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.

Index to Annual Report on Form 10-K

For the Fiscal Year Ended January 2, 2016

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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 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 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 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

					% Change	
(Dollars in millions)		**2015**	**2014**	**2013**	**2015**	**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**	**% Change 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

					% Change	
(Dollars in millions)		**2015**	**2014**	**2013**	**2015**	**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	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	