

TEXTRON INC  
Form 10-K  
February 15, 2018  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 10-K

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

For the fiscal year ended December 30, 2017

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  
(State or other jurisdiction of incorporation or organization)

05-0315468  
(I.R.S. Employer Identification No.)

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**40 Westminster Street, Providence, RI**  
(Address of principal executive offices)

**02903**  
(Zip code)

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock par value \$0.125	New York Stock Exchange

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

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

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  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  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.

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

- Large accelerated filer  Accelerated filer   
 Non-accelerated filer  Smaller reporting company  Emerging growth company   
 (do not check if smaller reporting company)

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [  ]

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

The aggregate market value of the registrant's Common Stock held by non-affiliates at July 1, 2017 was approximately \$12.5 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 3, 2018, 261,771,970 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 25, 2018.

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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 37,000 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. 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 16 to the Consolidated Financial Statements on pages 67 through 68 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 19 through 34 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 and aftermarket. Aircraft includes sales of 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 33%, 36% and 36% of our total revenues in 2017, 2016 and 2015, respectively. Revenues for Textron Aviation's principal lines of business were as follows:

<i>(In millions)</i>		<b>2017</b>	<b>2016</b>	<b>2015</b>
Aircraft	\$	3,112\$	3,412\$	3,404
Aftermarket		1,574	1,509	1,418
Total revenues	\$	4,686\$	4,921\$	4,822

The family of jets currently produced by Textron Aviation includes the Citation M2, Citation CJ3+, Citation CJ4, Citation XLS+, Citation Latitude, Citation Sovereign+, and the Citation X+, the fastest civilian jet in the world. In addition, the new Citation Longitude, a super-midsize jet which achieved first flight in October 2016, is expected to enter into service in early 2018. Textron Aviation is also continuing the development of the Citation Hemisphere, a large-cabin jet.

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Textron Aviation's turboprop aircraft include the Beechcraft King Air C90GTx, King Air 250, King Air 350ER and King Air 350i, and the Cessna Caravan and Grand Caravan EX. The Cessna Denali, a high-performance single engine turboprop aircraft, is expected to achieve its first flight in 2018. In addition, Textron Aviation recently announced the Cessna Skycourier, a twin-engine, high-wing, large-utility turboprop aircraft, which is targeted for first flight in 2019. Textron Aviation's piston engine aircraft include the Beechcraft Baron and Bonanza, and the Cessna Skyhawk, Skylane, and the Turbo Stationair.

Textron Aviation also offers the T-6 trainer, which is used to train pilots from more than 20 countries, the AT-6 light attack military aircraft, and the Scorpion. The Scorpion is a highly affordable, multi-mission aircraft designed primarily for the tactical military jet aviation market. This aircraft is not yet in production, pending customer orders.

In support of its family of aircraft, Textron Aviation operates a global network of 18 service centers, two of which are co-located with Bell Helicopter, along with more than 350 authorized independent service centers located throughout the world. Textron Aviation-owned service centers provide customers with 24-hour service and maintenance. Textron Aviation also provides its customers with around-the-clock parts support and offers a mobile support program with over 60 mobile service units and several dedicated support aircraft. In addition, Able Aerospace Services, Inc., a subsidiary of Textron Aviation, also provides component and maintenance, repair and overhaul services in support of commercial and military fixed- and rotor-wing aircraft.

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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.

**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 23%, 23% and 26% of our total revenues in 2017, 2016 and 2015, respectively. Revenues by Bell's principal lines of business were as follows:

<i>(In millions)</i>		2017	2016	2015
Military:				
V-22 Program	\$	1,129\$	1,151\$	1,194
Other Military		947	936	839
Commercial		1,241	1,152	1,421
Total revenues	\$	3,317\$	3,239\$	3,454

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 also for Japan under the U.S. Government-sponsored foreign military sales program. The 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. While the U.S. Marine Corps is the primary customer for H-1 helicopters, we also sell H-1 helicopters under the U.S. Government-sponsored foreign military sales program.

Bell is developing the V-280 Valor, a next generation vertical lift aircraft as part of the Joint Multi Role Technology Demonstrator (JMR-TD) initiative. The JMR-TD program is the science and technology precursor to the Department of Defense's Future Vertical Lift program. Aircraft designed through this initiative will compete to replace thousands of aging utility and attack helicopters for the U.S. Armed Forces over the next decade. The V-280 achieved its first flight in December 2017.

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 and 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 407GXP, 412EP, 412EPI, 429, 429WLG, 505 Jet Ranger X and Huey II. In addition, the 525 Relentless, Bell's first super medium commercial helicopter, is expected to achieve certification in 2019.

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 five Bell-operated service centers, four global parts distribution centers and over 100 independent service centers located in 35 countries. Collectively, these service sites offer a complete range of logistics support, including parts, support



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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.

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Textron Systems product lines consist of unmanned systems, marine and land systems, and 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 13%, 13% and 11% of our total revenues in 2017, 2016 and 2015, 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:

<i>(In millions)</i>		<b>2017</b>	<b>2016</b>	<b>2015</b>
Unmanned Systems	\$	714\$	763\$	686
Marine and Land Systems		470	294	188
Simulation, Training and Other		656	699	646
Total revenues	\$	1,840\$	1,756\$	1,520

*Unmanned Systems*

Our Unmanned Systems product line includes the offerings 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. This business's products include the U.S. Army's premier tactical unmanned aircraft system, the Shadow, which has surpassed one million flight hours since its introduction, and the Aerosonde Small Unmanned Aircraft System, a multi-mission capable unmanned aircraft system that has amassed more than 200,000 flight hours in commercial and military operations around the world. In addition, its 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.

*Marine and Land Systems*

Our Marine and Land Systems product line includes advanced marine craft, armored vehicles, turrets and related subsystems, in service with U.S. and international militaries, special operations forces, police forces and civilian entities. Marine and Land Systems' primary U.S. Government program is for the development and production of the U.S. Navy's next generation Landing Craft Air Cushion as part of the Ship-to-Shore Connector program.

*Simulation, Training and Other*

Our Simulation, Training and Other product line includes products and services from five businesses: TRU Simulation + Training, Textron Airborne Solutions, Electronic Systems, Lycoming, and Weapons and Sensors.

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 Aviation Maintenance Training Academy. Textron Airborne Solutions, which includes Airborne Tactical Advantage Company, focuses on live military air-to-air and air-to-ship training and support services for U.S. Navy, Marine and Air Force pilots. Electronic Systems provides high technology test equipment, electronic warfare test and training solutions and intelligence software solutions for U.S. and international defense, intelligence and law enforcement

communities.

Lycoming specializes in the engineering, manufacture, service and support of piston aircraft engines for the general aviation and remotely piloted aircraft markets. Weapons and Sensors offers advanced precision guided weapons systems, airborne and ground-based sensors and surveillance systems, and protection systems for the defense and aerospace industries.

Table of Contents**Industrial Segment**

Our Industrial segment designs and manufactures a variety of products within three principal product lines. Industrial segment revenues, which represented 30%, 28% and 26% of our total revenues in 2017, 2016 and 2015, respectively, were as follows:

<i>(In millions)</i>		<b>2017</b>	<b>2016</b>	<b>2015</b>
Fuel Systems and Functional Components	\$	2,330\$	2,273\$	2,078
Specialized Vehicles		1,486	1,080	1,021
Tools and Test Equipment		470	441	445
Total revenues	\$	4,286\$	3,794\$	3,544

*Fuel Systems and Functional Components*

Our Fuel Systems and Functional Components product line is produced by our Kautex business unit which is headquartered in Bonn, Germany and operates over 30 plants in 14 countries. Kautex is a leading developer and manufacturer of blow-molded plastic fuel systems for cars, light trucks and all-terrain vehicles. Kautex also develops and manufactures clear-vision systems for automobiles and selective catalytic reduction systems used to reduce emissions from diesel engines, as well as plastic bottles and containers for medical, household, agricultural, laboratory and industrial uses. Additionally, Kautex operates a business that produces cast iron engine camshafts, crankshafts and other engine components. Kautex serves the global automobile market, with operating facilities near its major customers around the world.

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*

Our Specialized Vehicles product line includes products sold by the Textron Specialized Vehicles businesses under the E-Z-GO, Textron Off Road, Arctic Cat, TUG Technologies, Douglas Equipment, Premier, Safeaero, Ransomes, Jacobsen, Cushman and Dixie Chopper brands. These businesses design, manufacture and sell golf cars, off-road utility vehicles, recreational side-by-side and all-terrain vehicles, snowmobiles, light transportation vehicles, aviation ground support equipment and professional turf-maintenance equipment, as well as specialized turf-care vehicles. See Note 2 to the Consolidated Financial Statements for additional information regarding the acquisition of Arctic Cat that we completed on March 6, 2017.

These businesses have a diversified customer base that includes golf courses and resorts, government agencies and municipalities, consumers, outdoor enthusiasts, and commercial and industrial users such as factories, warehouses, airports, planned communities, hunting preserves, educational and corporate campuses, sporting venues, municipalities and landscaping professionals. Sales are made through a combination of factory direct resources and a network of independent distributors and dealers worldwide. We have two major competitors for both golf cars and professional turf-maintenance equipment, and several competitors for off-road utility vehicles, recreational all-terrain and light transportation vehicles, side-by-sides and snowmobiles, aviation ground support equipment, and specialized turf-care products. Competition is based primarily on price, product quality and reliability, product features, product support and reputation.

*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. This product line encompasses the Greenlee, Greenlee Communications, Greenlee Utility, HD Electric, Klauke, Sherman+Reilly and Endura businesses and brands. Their products are used principally in the construction, maintenance, telecommunications, data communications, electrical, utility and plumbing industries, and are distributed through a global network of sales representatives and distributors, as well as through direct sales to home improvement retailers and OEMs. The businesses have plant operations in five countries with almost half of their combined revenues 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. A substantial number of the new originations in our finance receivable portfolio are cross-border transactions for aircraft sold outside of the U.S. Finance receivables originated 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 2017, 2016 and 2015, our Finance group paid our Manufacturing group \$174 million, \$173 million and \$194 million, respectively, related to the sale of Textron-manufactured products to third parties that were financed by the Finance group.

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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 28 for information about the Finance segment's credit performance.

**Backlog**

Our backlog at the end of 2017 and 2016 is summarized below:

<i>(In millions)</i>	<b>December 30, 2017</b>	<b>December 31, 2016</b>
Bell	\$ 4,598	\$ 5,360
Textron Systems	1,406	1,841
Textron Aviation	1,180	1,041
Total backlog	\$ 7,184	\$ 8,242

Approximately 38% of our total backlog at December 30, 2017 represents orders that are not expected to be filled in 2018.

Backlog with the U.S. Government represented 58% of our total backlog at December 30, 2017 and excluded amounts where funding has not been formally appropriated. At December 30, 2017 and December 31, 2016, Bell's backlog included \$1.6 billion and \$1.7 billion, respectively, related to a multi-year contract with the U.S. Government for the purchase of V-22 tiltrotor aircraft.

For information regarding the impact of the new revenue recognition accounting standard on backlog, see Note 1 to the Consolidated Financial Statements on page 48 of this Annual Report on Form 10-K.

**U.S. Government Contracts**

In 2017, approximately 22% 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 47 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: A-2PATS; Able Aerospace Services; Able Preferred; Aeronautical Accessories; AAI; acAlert; Aerosonde; AirScout; Alterra; AH-1Z; Ambush; Arctic Cat; Ascent;

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AVCOAT; Baron; BattleHawk; Bearcat; Beechcraft; Beechcraft T-6; Bell; Bell Helicopter; Bell 505; BENDWORKS; BlackWorks McCauley; Bonanza; Cadillac Gage; CAP; Caravan; Caravan Amphibian; Caravan 675; Cessna; Cessna 350; Cessna 400; Cessna SkyCourier; 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; Customer Advantage Plans; CUSV; DataScout; Denali; Dixie Chopper; Dixie Chopper Stryker; Double Vision; Duct Dawg; Eclipse; El Tigre; ENFORCER; E-Z-GO; E-Z-GO EXPRESS; FAST-N-LATCH; FASTRAP; Firecat; Firefly; FOREVER WARRANTY; Fury; G3 Tugger; GatorEye; Gator Grips; GLOBAL MISSION SUPPORT; Gorilla; Grand Caravan; Greenlee; H-1; HAULER; HDE; Hawker; Hemisphere; Huey; Huey II; iCommand; iPress; IE2; Instinct; Integrated Command Suite; INTELLIBRAKE; INTELLI-CRIMP; Jacobsen; Jacobsen HoverKing; Jet Ranger X; Kautex; King Air; King Air C90GTx; King Air 250; King Air 350; Kiowa Warrior; Klauke; LF; LOOKOUT; Lycoming; Lynx; M1117 ASV; MADE FOR THE TRADE; McCauley; Mechtronix; MicroObserver; Millenworks; Mission Critical Support (MCS); MISSIONLINK; Motorfist; MudPro; Mustang; Next Generation Carbon Canister; Next Generation Fuel System; NGCC; NGFS; NightWarden; Odyssey; ONSLAUGHT; Overwatch; Pantera; PDCue; Power Advantage; Premier; Pro-Fit; ProFlight; ProParts; ProPropeller; Prowler; Ransomes; REALCue; REALFeel; Recoil; Relentless; ROCONNECT; RT2; RXV; SABER; Safeaero; Safe-Zone; Scorpion; Shadow; Shadow Knight; Shadow Master; Sherman+Reilly; Skyhawk; Skyhawk SP; Skylane; SkyPLUS; Sno Pro; SnoCross; Sovereign; Speed Punch; Speedrack; Spider; Stampede; Stationair; ST 4X4; Super Cargomaster; Super Medium; SuperCobra; SYMTX; Synturian; TDCue; Team Arctic; Textron; Textron Airborne Solutions; Textron Aviation; Textron Defense Systems; Textron Financial Corporation; Textron GSE; Textron Marine & Land Systems; Textron Off Road; Textron Systems; Thundercat; TI-Metal; TRUESET; TRU Simulation + Training; TRUCKSTER; TTx; TUG; Turbo Skylane; Turbo Stationair; TRV; UH-1Y; Under Dawg; V-Watch; VALOR; Value-Driven MRO Solutions; V-22 Osprey; V-247; V-280; Watchman; Wildcat; Wolverine; ZR; 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 14 to the Consolidated Financial Statements on page 66 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 December 30, 2017, we had approximately 37,000 employees.

**Executive Officers of the Registrant**

The following table sets forth certain information concerning our executive officers as of February 15, 2018.



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<b>Name</b>	<b>Age</b>	<b>Current Position with Textron Inc.</b>
Scott C. Donnelly	56	Chairman, President and Chief Executive Officer
Frank T. Connor	58	Executive Vice President and Chief Financial Officer
Julie G. Duffy	52	Executive Vice President, Human Resources
E. Robert Lupone	58	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 leading 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.

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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 & Co. from 1998 to 2003. Mr. Connor joined the Corporate Finance Department of Goldman, Sachs & Co. in 1986 and became a Vice President in 1990 and a Managing Director in 1996.

Ms. Duffy was named Executive Vice President, Human Resources in July 2017. Ms. Duffy joined Textron in 1997 as a member of the corporate legal team and has since held positions of increasing responsibility within the Company's legal function, most recently serving as Vice President and Deputy General Counsel-Litigation, a position she had held since 2011. In that role she was responsible for managing the corporate litigation staff with primary oversight of litigation throughout Textron. She has also played an active role in developing, implementing and standardizing human resources policies across the Company and served as the senior legal advisor on employment and benefits issues.

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.

**Available Information**

We make available free of charge on our Internet Web site ([www.textron.com](http://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, likelihood, and other 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;

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- 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;
- Cybersecurity threats, including the potential misappropriation of assets or sensitive information, corruption of data or operational disruption;
- Difficulty or unanticipated expenses in connection with integrating acquired businesses;
- The risk that acquisitions do not perform as planned, including, for example, the risk that acquired businesses will not achieve revenues and profit projections; and
- The impact of changes in tax legislation (including the recently enacted Tax Cuts and Jobs Act).

**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 2017, we derived approximately 22% 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. Further uncertainty with respect to ongoing programs could also result in the event that the U.S. Government finances its operations through temporary funding measures such as continuing resolutions rather than full-year appropriations. If we incur costs in advance or 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 policies or 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.

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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 may need to finance our continued performance of the impacted contracts from our other resources on an interim basis. 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, all costs incurred under the contract plus potential liability for re-procurement costs in excess of the total original contract amount, less 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

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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 safeguard and restrict the use and dissemination of classified information, covered defense information, and the exportation of certain products and technical data. New laws, regulations or procurement requirements or changes to current ones (including, for example, regulations related to cybersecurity) can significantly increase our costs and risks and reduce our profitability. Our failure to comply with procurement regulations and requirements could allow the U.S. Government to suspend or debar us from receiving new contracts for a period of time, reduce the value of existing contracts, issue modifications to a contract, withhold cash on contract payments, and control and potentially prohibit the export of our products, services and associated materials, any of which could negatively impact our results of operations, financial condition or liquidity. 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.

***The use of multi-award contracts by the U.S. Government may increase competition and pricing pressure.***

The U.S. Government increasingly relies upon competitive contract award types, including indefinite-delivery, indefinite-quantity and multi-award contracts, which have the potential to create greater competition and increased pricing pressure, as well as to increase our cost by requiring that we submit multiple bids. In addition, multi-award contracts require that we make sustained efforts to obtain task orders and delivery orders under the contract. Further, the competitive bidding process is costly and demands managerial time to prepare bids and proposals for contracts that may not be awarded to us or may be split among competitors.

***Our profitability and cash flow may vary depending on the mix of our government contracts and our ability to control costs.***

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Under fixed-price contracts, generally 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, fixed-price contracts may require progress payments rather than performance based payments which can delay our ability to recover a significant amount of costs incurred on a contract and thus affect the timing of our cash flows. Fixed-price incentive-based fee arrangements provide that allowable costs incurred are reimbursable but are subject to a cost-share which could negatively impact our profitability. 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.

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***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, collateral value, geographic or industry concentrations, and the effect of general economic conditions. In addition, a substantial number 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,

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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 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. Future attacks 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, exposing us to liability or regulatory action. Such an incident also could require significant management attention and resources, increase costs, which may not be covered by insurance, and result in reputational damage, potentially adversely affecting 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 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, our investments in equipment or technology that we believe will enable us to obtain future service contracts for our U.S. Government or other customers may not result in contracts or revenues sufficient to offset such investment. 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 2017, 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.

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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,

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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 and climate change laws and regulations, including laws relating to greenhouse gas emissions, 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.

***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

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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 27%, 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 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 the U.S. and various non-U.S. jurisdictions, and our domestic and international tax liabilities are subject to the location 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 in the amount of earnings indefinitely reinvested offshore, 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.

The Tax Cuts and Jobs Act (the Act ) was enacted on December 22, 2017 and significantly changed U.S. income tax law. We have made provisional estimates of the impact of the Act on the remeasurement of our net deferred tax assets and the one-time transition tax in 2017. However, the financial reporting effects of the Act are complex and are subject to change as guidance interpreting the Act is issued. The effect of such guidance, as well as any additional tax reform legislation in the United States or elsewhere, could adversely affect our effective tax rate, have a material impact on the value of our deferred tax assets or increase our future U.S. tax expense.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

On December 30, 2017, we operated a total of 63 plants located throughout the U.S. and 52 plants outside the U.S. We own 61 plants and lease the remainder for a total manufacturing space of approximately 24.6 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.

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**Item 3. Legal Proceedings**

As previously reported in Textron's Annual Report on Form 10-K for the fiscal year ended December 31, 2016, on February 7, 2012, a lawsuit was filed in the United States Bankruptcy Court, Northern District of Ohio, Eastern Division (Akron) by Brian A. Bash, Chapter 7 Trustee for Fair Finance Company against TFC, Fortress Credit Corp. and Fair Facility I, LLC. TFC provided a revolving line of credit of up to \$17.5 million to Fair Finance Company from 2002 through 2007. The complaint alleges numerous counts against TFC, as Fair Finance Company's working capital lender, including receipt of fraudulent transfers and assisting in fraud perpetrated on Fair Finance investors. The Trustee seeks avoidance and recovery of alleged fraudulent transfers in the amount of \$316 million as well as damages of \$223 million on the other claims. The Trustee also seeks trebled damages on all claims under Ohio law. On November 9, 2012, the Court dismissed all claims against TFC. The trustee appealed, and on August 23, 2016, the 6th Circuit Court of Appeals reversed the dismissal in part and remanded certain claims back to the trial court. We are vigorously defending this lawsuit.

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.

**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 December 30, 2017, there were approximately 8,800 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:

2017			2016		
High	Low	Dividends per Share	High	Low	Dividends per Share



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First quarter	\$	50.93\$	43.66\$	0.02\$	41.74\$	30.69\$	0.02
Second quarter		48.67	45.00	0.02	40.61		