services Agreement between Textron Inc. and Computer Sciences Corporation, dated as of September 30, 2010. * Incorporated by reference to Exhibit 10.22E to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2011. (SEC File No. 001-05480)
10.19	Agreement and Plan of Merger among Beech Holdings, LLC, Sky Intermediate Merger Sub, LLC, Textron Inc. and Textron Acquisition LLC, dated as of December 26, 2013. Incorporated by reference to Exhibit 10.19 to Textron s Annual Report on Form 10-K for the fiscal year ended December 28, 2013.
10.20	Term Credit Agreement, dated as of January 24, 2014 Among Textron, JPMorgan Chase Bank, N.A., as administrative agent, Citibank, N.A. and Bank of America, N.A., as syndication agents, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as documentation agent, and other lenders named therein. Incorporated by reference to Exhibit 10.20 to Textron s Annual Report on Form 10-K for the fiscal year ended December 28, 2013.
12.1	Computation of ratio of income to fixed charges of Textron Inc. s Manufacturing group.
12.2	Computation of ratio of income to fixed charges of Textron Inc., including all majority-owned subsidiaries.
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 Registered Public Accounting Firm.
24	Power of attorney.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Textron Inc. s Annual Report on Form 10-K for the year ended January 2, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Shareholders Equity, (v) the Consolidated Statements of Cash Flows, (vi) the Notes to the Consolidated Financial Statements, and (vii) Schedule II Valuation and Qualifying Accounts.

* Confidential Treatment has been requested for portions of this document.

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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 24th day of February 2016.

TEXTRON INC.
Registrant

By: /s/ Frank T. Connor
Frank T. Connor
Executive Vice President and Chief Financial Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below on this 24th day of February 2016 by the following persons on behalf of the registrant and in the capacities indicated:

Name	Title
/s/ Scott C. Donnelly Scott C. Donnelly	Chairman, President and Chief Executive Officer (principal executive officer)
* Kathleen M. Bader	Director
* R. Kerry Clark	Director
* James T. Conway	Director
* Ivor J. Evans	Director
* Lawrence K. Fish	Director
* Paul E. Gagné	Director
* Dain M. Hancock	Director
* Lord Powell of Bayswater KCMG	Director
* Lloyd G. Trotter	Director
* James L. Ziemer	Director
/s/ Frank T. Connor Frank T. Connor	Executive Vice President and Chief Financial Officer (principal financial officer)
/s/ Mark S. Bamford Mark S. Bamford	Vice President and Corporate Controller (principal accounting officer)

*By: /s/ Jayne M. Donegan
Jayne M. Donegan, Attorney-in-fact