TEXTRON INC
Form 10-K
February 14, 2014

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 December 28, 2013

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 June 28, 2013 was approximately $7.3 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 1, 2014, 282,500,851 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 23, 2014.

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 32,000 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: Cessna, Bell, Textron Systems and Industrial, which represent our manufacturing businesses, and Finance, which represents our finance business. A description of the business of each of our segments is set forth below. Our business segments include operations that are unincorporated divisions of Textron Inc. and others that are separately incorporated subsidiaries. Financial information by business segment and geographic area appears in Note 15 to the Consolidated Financial Statements on pages 75 through 76 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 37 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.

Cessna Segment

Cessna is the world s leading general aviation company based on unit sales with two principal lines of business: aircraft sales and aftermarket services. Aircraft sales include Citation jets, Caravan single-engine utility turboprops and single-engine utility and high-performance piston aircraft. Aftermarket services include parts, maintenance, inspection and repair services. Revenues in the Cessna segment accounted for approximately 23%, 25% and 26% of our total revenues in 2013, 2012 and 2011, respectively. Revenues for Cessna s principal lines of business were as follows:

(In millions)	**2013**	**2012**	**2011**
Aircraft sales	$ 1,868	$ 2,318	$ 2,263
Aftermarket	916	793	727
	$ 2,784	$ 3,111	$ 2,990

The family of jets currently produced by Cessna includes the Mustang, Citation M2, Citation CJ2+, Citation CJ3, Citation CJ4, Citation XLS+ and the new Citation Sovereign+. The new Citation X+, recently verified by the FAA as the fastest civilian jet in the world, is expected to be certified in early 2014. In addition, Cessna is developing the Citation Latitude, a midsize business jet scheduled for first flight in 2014 and expected to enter into service in 2015, as well as the Citation Longitude, a super midsize business jet expected to enter into service in 2017.

The Cessna Caravan is the world s best-selling utility turboprop. Caravans are used in the United States primarily for overnight express package shipments and for personal transportation. International uses of Caravans include air taxi service, humanitarian flights, tourism and freight transport. Cessna also offers a single-engine piston product line that includes the Skyhawk SP, Stationair and the new high performance TTx which we began delivering during 2013. The Turbo Skylane JT-A, Cessna s first Jet-A fueled piston aircraft, is expected to be certified and to begin delivering in 2014.

The Citation family of aircraft currently is supported by 15 Citation Service Centers owned or operated by Cessna, two of which are co-located with Bell Helicopter, along with authorized independent service stations and centers located in more than 25 countries throughout the world. Cessna-owned Service Centers provide customers with 24-hour service and maintenance. Cessna also provides around-the-clock parts support for Citation aircraft. Cessna offers an array of service options for Citation aircraft, known as ServiceDirect®, which delivers service capabilities directly to customer locations with a Mobile Service Unit fleet of 22 vehicles in the United States, Canada and Europe. Cessna Caravan and single-engine piston customers receive product support through independently owned service stations and around-the-clock parts support through Cessna.

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

Bell Segment

Bell Helicopter is one of the leading suppliers of military and commercial helicopters, tiltrotor aircraft, and related spare parts and services in the world. Revenues for Bell accounted for approximately 37%, 35% and 31% of our total revenues in 2013, 2012 and 2011, respectively. Revenues by Bell s principal lines of business were as follows:

(In millions)	2013	2012	2011
Military:			
V-22 Program	$ 1,755	$ 1,611	$ 1,380
Other Military	959	940	919
Commercial	1,797	1,723	1,226
	$ 4,511	$ 4,274	$ 3,525

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). During 2013, the Bell Boeing V-22 program was awarded a five-year contract for the production and delivery of an additional 99 V-22 tiltrotor aircraft from 2014 through 2019. The U.S. Marine Corps H-1 helicopter program includes a utility model and an advanced attack model, the UH-1Y and the AH-1Z, respectively, which have 84% parts commonality between them. Bell also continues to support the OH-58D Kiowa Warrior armed scout helicopter for the U.S. Army.

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, 407GX, 412EP/EPI, 429 and Huey II. Bell s 525 Relentless, its first super medium commercial helicopter, is currently in development with a projected first flight in 2014. In addition, during 2013 Bell announced the development of the Bell SLS, a high performance, short-light single helicopter, which will reenter Bell into the market it created with the introduction of the original JetRanger.

For both its military programs and its commercial products, Bell provides post-sale support and service for its installed base of approximately 13,000 helicopters through a network of 8 Bell-operated service centers, two of which are co-located with Cessna, 106 independent service centers located in 34 countries and four supply centers that are located worldwide. 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 and a variety of defense and aviation mission support products and services. Textron Systems is a supplier to the defense, aerospace, homeland security and general aviation markets, and represents approximately 14%, 14% and 17% of Textron s revenues in 2013, 2012 and 2011, respectively. While this segment sells most of its products to U.S. Government customers, it also sells products 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)	**2013**	**2012**	**2011**
Unmanned Aircraft Systems	$ 666	$ 694	$ 701
Marine and Land Systems	392	443	519
Weapons and Sensors	311	285	298
Mission Support and Other	296	315	354
	$ 1,665	$ 1,737	$ 1,872

Unmanned Aircraft Systems

Unmanned Aircraft Systems (UAS) consists of the AAI UAS and AAI Logistics & Technical Services businesses. AAI UAS has designed, manufactured and fielded combat-proven unmanned aircraft systems for more than 25 years, including the U.S. Army s premier tactical UAS, the Shadow. AAI UAS s unmanned aircraft and interoperable command and control technologies provide critical situational awareness and actionable intelligence for users worldwide. AAI Logistics & Technical Services provides logistical support for various unmanned aircraft systems as well as training and supply chain services to government and commercial customers worldwide.

Marine and Land Systems

The Marine and Land Systems business is operated as Textron Marine & Land Systems (TMLS). TMLS is a world leader in the design, production and support of armored vehicles, turrets and related subsystems as well as advanced marine craft. TMLS 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 air cushion vehicle.

Weapons and Sensors

The Weapons and Sensors business is operated as Textron Defense Systems (TDS). This business consists of state-of-the-art smart weapons; airborne and ground-based sensors and surveillance systems; and protection systems for the defense, aerospace and homeland security industries. TDS primarily sells its products to international allies through foreign military sales.

Mission Support and Other

Mission Support and Other includes three businesses: AAI Test & Training, Lycoming and Overwatch. AAI Test & Training provides high technology test equipment and electronic warfare test and training solutions. Lycoming specializes in the engineering, manufacture, service and support of piston aircraft engines for the general aviation and remotely piloted aircraft markets. Overwatch, operated as Overwatch Geospatial Solutions and Overwatch Intelligence Solutions, provides intelligence software solutions for U.S. and international defense, intelligence and law enforcement communities.

In December 2013, we acquired two flight simulation and aircraft training product companies, Mechtronix, Inc. and OPINICUS Corporation. We intend to combine these businesses with our existing training and simulation business, currently included in the UAS product line, which serves the military aircraft market, to form Textron Simulation & Training Systems. This business designs, develops, installs and provides maintenance of advanced full flight simulators for both rotary- and fixed-wing aircraft and designs, markets and supports aviation training products and related services for airlines, aircraft OEMs, flight training centers and training organizations worldwide.

Industrial Segment

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

(In millions)		**2013**		**2012**		**2011**
Fuel Systems and Functional Components	$	1,853	$	1,842	$	1,823
Golf, Turf Care and Light Transportation Vehicles		713		660		560

Powered Tools, Testing and Measurement Equipment		446		398		402
	$	3,012	$	2,900	$	2,785

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. In addition, Kautex produces cast iron engine camshafts in North America. From facilities in Germany and Poland, Kautex develops and produces plastic bottles and containers for food, household, laboratory and industrial uses. Revenues of Kautex accounted for approximately 15%, 15% and 16% of our total revenues in 2013, 2012 and 2011, respectively.

Our automotive products have several major competitors worldwide, some of which are affiliated with the original equipment manufacturers 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.

Golf, Turf Care and Light Transportation Vehicles

Our Golf, Turf Care and Light Transportation Vehicles product line includes the products designed, manufactured and sold by our E-Z-GO and Jacobsen business units.

E-Z-GO designs, manufactures and sells golf cars, off-road utility vehicles and light transportation vehicles under the E-Z-GO, Cushman and Bad Boy Buggies brand names. Although E-Z-GO is best known for its electric-vehicle technology, it also manufactures and sells models powered by internal combustion engines. E-Z-GO s diversified customer base includes golf courses and resorts, government agencies and municipalities, consumers, and commercial and industrial users such as factories, warehouses, airports and educational and corporate campuses. Sales are made through a combination of factory direct resources and a network of independent distributors and dealers worldwide. E-Z-GO has two major competitors for golf cars and several other competitors for off-road and light transportation vehicles. 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 and Cushman. Jacobsen s customers include golf courses, resort communities, sporting venues and municipalities. 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.

Powered Tools, Testing and Measurement Equipment

Our Greenlee business unit designs and manufactures powered equipment, electrical test and measurement instruments, mechanical and hydraulic tools, cable connectors, and fiber optic assemblies under the Greenlee, Klauke, Paladin Tools and Tempo brand names. These products are used principally in the construction, maintenance, telecommunications, data communications, utility and plumbing industries. During 2013, our Greenlee business acquired Sherman & Reilly, Inc., a manufacturer of underground and aerial transmission and distribution products, and HD Electric Company, a designer and manufacturer of power utility products. Greenlee distributes its products through a global network of sales representatives and distributors and also sells its products directly to home improvement retailers and original equipment manufacturers. Through joint ventures in North America and China, Greenlee also sells its products to the plumbing, industrial manufacturing and related industries. Greenlee faces 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 Cessna aircraft and Bell helicopters as well as pre-owned Cessna aircraft and Bell helicopters on a limited basis. 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 2013, 2012 and 2011, our Finance group paid our Manufacturing group $248 million, $309 million and $284 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 28 for information about the Finance segment s credit performance.

Backlog

Our backlog at the end of 2013 and 2012 is summarized below:

(In millions)	December 28, 2013	December 29, 2012
U.S. Government:		
Bell	$ 5,509	$ 6,382
Textron Systems	1,905	2,037
Total U.S. Government backlog	7,414	8,419
Commercial:		
Bell	941	1,087
Cessna	1,018	1,062
Textron Systems	898	882
Industrial	2	13
Total commercial backlog	2,859	3,044
Total	$ 10,273	$ 11,463

Approximately 43% of our total backlog at December 28, 2013 represents orders that are not expected to be filled in 2014. Orders from Cessna customers, which cover a wide spectrum of industries and individuals worldwide, are included in backlog when the customer enters into a definitive purchase agreement and the initial customer deposit is received. We work with our customers to provide estimated delivery dates, which may be adjusted based on customer needs or our production schedule, but do not establish definitive delivery dates until approximately six months before expected delivery. There is considerable uncertainty as to when or whether backlog will convert to revenues as the conversion depends on production capacity, customer needs and credit availability; these factors also may be impacted by the economy and public perceptions of private corporate jet usage. While backlog is an indicator of future revenues, we cannot reasonably estimate the year each order in backlog ultimately will result in revenues and cash flows. Orders remain in backlog until the aircraft is delivered or upon cancellation by the customer. Upon cancellation, deposits are used to defray costs, including remarketing fees, cost to reconfigure the aircraft and other costs incurred as a result of the cancellation. Remaining deposits, if any, may be retained or refunded at our discretion.

Backlog with the U.S. Government in the above table includes only funded amounts as the U.S. Government is obligated only up to the amount of funding formally appropriated for a contract. Bell s backlog includes $2.7 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 2013, approximately 30% of our consolidated revenues were generated by or resulted from contracts with the U.S. Government. 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 53 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; Bad Boy Buggies; BattleHawk; Bell; Bell Helicopter; Bravo; Cadillac Gage; Caravan; Caravan Amphibian; Caravan 675; Cessna; Cessna 350; Cessna 400; Cessna Corvalis TTX; Cessna Turbo Skylane JT-A; Citation; CITATION ALPINE EDITION; CitationAir; CitationAir Jetcard; Citation Encore+; Citation Latitude; Citation Longitude; Citation M2; Citation Sovereign; Citation TEN; Citation X; Citation XLS+; CJ1+; CJ2+; CJ3; CJ4; Clairity; CLAW; Commando; Corvalis; Cushman; Eclipse; Excel; Extreme; Extreme Ti-METAL; E-Z-GO; Gator Eye; Gator Grips; Grand Caravan; Greenlee; H-1; HDE; Huey; Huey II; iCommand; IE2; Instinct; Integrated Command Suite; Jacobsen; Kautex; Kiowa Warrior; Klauke; LF; Lycoming; M1117 ASV; McCauley; Mechtronix; Millenworks; Mustang; Next Generation Fuel System; NGFS; Odyssey; On a Mission; OPINICUS; Overwatch; PDCue; Power Advantage; Pro-Fit; ProParts; Ransomes; REALCue; REALFeel; Recoil; Relentless; Rothenberger LLC; RT2; RXV; Sensor Fuzed Weapon; ServiceDirect; Shadow; Shadow Knight; Shadow Master; SkyBOOKS; Skycatcher; Skyhawk; Skyhawk SP; Skylane; SkyPLUS; Sovereign; Speed Punch; Spider; Stationair; ST 4X4; Super Cargomaster; Super Medium; SuperCobra; SYMTX; TDCue; Textron; Textron Defense Systems; Textron Financial Corporation; Textron Marine & Land Systems; Textron Systems; TRUESET; Turbo Skylane; Turbo Stationair; UH-1Y; VALOR; V-22 Osprey; V-280; 2FIVE; 206; 407; 407GT; 407GX; 412, 429, 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 74 of this Annual Report on Form 10-K.

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

Employees

At December 28, 2013, we had approximately 32,000 employees.

Executive Officers of the Registrant

The following table sets forth certain information concerning our executive officers as of February 14, 2014.

Name	Age	Current Position with Textron Inc.
Scott C. Donnelly	52	Chairman, President and Chief Executive Officer
Frank T. Connor	54	Executive Vice President and Chief Financial Officer

Cheryl H. Johnson	53	Executive Vice President, Human Resources
E. Robert Lupone	54	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.

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;

- Increases in pension expense or employee and retiree medical benefits;

- Continued demand softness or volatility in the markets in which we do business;

- The inability to complete announced acquisitions;

- Difficulty or unanticipated expenses in connection with integrating acquired businesses; and

- The risk that anticipated synergies and opportunities as a result of acquisitions will not be realized or the risk that acquisitions do not perform as planned, including, for example, the risk that acquired businesses will not achieve revenue projections.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Developing new products and technologies entails significant risks and uncertainties.

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

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

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

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

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

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

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

We are subject to legal proceedings and other claims.

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

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

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

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

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

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

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

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

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

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

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

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

We may be unable to effectively mitigate pricing pressures.

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

On December 28, 2013, we operated a total of 52 plants located throughout the U.S. and 52 plants outside the U.S. We own 53 plants and lease the remainder for a total manufacturing space of approximately 21.1 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, 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

As previously reported in Textron s Annual Report on Form 10-K for the fiscal year ended January 2, 2010, on August 21, 2009, a purported class action lawsuit was filed in the United States District Court in Rhode Island by Dianne Leach, an alleged participant in the Textron Savings Plan. Plaintiffs alleged that the company and certain of its present and former employees, officers and directors had violated the United States Employee Retirement Income Security Act (ERISA) by imprudently permitting participants in the Textron Savings Plan to invest in Textron common stock. The complaints sought equitable relief and unspecified compensatory damages. As reported in Textron s Annual Report on Form 10-K for the fiscal year ended December 29, 2012, on December 13, 2012, as a result of a mediation process overseen by an independent mediator, the parties reached an agreement in principle, subject to settlement documentation and court approval, to settle the plaintiffs claims for an immaterial amount. On August 21, 2013, the Court entered an order preliminarily approving the settlement, certifying a settlement class, and approving the form and manner of class notice. On February 10, 2014, the Court entered an order giving final approval of the settlement and final judgment in the case. Neither Textron nor any of the other defendants in the settlement admitted any wrongdoing with respect to the allegations in the case.

We also are subject to other 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.

15

PART II

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

The principal market on which our common stock is traded is the New York Stock Exchange under the symbol TXT. At December 28, 2013, there were approximately 11,500 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:

	2013			2012		
	High	Low	Dividends per Share	High	Low	Dividends per Share
First quarter	$ 31.30	$ 23.94	$ 0.02	$ 28.29	$ 18.37	$ 0.02
Second quarter	30.22	24.87	0.02	29.18	21.97	0.02
Third quarter	29.81	25.36	0.02	28.80	22.15	0.02
Fourth quarter	37.43	26.17	0.02	26.75	22.84	0.02

Issuer Repurchases of Equity Securities

On January 23, 2013, the company announced the adoption of a new plan authorizing the repurchase of up to 25 million shares of Textron common stock. This plan has no expiration date. There were no shares purchased under the plan during 2013.

On February 5, 2014, we entered into an accelerated share repurchase agreement (ASR) with a counterparty to repurchase an aggregate of 4.3 million shares of our outstanding common stock from the counterparty for $150 million. The ASR is scheduled to expire in December 2014. Upon final settlement of the ASR, we may receive additional shares or pay additional cash or shares, at our option, based on the daily volume weighted average market price of our common stock over the course of a calculation period, less a discount.

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, 2008 with the Standard & Poor s (S&P) 500 Stock Index, the S&P 500 Aerospace & Defense (A&D) Index and the S&P Industrial Conglomerates (IC) Index. We are included in both the S&P 500 and the S&P IC indices. The values calculated assume dividend reinvestment.

Item 6. Selected Financial Data

(*Dollars in millions, except per share amounts*)		**2013**	**2012**	**2011**	**2010**	**2009**
Revenues						
Cessna	$	2,784$	3,111$	2,990$	2,563$	3,320
Bell		4,511	4,274	3,525	3,241	2,842
Textron Systems		1,665	1,737	1,872	1,979	1,899
Industrial		3,012	2,900	2,785	2,524	2,078
Finance		132	215	103	218	361
Total revenues	$	12,104$	12,237$	11,275$	10,525$	10,500
Segment profit						
Cessna	$	(48)$	82$	60$	(29)$	198
Bell		573	639	521	427	304
Textron Systems		147	132	141	230	240
Industrial		242	215	202	162	27
Finance (a)		49	64	(333)	(237)	(294)
Total segment profit		963	1,132	591	553	475
Special charges (b)					(190)	(317)
Corporate expenses and other, net		(166)	(148)	(114)	(137)	(164)
Interest expense, net for Manufacturing group		(123)	(143)	(140)	(140)	(143)
Income tax (expense) benefit		(176)	(260)	(95)	6	76
Income (loss) from continuing operations	$	498$	581$	242$	92$	(73)
Per share of common stock						
Income (loss) from continuing operations basic	$	1.78$	2.07$	0.87$	0.33$	(0.28)
Income (loss) from continuing operations diluted (c)	$	1.75$	1.97$	0.79$	0.30$	(0.28)
Dividends declared	$	0.08$	0.08$	0.08$	0.08$	0.08
Book value at year-end	$	15.54$	11.03$	9.84$	10.78$	10.38
Common stock price: High	$	37.43$	29.18$	28.87$	25.30$	21.00
Low	$	23.94$	18.37$	14.66$	15.88$	3.57
Year-end	$	36.61$	24.12$	18.49$	23.64$	18.81
Common shares outstanding *(In thousands)*						
Basic average		279,299	280,182	277,684	274,452	262,923
Diluted average (c)		284,428	294,663	307,255	302,555	262,923
Year-end		282,059	271,263	278,873	275,739	272,272
Financial position						
Total assets	$	12,944$	13,033$	13,615$	15,282$	18,940
Manufacturing group debt	$	1,931$	2,301$	2,459$	2,302$	3,584
Finance group debt	$	1,256$	1,686$	1,974$	3,660$	5,667
Shareholders equity	$	4,384$	2,991$	2,745$	2,972$	2,826
Manufacturing group debt-to-capital (net of cash)		15%	24%	37%	32%	39%
Manufacturing group debt-to-capital		31%	44%	47%	44%	56%
Investment data						
Capital expenditures	$	444$	480$	423$	270$	238
Depreciation	$	349$	336$	343$	334$	344

(a) For 2011, segment profit included 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.

(b) Special charges include restructuring charges of $99 million and $237 million in 2010 and 2009, respectively, primarily related to severance and asset impairment charges. In 2010, special charges also include a $91 million non-cash pre-tax charge to reclassify a foreign exchange loss from equity to the income statement as a result of substantially liquidating a Finance segment entity. In 2009, special charges include a goodwill impairment charge of $80 million in the Industrial segment.

(c) For 2009, the potential dilutive effect of stock options, restricted stock units and the shares that could have been issued upon the conversion of our convertible notes and upon the exercise of the related warrants was excluded from the computation of diluted weighted-average shares outstanding as the shares would have an anti-dilutive effect on the loss from continuing operations.

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

Overview and Consolidated Results of Operations

For Textron, 2013 was an important year with significant new product introductions, strategic acquisitions and investments in the future of our businesses. During 2013, we accomplished the following:

- Invested $651 million in research and development costs, a 12% increase over the prior year, demonstrating our commitment to expanding our current product lines across all of our businesses. As a result, we brought new products to market in many of our businesses, including the certification of two new models of Cessna aircraft, the Citation M2 and the Sovereign+ jet.

- Acquired six companies, including two flight simulation and aircraft training product companies for the Textron Systems segment, two companies to augment our Greenlee business in the Industrial segment and two service centers at Cessna for an aggregate cash payment of $196 million.

- Made $204 million in contributions to our pension plans and ended the year with an unfunded pension plan liability of $199 million, compared to $1.3 billion at the end of 2012.

- Reduced our debt-to-capital, net of cash ratio to 15% from 24% in the prior year, in part due to the maturity of our convertible senior notes and the settlement of the related call option and warrants.

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 28.

Revenues

(Dollars in millions)		**2013**	**2012**	**2011**
Revenues	$	12,104$	12,237$	11,275
% change compared with prior period		*(1)%*	*9%*	

Revenues decreased $133 million, 1%, in 2013, compared with 2012, as revenue decreases in the Cessna, Finance, and Textron Systems segments were partially offset by higher revenues in the Bell and Industrial segments. The net revenue decrease included the following factors:

- Lower Cessna revenues of $327 million, primarily due to lower Citation jet volume of $384 million and CitationAir volume of $114 million, partially offset by higher aftermarket volume of $65 million and higher pre-owned aircraft volume of $53 million.

- Lower Finance revenues of $83 million, primarily attributable to an unfavorable impact of $46 million from lower average finance receivables and a decrease of $25 million in revenues related to the resolution of a Timeshare account in 2012.

- Lower Textron Systems revenues of $72 million, largely due to lower volume of $51 million in the Marine & Land product line and lower volume of $28 million in the UAS product line.

- Higher Bell revenues of $237 million, largely due to higher volume of $163 million in our military programs, primarily reflecting higher V-22 deliveries and aftermarket volume, and $74 million of higher commercial revenues, largely due to higher aircraft volume.

- Higher Industrial segment revenues of $112 million, primarily due to higher volume of $58 million and the impact of acquisitions of $46 million.

Revenues increased $962 million, 9%, in 2012, compared with 2011, as increases in the Bell, Cessna, Industrial and Finance segments were partially offset by a reduction in the Textron Systems segment. The net revenue increase included the following factors:

- Higher Bell revenues of $749 million, primarily due to higher commercial aircraft volume of $476 million and an increase in V-22 program volume of $231 million, largely due to higher deliveries.

- Higher Cessna revenues of $121 million, primarily due to higher pre-owned aircraft volume of $68 million and Citation jet revenues of $57 million, reflecting a change in mix of jets sold during the period.

- Increased Industrial segment revenues of $115 million, primarily due to higher volume of $171 million, primarily reflecting higher market demand in the Fuel Systems and Functional Components and Golf, Turf Care and Light

Transportation Vehicles product lines, partially offset by an unfavorable foreign exchange impact of $80 million, primarily related to the weakening of the euro.

- Higher Finance revenues of $112 million as described more fully in the Segment Analysis below.

- Lower Textron Systems revenues of $135 million, primarily due to lower volume across all product lines.

Cost of Sales and Selling and Administrative Expense

(Dollars in millions)		**2013**	**2012**	**2011**
Operating expenses	$	11,257$	11,184$	10,503
Cost of sales		10,131	10,019	9,308
% change compared with prior period		*1%*	*8%*	
Gross margin as a percentage of Manufacturing revenues		*15.4%*	*16.7%*	*16.7%*
Selling and administrative expenses		1,126	1,165$	1,195
% change compared with prior period		*(3)%*	*(3)%*	

Manufacturing cost of sales and selling and administrative expenses together comprise our operating expenses. Changes in operating expenses are more fully discussed in our Segment Analysis below.

Cost of sales as a percentage of manufacturing revenues was 84.6% in 2013, and 83.3% in both 2012 and 2011.

Consolidated manufacturing cost of sales increased $112 million, 1%, in 2013, compared with 2012, primarily due to higher sales volume at Bell and the impact from businesses acquired in 2013, partially offset by lower sales at Cessna and Textron Systems. In 2013, gross margin as a percentage of manufacturing revenues decreased 130 basis points primarily due to unfavorable performance at Bell, largely due to manufacturing inefficiencies associated with labor disruptions resulting from negotiations with bargained employees and with the implementation of a new enterprise resource planning system in the first quarter of 2013, as well as lower Citation jet and CitiationAir volume at Cessna.

Selling and administrative expenses decreased $39 million, 3%, in 2013 compared with 2012, largely due to a reduction in administrative expenses of $26 million and lower provision for loan losses of $20 million at the Finance segment, both primarily associated with the non-captive business. Selling and administrative expense was also impacted by $28 million in severance costs incurred in 2013 at Cessna, which were largely offset by a $27 million charge from an unfavorable arbitration award incurred in 2012 at Cessna.

In 2012, consolidated manufacturing cost of sales increased $711 million, 8%, compared with 2011, principally due to higher net sales volume. Cost of sales was reduced by $65 million in 2012 from foreign exchange fluctuations, primarily in the Industrial segment due to the weakening of the euro. In addition, cost of sales included $37 million in charges related to our new UAS fee-for-service contracts at Textron Systems, which were offset by the impact of 2011 charges at Textron Systems of $60 million related to the impairment of intangible assets and severance costs. Selling and administrative expense decreased $30 million, 3%, in 2012, compared with 2011. The decrease was largely driven by lower operating expenses of $56 million at the Finance segment primarily associated with the exit of the non-captive business, partially offset by a $27 million charge at Cessna from an unfavorable arbitration award described more fully in the Segment Analysis below.

Interest Expense

(Dollars in millions)	**2013**	**2012**	**2011**
Interest expense	$ 173	$ 212	$ 246
% change compared with prior period	*(18)%*	*(14)%*	

Interest expense on the Consolidated Statement 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 $39 million, 18%, in 2013, compared with 2012, and $34 million, 14%, in 2012 compared with 2011, primarily due to lower average debt outstanding.

Valuation Allowance on Transfer of Golf Mortgage Portfolio to Held for Sale

In the fourth quarter of 2011, we determined that we no longer had the intent to hold the remaining Golf Mortgage portfolio for investment for the foreseeable future, and, accordingly, transferred $458 million of the remaining Golf Mortgage finance receivables, net of an $80 million allowance for loan losses, from the held for investment classification to the held for sale classification. These finance receivables were recorded at fair value at the time of the transfer, resulting in a $186 million charge recorded to Valuation allowance on transfer of Golf Mortgage portfolio to held for sale.

Other Losses, net

In 2011, other losses, net included $55 million in losses on the early extinguishment of a portion of our convertible notes which was largely offset by a $52 million gain from the collection on notes receivable in connection with the disposition of the Fluid & Power business in 2008.

Income Tax Expense

Our effective tax rate was 26.1% in 2013, 30.9% in 2012 and 28.1% in 2011, and generally differs from the U.S. federal statutory tax rate of 35% due to certain earnings from our operations in lower-tax jurisdictions throughout the world, as well as research credits. The jurisdictions with favorable tax rates that have the most significant effective tax rate impact in the periods presented include primarily Canada, Germany, 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. Our effective tax rate will fluctuate based on the mix of earnings from our U.S. and non-U.S. operations. In addition, the American Taxpayer Relief Act of 2012 was enacted on January 2, 2013 to retroactively reinstate and extend the Federal Research and Development Tax Credit from January 1, 2012 to December 31, 2013. As a result our income tax provision for 2013 includes a tax benefit that reduced the annual effective tax rate by approximately four percent. We estimate our full year annual effective tax rate in 2014 to be approximately 31.5%. 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: Cessna, 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 and certain corporate expenses. The measurement for the Finance segment includes interest income and expense along with intercompany interest expense.

In our discussion of comparative results for the Manufacturing group, changes in revenue 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 revenue 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. Acquisitions refer to the results generated from businesses that were acquired within the previous 12 months. 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. Cost 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 30% of our 2013 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.

Cessna

				% Change	
(Dollars in millions)	**2013**	**2012**	**2011**	**2013**	**2012**
Revenues	$ 2,784	$ 3,111	$ 2,990	(11)%	4%
Operating expenses	2,832	3,029	2,930	(7)%	3%
Segment (loss) profit	(48)	82	60		37%
Profit margin	(2)%	3%	2%		
Backlog	$ 1,018	$ 1,062	$ 1,889	(4)%	(44)%

Cessna Revenues and Operating Expenses

Factors contributing to the 2013 year-over-year revenue change are provided below:

(In millions)		**2013 versus 2012**
Volume	$	(373)
Acquisitions		33
Other		13
Total change	$	(327)

In 2013, Cessna s revenues decreased $327 million, 11%, compared with 2012, primarily due to lower Citation jet volume of $384 million and lower CitationAir volume of $114 million, largely related to the wind-down of our fractional share business. These decreases were partially offset by higher aftermarket volume of $65 million, largely due to increased service demand, and higher pre-owned aircraft volume of $53 million. We delivered 139 Citation jets in 2013, compared with 181 jets in 2012. During 2013, the portion of Cessna s revenues derived from aftermarket sales and services increased to 33% of Cessna s revenues, compared with 25% in the corresponding period of 2012, due to higher aftermarket volume and the impact of lower Citation jet revenues.

Cessna s operating expenses decreased $197 million, 7%, in 2013, compared with 2012, primarily due to lower sales volume as discussed above. The volume-related decrease in operating expenses was partially offset by $37 million of operating costs incurred by service centers acquired at the beginning of 2013 and $33 million of inflation, largely due to higher pension expense of $17 million.

Operating expenses in 2013 were impacted by $28 million in severance costs incurred during the first half of the year in connection with a voluntary separation program offered to qualifying salaried employees and a reduction of certain direct production positions due to an adjustment of our production schedule. Operating expenses in 2012 included a $27 million charge from an unfavorable arbitration award recorded in the fourth quarter.

Factors contributing to the 2012 year-over-year revenue change are provided below:

(In millions)		**2012 versus 2011**
Volume and mix	$	126
Other		(5)
Total change	$	121

Cessna delivered 181 Citation jets in 2012, compared with 183 jets in 2011, however revenues increased $121 million, 4%, in 2012, compared with 2011. The increase in revenues was primarily due to a $68 million impact from higher pre-owned aircraft volume and $57 million of higher Citation jet revenues reflecting a change in mix of new jets sold during the period. During 2012, the portion of Cessna s revenues derived from aftermarket sales and services represented 25% of Cessna s revenues, compared with 24% in the corresponding period of 2011.

Cessna s operating expenses increased by $99 million, 3%, in 2012, compared with 2011, primarily due to the following:

- $93 million in higher direct material costs, resulting from increased pre-owned aircraft sales volume and a change in the mix of jets sold during the period.

- $35 million in cost inflation, largely reflecting a $22 million favorable benefit recorded in 2011 related to the last-in, first-out (LIFO) method of accounting for inventories.

- $27 million charge recorded in the fourth quarter of 2012 due to an unfavorable award an arbitration panel entered against Cessna as a result of an alleged breach of a supply agreement.

These increases were partially offset by $33 million of cost reductions from improved factory efficiency and $24 million in lower engineering and development expenses.

Cessna Segment (Loss) Profit

Factors contributing to 2013 year-over-year segment (loss) profit change are provided below:

(In millions)		**2013 versus 2012**
Volume	$	(99)
Inflation, net of pricing		(21)
Other		(10)
Total change	$	(130)

Cessna s segment profit decreased $130 million in 2013, compared with 2012, primarily due to a $99 million impact from lower sales volume as described above and $21 million in inflation, net of pricing, largely due to higher pension expense of $17 million. Segment profit was also impacted by $28 million in severance costs incurred in 2013, largely offset by a $27 million charge from an unfavorable arbitration award incurred in 2012, as described above.

Factors contributing to 2012 year-over-year segment profit change are provided below:

(In millions)		**2012 versus 2011**
Volume and mix	$	53
Performance		12
Inflation, net of pricing		(43)
Total change	$	22

In 2012, Cessna s segment profit increased $22 million, 37%, compared with 2011, primarily due to the change in mix of Citation jets sold during the period. Improved performance included the following:

- $33 million in improved factory efficiency.
- $24 million in lower engineering and development expenses.
- $(27) million unfavorable arbitration award as described above.
- $(19) million of lower forfeiture income due to fewer order cancellations in 2012.

Inflation, net of pricing, included a $26 million unfavorable LIFO impact largely due to a $22 million LIFO benefit recorded in 2011.

Cessna Backlog

Cessna s backlog decreased $44 million, 4%, in 2013 and $827 million, 44%, in 2012. The decrease in backlog in 2012 was mainly attributable to deliveries in excess of new orders and canceled Citation jet orders.

Bell

				% Change	
(Dollars in millions)	**2013**	**2012**	**2011**	**2013**	**2012**
Revenues:					
V-22 program	$ 1,755	$ 1,611	$ 1,380	9%	17%
Other military	959	940	919	2%	2%
Commercial	1,797	1,723	1,226	4%	41%
Total revenues	4,511	4,274	3,525	6%	21%
Operating expenses	3,938	3,635	3,004	8%	21%
Segment profit	573	639	521	(10)%	23%
Profit margin	13%	15%	15%		
Backlog	$ 6,450	$ 7,469	$ 7,346	(14)%	2%

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. During the second quarter of 2013, we signed the second multi-year V-22 contract for production and delivery of 99 units beginning in late 2014 with options for 23 additional aircraft.

Bell Revenues and Operating Expenses

Factors contributing to the 2013 year-over-year revenue change are provided below:

(In millions)		**2013 versus 2012**
Volume	$	193
Other		44
Total change	$	237

Bell s revenues increased $237 million, 6% in 2013, compared with 2012, due to the following factors:

- $144 million increase in V-22 program volume largely due to higher aircraft deliveries, as we delivered 41 V-22 aircraft in 2013, compared with 39 aircraft in 2012. In addition, military aftermarket volume was higher by $35 million, reflecting increased support of fielded aircraft.

- $74 million increase in commercial revenues, largely due to higher aircraft volume, as we delivered 213 aircraft in 2013, compared to 188 aircraft in 2012. This increase was partially offset by lower commercial aftermarket revenue of $50 million, largely due to lower volume, which in part, resulted from the conversion to a new enterprise resource planning system in the first quarter of 2013.

- $19 million increase in other military volume, reflecting higher H-1 deliveries. We delivered 25 H-1 aircraft in 2013, compared with 24 H-1 aircraft in 2012.

Bell s operating expenses increased $303 million, 8%, in 2013, respectively, compared with 2012, largely due to higher volume as described above and $68 million in unfavorable performance, which included $27 million in lower favorable profit adjustments on its long-term contracts. The unfavorable performance was largely due to manufacturing inefficiencies associated with labor disruptions resulting from negotiations with bargained employees and with the implementation of a new enterprise resource planning system in the first quarter of 2013. On October 13, 2013, Bell reached a new five-year collective bargaining agreement with the United Automobile, Aerospace and Agricultural Implement Workers of America (UAW) and UAW Local 218 which represents these employees. The impact of these disruptions is expected to continue to depress Bell s margins in 2014 as the costs for inventories manufactured in 2013 are realized as products are delivered.

Factors contributing to the 2012 year-over-year revenue change are provided below:

(In millions)		**2012 versus 2011**
Volume	$	728
Other		21
Total change	$	749

Bell s revenues increased $749 million, 21%, in 2012, compared with 2011, primarily due to higher volume, which included the following factors:

- $476 million increase in commercial volume, largely related to higher deliveries reflecting our investment in new products and increased focus on commercial markets. Bell delivered 188 commercial aircraft in 2012, compared with 125 aircraft in 2011.

- $231 million increase in volume related to the V-22 program, primarily reflecting higher deliveries based on schedule requirements and higher revenues related to the support of fielded aircraft. Bell delivered 39 V-22 aircraft in 2012, compared with 34 deliveries in 2011.

- $21 million increase in other military volume resulting from higher deliveries and services rendered under several programs, partially offset by lower spares and aftermarket volume. Bell delivered 24 H-1 aircraft in 2012, compared with 25 aircraft in 2011.

Bell s operating expenses increased $631 million, 21%, in 2012, compared with 2011, primarily due to higher sales volume discussed above.

Bell Segment Profit

Factors contributing to 2013 year-over-year segment profit change are provided below:

(In millions)		2013 versus 2012
Performance	$	(68)
Volume and Mix		(10)
Other		12
Total change	$	(66)

Bell s segment profit decreased $66 million, 10%, in 2013, respectively, compared with 2012, primarily due to unfavorable performance discussed above. Segment profit was also impacted by an unfavorable mix of commercial aircraft deliveries.

Factors contributing to 2012 year-over-year segment profit change are provided below:

(In millions)		2012 versus 2011
Volume and mix	$	143
Performance		(18)
Other		(7)
Total change	$	118

Bell s segment profit increased $118 million, 23%, in 2012, compared with 2011, primarily due to the impact of higher volume in our commercial aircraft and military businesses as described above. Performance reflects higher net research and development expense in 2012 of $26 million due to the ramp-up of new product development and higher selling and administrative expenses largely due to our investment in business system improvement and upgrade activities, which were partially offset by favorable program performance in our military programs, reflecting improved manufacturing efficiencies.

Bell Backlog

Backlog decreased $1.0 billion, 14%, at Bell during 2013 primarily due to deliveries on the V-22 and H-1 programs that exceeded orders. In 2012, Bell s backlog increased $123 million, 2%, reflecting orders in excess of deliveries.

Textron Systems

							% Change	
(Dollars in millions)		2013		2012		2011	2013	2012
Revenues	$	1,665	$	1,737	$	1,872	(4)%	(7)%
Operating expenses		1,518		1,605		1,731	(5)%	(7)%
Segment profit		147		132		141	11%	(6)%
Profit margin		9%		8%		8%		
Backlog	$	2,803	$	2,919	$	1,337	(4)%	118%

Textron Systems Revenues and Operating Expenses

Factors contributing to the 2013 year-over-year revenue change are provided below:

(In millions)		**2013 versus 2012**
Volume	$	(76)
Other		4
Total change	$	(72)

Revenues at Textron Systems decreased $72 million, 4%, in 2013, compared with 2012, primarily due to lower volume in the Marine & Land product line of $51 million and in the UAS product line of $28 million.

Textron Systems   operating expenses decreased $87 million, 5%, in 2013, compared with 2012, primarily due to improved performance reflecting the favorable impact of lower profit adjustments, including $22 million in lower UAS fee-for-service program charges, along with cost reduction initiatives across most product lines Operating expenses were also impacted by the lower sales volume described above.

Factors contributing to the 2012 year-over-year revenue change are provided below:

(In millions)	**2012 versus 2011**
Volume	$ (141)
Other	6
Total change	$ (135)

Revenues at Textron Systems decreased $135 million, 7%, in 2012, compared with 2011, primarily due to lower volume in the Marine & Land product line of $76 million, lower volume in the Mission Support and Other product line of $45 million and lower volume in Weapons and Sensors of $13 million.

Textron Systems operating expenses decreased $126 million, 7%, in 2012, compared with 2011, primarily due to the lower volume. Operating expenses for 2012 included $37 million in charges discussed below related to the UAS fee-for-service program, which were offset by the impact of charges at Textron Systems of $60 million during 2011, related to the impairment of intangible assets and severance costs.

UAS Fee-For-Service Program

In 2012, we were awarded two indefinite delivery, indefinite quantity (IDIQ) contracts with separate U.S. Government customers for UAS fee-for-service activities. In the third quarter of 2012, we experienced start-up issues as we began deployment for the first of these contracts, the MEUAS II program, which required us to augment training procedures, add resources and adjust certain estimated costs. At that time, we took an $18 million charge reflecting our estimated loss on the awarded task orders under both contracts based on our deployment experience, which resulted in changes to certain assumptions, and also reflected higher subcontractor, up-front training and program management costs to support the ramp-up. In the fourth quarter of 2012, we experienced propulsion performance issues with our systems, and as a result, we were not able to perform within our previous cost estimates. Based on the issues we have encountered, we increased our estimate of the cost to complete the awarded task orders under both contracts through completion of those orders and recorded a $19 million unfavorable program profit adjustment in the fourth quarter of 2012.

In 2013, we recorded $15 million of charges for the UAS fee-for service program related to our estimate of costs to fulfill options that were exercised by the customer during the third quarter; these options extended the period of performance on the initial task orders under the contracts for one year. We continued to experience unacceptable quality from our engine supplier for this program and decided in the third quarter to transition the manufacture of the engine to our Lycoming business. We believe this change will allow us to improve performance.

Textron Systems Segment Profit

Factors contributing to 2013 year-over-year segment profit change are provided below:

(In millions)	**2013 versus 2012**
Performance	$ 58
Volume and mix	(33)
Other	(10)
Total change	$ 15

Segment profit at Textron Systems increased $15 million, 11% in 2013 compared with 2012, largely due to improved performance reflecting the favorable impact of lower profit adjustments, including $22 million in lower UAS fee-for-service program charges, along with cost reduction initiatives across most product lines. This improved performance was partially offset by the lower volume described above.

Factors contributing to 2012 year-over-year segment profit change are provided below:

(In millions)		**2012 versus 2011**
Volume and mix	$	(57)
Impairment charge in 2011		41
Performance		4
Other		3
Total change	$	(9)

Segment profit at Textron Systems decreased $9 million, 6%, in 2012, compared with 2011, reflecting the impact of lower volume described above and deliveries on lower margin contracts during the current period. The favorable performance reflects a charge in 2011 of $19 million primarily in severance costs related to workforce reductions, $9 million in lower amortization expense on intangible assets and $8 million in lower net research and development costs, partially offset by the $37 million in charges related to the UAS fee-for-service program described above.

Textron Systems Backlog

In 2013, Textron Systems backlog decreased $116 million, 4%, largely due to deliveries in excess of new orders. In 2012, Textron Systems backlog increased $1.6 billion, 118%, largely due to additional orders in the UAS and Marine & Land product lines, including the Canadian TAPV contract for $693 million.

Industrial

							% Change	
(Dollars in millions)		**2013**		**2012**		**2011**	**2013**	**2012**
Revenues:								
Fuel Systems and Functional Components	$	1,853	$	1,842	$	1,823	1%	1%
Other Industrial		1,159		1,058		962	10%	10%
Total revenues		3,012		2,900		2,785	4%	4%
Operating expenses		2,770		2,685		2,583	3%	4%
Segment profit		242		215		202	13%	6%
Profit margin		8%		7%		7%		

Industrial Revenues and Operating Expenses

Factors contributing to the 2013 year-over-year revenue change are provided below:

(In millions)		**2013 versus 2012**
Volume	$	58
Acquisitions		46
Other		8
Total change	$	112

Industrial segment revenues increased $112 million, 4%, in 2013, compared with 2012, largely due to higher volume of $58 million and the impact from newly acquired companies of $46 million within our Powered Tools, Testing and Measurement Equipment product line. Higher volume resulted from a $32 million increase in the Other Industrial product lines, mostly due to higher market demand in the Golf, Turf Care and Light Transportation Vehicle product line, and a $26 million increase in the Fuel Systems and Functional Components line, reflecting higher automotive industry demand in North America.

Operating expenses for the Industrial segment increased $85 million, 3%, in 2013, compared with 2012, largely due to higher volume and a $43 million impact from newly acquired companies. Operating expenses were also impacted by improved performance of $27 million associated with the Fuel Systems and Functional Components product line, which was partially offset by $16 million of inflation in this product line, reflecting higher compensation and material costs.

Factors contributing to the 2012 year-over-year revenue change are provided below:

(In millions)		**2012 versus 2011**
Volume	$	171
Foreign exchange		(80)
Other		24
Total change	$	115

Industrial segment revenues increased $115 million, 4%, in 2012, compared with 2011. Higher volume resulted from a $93 million increase in the Fuel Systems and Functional Components product line, reflecting higher automotive industry demand in North America, and a $78 million increase in the Other Industrial product lines, largely related to higher market demand in the Golf, Turf Care and Light Transportation Vehicles product line. The unfavorable foreign exchange impact was mostly related to the weakening of the euro, which primarily impacted the Fuel Systems and Functional Components product line.

Operating expenses for the Industrial segment increased $102 million, 4%, in 2012, compared with 2011, largely due to $130 million in higher direct material costs in support of higher sales volume. In 2012, operating expenses were also impacted by cost inflation of $44 million, primarily due to higher material and overhead costs, partially offset by lower costs due to a favorable foreign exchange impact of $70 million resulting from the weakening of the euro.

Industrial Segment Profit

Factors contributing to 2013 year-over-year segment profit change are provided below:

(In millions)		**2013 versus 2012**
Performance	$	39
Volume		9
Inflation, net of pricing		(22)
Other		1
Total change	$	27

Segment profit for the Industrial segment increased $27 million, 13%, in 2013, compared with 2012, primarily due to improved performance of which $27 million was associated with the Fuel Systems and Functional Components product line. The $22 million unfavorable impact from inflation, net of pricing, was primarily in the Fuel Systems and Functional Components product line, reflecting higher compensation and material costs.

Factors contributing to 2012 year-over-year segment profit change are provided below:

(In millions)		**2012 versus 2011**
Volume	$	31
Inflation, net of pricing		(17)
Other		(1)
Total change	$	13

Segment profit for the Industrial segment increased $13 million, 6%, in 2012, compared with 2011, primarily due to the impact from higher volume as described above, partially offset by cost inflation that exceeded related price increases.

Finance

(In millions)		2013		2012		2011
Revenues	$	132	$	215	$	103
Segment profit (loss)		49		64		(333)

Finance Revenues

Finance segment revenues decreased $83 million in 2013, compared with 2012, primarily attributable to an unfavorable impact of $46 million, attributable to lower average finance receivables of $834 million. Revenues during 2013 were also lower by $25 million due to the resolution of a Timeshare account that returned to accrual status in 2012.

Finance segment revenues increased $112 million in 2012 compared with 2011, primarily attributable to the following factors:

- $90 million increase related to the valuation of Golf Mortgage finance receivables held for sale. In 2012, we had $76 million in favorable valuation adjustments compared with unfavorable valuation adjustments of $14 million in 2011.
- $42 million of lower portfolio losses, net of gains, primarily associated with the Structured Capital and Timeshare portfolios.
- $25 million increase due to the resolution of one significant Timeshare account that returned to accrual status and was subsequently paid off during the third quarter of 2012.
- These increases were partially offset by a $61 million decrease attributable to lower average finance receivables of $1.2 billion.

Finance Segment Profit (Loss)

Finance segment profit decreased $15 million in 2013, compared with 2012, primarily resulting from the resolution of a Timeshare account in 2012 as discussed above, as well as an unfavorable impact of $25 million in net interest margin from lower average finance receivables. These decreases were partially offset by lower administrative expenses of $26 million and lower provision for loan losses of $20 million, largely related to the downsizing of the non-captive business.

Finance segment profit increased $397 million in 2012, compared with 2011, primarily due to changes in valuation adjustments, lower portfolio losses, net of gains, and the resolution of one significant Timeshare account discussed above, as well as lower administrative expense of $56 million, primarily associated with the exit of the non-captive business. In addition, we recorded a $186 million valuation allowance on the transfer of the Golf Mortgage portfolio from held for investment to the held for sale classification during the fourth quarter of 2011. These increases were partially offset by a $27 million decrease in net interest margin attributable to lower average finance receivables.

Finance Portfolio Quality

The following table reflects information about the Finance segment s credit performance related to finance receivables that are classified as held for investment.

(Dollars in millions)	**December 28, 2013**	**December 29, 2012**
Finance receivables	$ 1,483	$ 1,934
Nonaccrual finance receivables	105	143
Ratio of nonaccrual finance receivables to finance receivables	7.08%	7.39%
60+ days contractual delinquency	$ 80	$ 90
60+ days contractual delinquency as a percentage of finance receivables	5.39%	4.65%

Liquidity and Capital Resources

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

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

(In millions)	**December 28, 2013**	**December 29, 2012**
Manufacturing group		
Cash and equivalents	$ 1,163	$ 1,378
Debt	1,931	2,301
Shareholders equity	4,384	2,991
Capital (debt plus shareholders equity)	6,315	5,292
Net debt (net of cash and equivalents) to capital	15%	24%
Debt to capital	31%	44%
Finance group		
Cash and equivalents	$ 48	$ 35
Debt	1,256	1,686

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

On October 4, 2013, Textron entered into a senior unsecured revolving credit facility for an aggregate principal amount of $1.0 billion, of which up to $100 million is available for the issuance of letters of credit. This facility expires in October 2018. At December 28, 2013, there were no amounts borrowed against the facility, and there were $35 million of letters of credits issued against it.

We maintain an effective shelf registration statement filed with the Securities and Exchange Commission that allows us to issue an unlimited amount of public debt and other securities. On January 30, 2014, we issued $250 million in 3.65% notes due 2021 and $350 million in 4.30% notes due 2024 under this registration statement. We plan to use the net proceeds of the issuance of these notes to finance a portion of the acquisition of all outstanding equity interests in Beech Holdings, LLC, the parent of Beechcraft Corporation, which we have agreed to purchase for approximately $1.4 billion in cash. The transaction is expected to close during the first half of 2014, subject to customary closing conditions, including regulatory approvals. If the transaction is not completed, or the related merger agreement is terminated, on or before December 31, 2014, we will be required to redeem all outstanding 2021 notes at a redemption price equal to 101% of the principal amount thereof, plus accrued and unpaid interest.

On January 24, 2014, in order to finance the Beechcraft acquisition, we also entered into a five-year term loan with a syndicate of banks in the principal amount of $500 million which we intend to draw down upon the closing of the transaction.

Manufacturing Group Cash Flows

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

(In millions)	**2013**	**2012**	**2011**
Operating activities	$ 658	$ 958	$ 761
Investing activities	(624)	(476)	(423)
Financing activities	(240)	29	(360)

We generated $658 million in cash from operating activities in 2013 on $914 million in Manufacturing group segment profit and $470 million of net income. The $300 million decrease in cash flows from operating activities from 2012 was largely due to a $429 million impact related to working capital requirements and $64 million in lower income from continuing operations, which were partially offset by $211 million in lower contributions to our pension plans in 2013. The most significant change within working capital was a $230 million unfavorable impact resulting from net tax payments of $223 million in 2013, compared to net tax refunds of $7 million in 2012. In addition, we had $165 million in cash inflows related to changes in inventory levels, largely at Cessna, which was more than offset by $264 million of cash outflows from changes in accounts receivable and accounts payable. The change in inventory levels at Cessna was primarily related to lower pre-owned inventory, partially offset by higher inventory in support of new sales.

In 2012, we generated $958 million in cash from operating activities on $1.1 billion in Manufacturing group segment profit and $534 million of Manufacturing group net income. The 26% increase in cash flows from operating activities from 2011 was largely due to lower cash contributions of $237 million made to our pension plans in 2012. Within working capital, we had a $117 million reduction in cash resulting from an increase in pre-owned inventory in at Cessna primarily due to higher trade-in activities, which was largely offset by a reduction in net taxes paid.

Pension contributions were $194 million, $405 million and $642 million in 2013, 2012 and 2011, respectively.

Investing cash flows in 2013, 2012 and 2011 primarily included capital expenditures of $444 million, $480 million, and $423 million, respectively. Cash flows from investing activities also included $196 million of cash used in 2013 for acquisitions of four businesses within our Textron Systems and Industrial segments and two service centers in our Cessna segment.

In 2013, financing activities primarily consisted of the repayment of $528 million of outstanding debt, including the settlement of our convertible notes, which was partially offset by proceeds from a $150 million variable-rate term loan agreement. In 2012, we generated cash from financing activities, largely due to the receipt of $490 million from the Finance group in payment of its intergroup borrowing, partially offset by $272 million in share repurchases and $189 million in payments on our outstanding debt. In 2011, financing activities primarily consisted of $580 million in payments related to the purchase and cancellation of convertible notes and $175 million in intergroup financing for our Finance group, partially offset by $496 million in proceeds from the issuance of notes.

Dividends

Dividend payments to shareholders totaled $22 million, $17 million and $22 million in 2013, 2012 and 2011, respectively.

Share Repurchases

In the fourth quarter of 2012, under a 2007 share repurchase authorization, we repurchased 11.1 million shares of our common stock for a total cost of $272 million which fully utilized our available repurchase authorization. On January 23, 2013, our Board of Directors approved a new authorization program for 25 million shares under which we intend to purchase shares of common stock to offset the impact of dilution from share-based compensation plans beginning in 2014 and for opportunistic capital management purposes.

On February 5, 2014, we entered into an accelerated share repurchase agreement (ASR) with a counterparty to repurchase an aggregate of 4.3 million shares of our outstanding common stock from the counterparty for $150 million. The ASR is scheduled to expire in December 2014. Upon final settlement of the ASR, we may receive additional shares or pay additional cash or shares, at our option, based on the daily volume weighted average market price of our common stock over the course of a calculation period, less a discount.

Capital Contributions Paid To and Dividends Received From the Finance Group

Under a Support Agreement between Textron and TFC, Textron is required to maintain a controlling interest in TFC. The agreement also requires Textron to ensure that TFC maintains fixed charge coverage of no less than 125% and consolidated shareholder s equity of no less than $200 million. Cash contributions paid to TFC to maintain compliance with the Support Agreement and dividends paid by TFC to Textron Inc. are detailed below:

(In millions)	2013	2012	2011
Dividends paid by TFC to Textron	$ 175	$ 345	$ 179
Capital contributions paid to TFC under Support Agreement		(240)	(182)

During 2013, we also made a $1 million capital contribution to TFC to fund the repurchase of a portion of TFC s 6% Fixed-to-Floating Rate Junior Subordinated Notes.

Due to the nature of these contributions, we classify these contributions within cash flows used by operating activities for the Manufacturing group in the Consolidated Statements of Cash Flows. Capital contributions to support Finance group growth in the ongoing captive finance business are classified as cash flows from financing activities. The Finance group s net income (loss) is excluded from the Manufacturing group s cash flows, while dividends from the Finance group are included within cash flows from operating activities for the Manufacturing group as they represent a return on investment.

Finance Group Cash Flows

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

(In millions)	2013	2012	2011
Operating activities	$ 66	$ 5	$ 65
Investing activities	624	934	1,453
Financing activities	(677)	(918)	(1,536)

In 2013 and 2012, the Finance group s cash flows from operating activities were primarily impacted by changes in net taxes received/paid and the impact of earnings. Net tax refunds/(payments) were $49 million, $(43) million and $65 million in 2013, 2012 and 2011, respectively. Net tax payments in 2012 included a settlement related to the Internal Revenue Service s challenge of tax deductions claimed in prior years for certain leveraged lease transactions.

Cash flows from investing activities primarily included collections on finance receivables and proceeds from sales of finance receivables and other finance assets totaling $853 million in 2013, $1.3 billion in 2012 and $1.9 billion in 2011, partially offset by financial receivable originations of $271 million in 2013, $331 million in 2012 and $471 million in 2011.

Cash used in financing activities included principal payments on long-term debt of $743 million, $426 million and $756 million in 2013, 2012 and 2011, respectively. These cash outflows were partially offset by proceeds from long term debt of $298 million, $106 million and $430 million, respectively. In 2012, the Finance group also made cash payments totaling $493 million to the Manufacturing group related to intergroup borrowings. In 2011, the Finance group paid $1.4 billion against the outstanding balance on its bank line of credit.

Consolidated Cash Flows

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

(In millions)	**2013**	**2012**	**2011**
Operating activities	$ 813	$ 935	$ 1,068
Investing activities	(264)	378	843
Financing activities	(742)	(781)	(1,951)

Cash flows from operating activities decreased $122 million during 2013 as compared with 2012, largely due to a $133 million impact related to working capital requirements and lower earnings, which were partially offset by a $206 million impact of lower contributions to our pension plans in 2013. Significant changes within working capital included a $138 million unfavorable impact resulting from net taxes paid between the periods as net tax payments were $174 million and $36 million in 2013 and 2012, respectively, and $264 million of cash outflows related to changes in accounts receivable and accounts payable. These cash outflows were partially offset by $198 million of cash inflows related to changes in inventory levels, largely at Cessna, and a $141 million impact from lower captive finance receivables.

Cash flows from operating activities decreased during 2012 as compared with 2011, as higher earnings were offset by changes in working capital, which included lower net cash receipts from our captive financing activities of $140 million and an increase in pre-owned inventory in the Cessna segment largely due to higher trade-in activities, resulting in a cash reduction of $117 million. Our use of cash for working capital requirements was partially offset by $237 million in lower cash pension contributions made in 2012.

Cash flows from investing activities included capital expenditures of $444 million, $480 million, and $423 million in 2013, 2012 and 2011, respectively. Collections on finance receivables and proceeds from sales of finance receivables and other finance assets totaled $368 million in 2013, $848 million in 2012 and $1.4 billion in 2011. Cash flows from investing activities also included $196 million of cash used in 2013 for acquisitions of four businesses within our Textron Systems and Industrial segments and two service centers in our Cessna segment.

Financing activities primarily consisted of the repayment of outstanding long-term debt of $1.3 billion, $0.6 billion and $1.4 billion in 2013, 2012 and 2011, respectively, partially offset by proceeds from the issuance of long-term debt of $448 million, $106 million and $926 million, in 2013, 2012 and 2011, respectively. Cash used in financing activities also included $272 million of share repurchases in 2012 and repayments of $1.4 billion against the outstanding balance on our bank credit lines in 2011.

Captive Financing and Other Intercompany Transactions

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

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

(In millions)	**2013**	**2012**	**2011**
Reclassifications from investing activities:			
Finance receivable originations for Manufacturing group inventory sales	$ (248)	$ (309)	$ (284)
Cash received from customers and the sale of receivables	485	405	520
Other capital contributions made to Finance group			(60)
Other	27	(16)	11
Total reclassifications from investing activities	264	80	187
Reclassifications from financing activities:			

Capital contribution paid by Manufacturing group to Finance group	1	240	182
Dividends received by Manufacturing group from Finance group	(175)	(345)	(179)
Other capital contributions made to Finance group			60
Other	(1)	(3)	(8)
Total reclassifications from financing activities	(175)	(108)	55
Total reclassifications and adjustments to cash flow from operating activities	$ 89	$ (28)	$ 242

Contractual Obligations

Manufacturing Group

The following table summarizes the known contractual obligations, as defined by reporting regulations, of our Manufacturing group as of December 28, 2013:

		Payments Due by Period			
(In millions)	**Total**	**Less than 1 Year**	**1-3 Years**	**4-5 Years**	**More Than 5 Years**
Liabilities reflected in balance sheet:					
Long-term debt	$ 1,936	$ 8	$ 765	$ 365	$ 798
Interest on borrowings	509	108	183	122	96
Pension benefits for unfunded plans *(1)*	359	26	48	43	242
Postretirement benefits other than pensions *(1)*	445	48	85	71	241
Other long-term liabilities *(2)*	549	123	147	65	214
Liabilities not reflected in balance sheet:					
Operating leases *(3)*	342	63	82	49	148
Purchase obligations *(4)*	3,264	2,492	742	18	12
Total Manufacturing group	$ 7,404	$ 2,868	$ 2,052	$ 733	$ 1,751

(1) We maintain defined benefit pension plans and postretirement benefit plans other than pensions as discussed in Note 11 to the Consolidated Financial Statements. Included in the above table are discounted estimated benefit payments we expect to make related to unfunded pension and other postretirement benefit plans. Actual benefit payments are dependent on a number of factors, including mortality assumptions, expected retirement age, rate of compensation increases and medical trend rates, which are subject to change in future years. Our policy for funding pension plans is to make contributions annually, consistent with applicable laws and regulations; however, future contributions to our pension plans are not included in the above table. In 2014, we expect to make contributions to our funded pension plans of approximately $33 million and approximately $19 million in the Retirement Account Plan. Based on our current assumptions, which may change with changes in market conditions, our current contribution estimates for each of the years from 2015 through 2018 are estimated to be in the range of approximately $75 million to $130 million under the plan provisions in place at this time.

(2) Other long-term liabilities included in the table consist primarily of undiscounted amounts in the Consolidated Balance Sheet as of December 28, 2013, representing obligations under deferred compensation arrangements and estimated environmental remediation costs. Payments under deferred compensation arrangements have been estimated based on management s assumptions of expected retirement age, mortality, stock price and rates of return on participant deferrals. The timing of cash flows associated with environmental remediation costs is largely based on historical experience. Other long-term liabilities, such as deferred taxes, unrecognized tax benefits and product liability, warranty and litigation reserves, have been excluded from the table due to the uncertainty of the timing of payments combined with the absence of historical trends to be used as a predictor for such payments.

(3) Operating leases represent undiscounted obligations under noncancelable leases.

(4) Purchase obligations include undiscounted amounts committed under legally enforceable contracts or purchase orders for goods and services with defined terms as to price, quantity and delivery dates. Approximately 40% of the purchase obligations we disclose represent purchase orders issued for goods and services to be delivered under firm contracts with the U.S. Government for which we have full recourse

under customary contract termination clauses.

Finance Group

The following table summarizes the known contractual obligations, as defined by reporting regulations, of our Finance group as of December 28, 2013:

			Payments Due by Period		
(In millions)	Total	Less than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Liabilities reflected in balance sheet:					
Term debt	$ 783	$ 174	$ 357	$ 133	$ 119
Securitized debt *(1)*	172	49	93	26	4
Subordinated debt	299				299
Interest on borrowings *(2)*	260	40	67	24	129
Total Finance group	$ 1,514	$ 263	$ 517	$ 183	$ 551

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

(2) Interest payments reflect the current interest rate paid on the related debt. They do not include anticipated changes in market interest rates, which could have an impact on the interest rate according to the terms of the related debt.

At December 28, 2013, the Finance group also had $93 million in other liabilities, primarily accounts payable and accrued expenses, that are payable within the next 12 months.

Critical Accounting Estimates

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

Long-Term Contracts

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

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

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

The following table sets forth the aggregate gross amount of all program profit adjustments that are included within segment profit for the three years ended December 28, 2013:

(In millions)		**2013**		**2012**		**2011**
Gross favorable	$	51	$	88	$	83
Gross unfavorable		(22)		(73)		(29)
Net adjustments	$	29	$	15	$	54

Goodwill

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

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

If the reporting unit s estimated fair value exceeds its carrying value, the reporting unit is not impaired, and no further analysis is performed. Otherwise, the amount of the impairment must be determined by comparing the carrying amount of the reporting unit s goodwill to the implied fair value of that goodwill. The implied fair value of goodwill is determined by assigning a fair value to all of the reporting unit s assets and liabilities, including any unrecognized intangible assets, as if the reporting unit had been acquired in a business combination. If the carrying amount of the goodwill exceeds the implied fair value, an impairment loss would be recognized in an amount equal to that excess.

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

Retirement Benefits

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

To determine the weighted-average expected long-term rate of return on plan assets, we consider the current and expected asset allocation, as well as historical and expected returns on each plan asset class. A lower expected rate of return on plan assets will increase pension expense. For 2013, the assumed expected long-term rate of return on plan assets used in calculating pension expense was 7.56%, compared with 7.58% in 2012. In 2013 and 2012, the assumed rate of return for our domestic plans, which represent approximately 90% of our total pension assets, was 7.75%. A 50-basis-point decrease in this long-term rate of return in 2013 would have increased pension expense for our domestic plans by approximately $25 million.

The discount rate enables us to state expected future benefit payments as a present value on the measurement date, reflecting the current rate at which the pension liabilities could be effectively settled. This rate should be in line with rates for high-quality fixed income investments available for the period to maturity of the pension benefits, which fluctuate as long-term interest rates change. A lower discount rate increases the present value of the benefit obligations and increases pension expense. In 2013, the weighted-average discount rate used in calculating pension expense was 4.23%, compared with 4.94% in 2012. For our domestic plans, the assumed discount rate was 4.25% in 2013, compared with 5.00% for 2012. A 50-basis-point decrease in this discount rate in 2013 would have increased pension expense for our domestic plans by approximately $31 million.

The trend in healthcare costs is difficult to estimate, and it has an important effect on postretirement liabilities. The 2013 medical and prescription drug healthcare cost trend rates represent the weighted-average annual projected rate of increase in the per capita cost of covered benefits. The 2013 medical rate of 7.20% is assumed to decrease to 5.00% by 2021 and then remain at that level. The 2013 prescription drug rate of 7.20% is assumed to decrease to 5.00% by 2021 and then remain at that level. See Note 11 to the Consolidated Financial Statements for the impact of a one-percentage-point change in the cost trend rate.

Warranty Liabilities

We provide limited warranty and product maintenance programs, including parts and labor, for certain products for periods ranging from one to five years. A significant portion of these liabilities arises from our commercial aircraft businesses. We also may incur costs related to product recalls. We estimate the costs that may be incurred under warranty programs and record a liability in the amount of such costs at the time product revenue is recognized. Factors that affect this liability include the number of products sold, historical costs per claim, contractual recoveries from vendors, and historical and anticipated rates of warranty claims, including production and warranty patterns for new models. During our initial aircraft model launches, we typically incur higher warranty-related costs until the production process matures, at which point warranty costs moderate. We assess the adequacy of our recorded warranty and product maintenance liabilities periodically and adjust the amounts as necessary. Adjustments are made to accruals as claim data and actual experience warrant. Should future warranty experience differ materially from our historical experience, we may be required to record additional warranty liabilities, which could have a material adverse effect on our results of operations and cash flows in the period in which these additional liabilities are required.

Finance Receivables

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

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

Income Taxes

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

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Foreign Exchange Risks

Our financial results are affected by changes in foreign currency exchange rates in the various countries in which our products are manufactured and/or sold. For our manufacturing operations, we manage exposures to foreign currency assets and earnings primarily by funding certain foreign currency-denominated assets with liabilities in the same currency so that certain exposures are naturally offset. We primarily use borrowings denominated in euro and British pound sterling for these purposes. In managing our foreign currency transaction exposures, we also enter into foreign currency forward exchange and option contracts. These contracts generally are used to fix the local currency cost of purchased goods or services or selling prices denominated in currencies other than the functional currency. The notional amount of outstanding foreign exchange contracts and foreign currency options was approximately $636 million and $664 million at the end of 2013 and 2012, respectively.

The impact of foreign exchange rate changes for 2013 and 2012 from the prior year for each period is provided below:

(In millions)	**2013**	**2012**
Impact of foreign exchange rates increased (decreased):		
Revenues	$ 6	$ (80)
Segment profit	(1)	(10)

Interest Rate Risks

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

Quantitative Risk Measures

In the normal course of business, we enter into financial instruments for purposes other than trading. To quantify the market risk inherent in our financial instruments, we utilize a sensitivity analysis. The financial instruments that are subject to market risk (interest rate risk and foreign exchange rate risk) include finance receivables (excluding lease receivables), debt (excluding lease obligations), interest rate exchange agreements and foreign currency exchange contracts.

Presented below is a sensitivity analysis of the fair value of financial instruments outstanding at year-end. We estimate the fair value of the financial instruments using discounted cash flow analysis and indicative market pricing as reported by leading financial news and data providers. This sensitivity analysis is most likely not indicative of actual results in the future. The following table illustrates the sensitivity to a hypothetical change in the fair value of the financial instruments assuming a 10% decrease in interest rates and a 10% strengthening in exchange rates against the U.S. dollar:

	2013			2012		
(*In millions*)	**Carrying Value***	**Fair Value***	**Sensitivity of Fair Value to a 10% Change**	**Carrying Value***	**Fair Value***	**Sensitivity of Fair Value to a 10% Change**
Manufacturing group						
Foreign exchange rate risk						
Debt	$ (249)	$ (275)	$ (27)	$ (564)	$ (598)	$ (60)
Foreign currency exchange contracts	(12)	(12)	33	6	6	34
	$ (261)	$ (287)	$ 6	$ (558)	$ (592)	$ (26)
Interest rate risk						
Debt	$ (1,854)	$ (2,027)	$ (13)	$ (2,225)	$ (2,636)	$ (9)
Finance group						
Interest rate risk						
Finance receivables	$ 1,296	$ 1,356	$ 24	$ 1,766	$ 1,793	$ 36
Debt, including intergroup	(1,256)	(1,244)	(4)	(1,687)	(1,678)	(13)
	$ 40	$ 112	$ 20	$ 79	$ 115	$ 23

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

Item 8. Financial Statements and Supplementary Data

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

All other schedules are omitted either because they are not applicable or not required or because the required information is included in the financial statements or notes thereto.

Report of Management

Management is responsible for the integrity and objectivity of the financial data presented in this Annual Report on Form 10-K. The Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles and include amounts based on management s best estimates and judgments. Management also is responsible for establishing and maintaining adequate internal control over financial reporting for Textron Inc. as such term is defined in Exchange Act Rules 13a-15(f). With the participation of our management, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework). Based on our evaluation under the framework in Internal Control Integrated Framework, we have concluded that Textron Inc. maintained, in all material respects, effective internal control over financial reporting as of December 28, 2013.

The independent registered public accounting firm, Ernst & Young LLP, has audited the Consolidated Financial Statements of Textron Inc. and has issued an attestation report on Textron s internal controls over financial reporting as of December 28, 2013, as stated in its reports, which are included herein.

We conduct our business in accordance with the standards outlined in the Textron Business Conduct Guidelines, which are communicated to all employees. Honesty, integrity and high ethical standards are the core values of how we conduct business. Every Textron business prepares and carries out an annual Compliance Plan to ensure these values and standards are maintained. Our internal control structure is designed to provide reasonable assurance, at appropriate cost, that assets are safeguarded and that transactions are properly executed and recorded. The internal control structure includes, among other things, established policies and procedures, an internal audit function, and the selection and training of qualified personnel. Textron s management is responsible for implementing effective internal control systems and monitoring their effectiveness, as well as developing and executing an annual internal control plan.

The Audit Committee of our Board of Directors, on behalf of the shareholders, oversees management s financial reporting responsibilities. The Audit Committee consists of six directors who are not officers or employees of Textron and meets regularly with the independent auditors, management and our internal auditors to review matters relating to financial reporting, internal accounting controls and auditing.

/s/ Scott C. Donnelly

Scott C. Donnelly
Chairman, President and Chief Executive Officer

/s/ Frank T. Connor

Frank T. Connor
Executive Vice President and Chief Financial Officer

February 14, 2014

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Textron Inc.

We have audited Textron Inc. s internal control over financial reporting as of December 28, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) (the COSO criteria). Textron Inc. s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Textron Inc. maintained, in all material respects, effective internal control over financial reporting as of December 28, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheets of Textron Inc. as of December 28, 2013 and December 29, 2012, and the related Consolidated Statements of Operations, Comprehensive Income (Loss), Shareholders Equity and Cash Flows for each of the three years in the period ended December 28, 2013 of Textron Inc. and our report dated February 14, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts

February 14, 2014

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Textron Inc.

We have audited the accompanying Consolidated Balance Sheets of Textron Inc. as of December 28, 2013 and December 29, 2012, and the related Consolidated Statements of Operations, Comprehensive Income (Loss), Shareholders Equity and Cash Flows for each of the three years in the period ended December 28, 2013. Our audits also included the financial statement schedule contained on page 78. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Textron Inc. at December 28, 2013 and December 29, 2012 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 28, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Textron Inc. s internal control over financial reporting as of December 28, 2013, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework) and our report dated February 14, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts

February 14, 2014

Consolidated Statements of Operations

For each of the years in the three-year period ended December 28, 2013

(In millions, except per share data)	2013	2012	2011
Revenues			
Manufacturing revenues	$ 11,972	$ 12,022	$ 11,172
Finance revenues	132	215	103
Total revenues	12,104	12,237	11,275
Costs, expenses and other			
Cost of sales	10,131	10,019	9,308
Selling and administrative expense	1,126	1,165	1,195
Interest expense	173	212	246
Valuation allowance on transfer of Golf Mortgage portfolio to held for sale			186
Other losses, net			3
Total costs, expenses and other	11,430	11,396	10,938
Income from continuing operations before income taxes	674	841	337
Income tax expense	176	260	95
Income from continuing operations	498	581	242
Income from discontinued operations, net of income taxes		8	
Net income	$ 498	$ 589	$ 242
Basic earnings per share			
Continuing operations	$ 1.78	$ 2.07	$ 0.87
Discontinued operations		0.03	
Basic earnings per share	$ 1.78	$ 2.10	$ 0.87
Diluted earnings per share			
Continuing operations	$ 1.75	$ 1.97	$ 0.79
Discontinued operations		0.03	
Diluted earnings per share	$ 1.75	$ 2.00	$ 0.79

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income (Loss)

For each of the years in the three-year period ended December 28, 2013

(In millions)	**2013**	**2012**	**2011**
Net income	$ 498	$ 589	$ 242
Other comprehensive income (loss), net of tax:			
Pension and postretirement benefits adjustments, net of reclassifications	747	(146)	(286)
Deferred gains/losses on hedge contracts, net of reclassifications	(16)	(1)	(20)
Foreign currency translation adjustments	12	2	(3)
Other comprehensive income (loss)	743	(145)	(309)
Comprehensive income (loss)	$ 1,241	$ 444	$ (67)

See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

(In millions, except share data)		**December 28, 2013**		**December 29, 2012**
Assets				
Manufacturing group				
Cash and equivalents	$	1,163	$	1,378
Accounts receivable, net		979		829
Inventories		2,963		2,712
Other current assets		467		470
Total current assets		5,572		5,389
Property, plant and equipment, net		2,215		2,149
Goodwill		1,735		1,649
Other assets		1,697		1,524
Total Manufacturing group assets		11,219		10,711
Finance group				
Cash and equivalents		48		35
Finance receivables, net		1,493		1,990
Other assets		184		297
Total Finance group assets		1,725		2,322
Total assets	$	12,944	$	13,033
Liabilities and shareholders equity				
Liabilities				
Manufacturing group				
Current portion of long-term debt	$	8	$	535
Accounts payable		1,107		1,021
Accrued liabilities		1,888		1,956
Total current liabilities		3,003		3,512
Other liabilities		2,118		2,798
Long-term debt		1,923		1,766
Total Manufacturing group liabilities		7,044		8,076
Finance group				
Other liabilities		260		280
Debt		1,256		1,686
Total Finance group liabilities		1,516		1,966
Total liabilities		8,560		10,042
Shareholders equity				
Common stock (282.1 million and 282.6 million shares issued, respectively, and 282.1 million and 271.3 million shares outstanding, respectively)		35		35
Capital surplus		1,331		1,177
Retained earnings		4,045		3,824
Accumulated other comprehensive loss		(1,027)		(1,770)
		4,384		3,266
Less cost of treasury shares				275
Total shareholders equity		4,384		2,991
Total liabilities and shareholders equity	$	12,944	$	13,033

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Shareholders Equity

(In millions, except per share data)	**Common Stock**	**Capital Surplus**	**Retained Earnings**	**Treasury Stock**	**Accumulated Other Comprehensive Loss**	**Total Shareholders Equity**
Balance at January 1, 2011	$ 35	$ 1,301	$ 3,037	$ (85)	$ (1,316)	$ 2,972
Net income			242			242
Other comprehensive loss					(309)	(309)
Dividends declared ($0.08 per share)			(22)			(22)
Purchases/conversions of convertible notes		(179)		(3)		(182)
Amendment of call option/warrant transactions and purchase of capped call		(30)				(30)
Share-based compensation activity		(11)		85		74
Balance at December 31, 2011	35	1,081	3,257	(3)	(1,625)	2,745
Net income			589			589
Other comprehensive loss					(145)	(145)
Dividends declared ($0.08 per share)			(22)			(22)
Share-based compensation activity		96				96
Purchases of common stock				(272)		(272)
Balance at December 29, 2012	35	1,177	3,824	(275)	(1,770)	2,991
Net income			498			498
Other comprehensive income					743	743
Dividends declared ($0.08 per share)			(22)			(22)
Share-based compensation activity		99				99
Purchases/conversions of convertible notes	2	39		(41)		
Settlement of capped call		75				75
Retirement of treasury stock	(2)	(59)	(255)	316		
Balance at December 28, 2013	$ 35	$ 1,331	$ 4,045	$	$ (1,027)	$ 4,384

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For each of the years in the three-year period ended December 28, 2013

		Consolidated	
(In millions)	2013	2012	2011
Cash flows from operating activities			
Net income	$ 498	$ 589	$ 242
Less: Income from discontinued operations		8	
Income from continuing operations	498	581	242
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Non-cash items:			
Depreciation and amortization	389	383	403
Deferred income taxes	86	171	81
Portfolio losses on finance receivables	29	68	102
Valuation allowance on finance receivables held for sale	(31)	(76)	202
Goodwill and other asset impairment charges			59
Other, net	63	94	178
Changes in assets and liabilities:			
Accounts receivable, net	(118)	32	36
Inventories	(118)	(316)	(127)
Other assets	(42)	7	98
Accounts payable	65	179	211
Accrued and other liabilities	(182)	(96)	(175)
Income taxes, net	(84)	52	48
Pension, net	17	(240)	(474)
Captive finance receivables, net	237	96	236
Other operating activities, net	4		(52)
Net cash provided by operating activities of continuing operations	813	935	1,068
Net cash used in operating activities of discontinued operations	(3)	(8)	(5)
Net cash provided by operating activities	810	927	1,063
Cash flows from investing activities			
Capital expenditures	(444)	(480)	(423)
Net cash used in acquisitions	(196)	(11)	(14)
Finance receivables repaid	190	599	824
Proceeds from sales of receivables and other finance assets	178	249	530
Finance receivables originated or purchased	(10)	(22)	(187)
Proceeds from collection on notes receivable from a prior disposition			58
Other investing activities, net	18	43	55
Net cash provided by (used in) investing activities	(264)	378	843
Cash flows from financing activities			
Principal payments on long-term debt and nonrecourse debt	(1,056)	(615)	(785)
Proceeds from long-term debt	448	106	926
Settlement of convertible notes	(215)	(2)	(580)
Proceeds from settlement of capped call	75		
Amendment of call option/warrant transactions and purchase of capped call			(30)
Payments on long-term lines of credit			(1,440)
Purchases of Textron common stock		(272)	
Proceeds from exercise of stock options	31	19	3
Dividends paid	(22)	(17)	(22)
Other financing activities	(3)		(23)
Net cash used in financing activities	(742)	(781)	(1,951)
Effect of exchange rate changes on cash and equivalents	(6)	4	(1)
Net increase (decrease) in cash and equivalents	(202)	528	(46)
Cash and equivalents at beginning of year	1,413	885	931
Cash and equivalents at end of year	$ 1,211	$ 1,413	$ 885

See Notes to the Consolidated Financial Statements.

Consolidated Statements of Cash Flows continued

For each of the years in the three-year period ended December 28, 2013

	Manufacturing Group			Finance Group		
(In millions)	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**
Cash flows from operating activities						
Net income (loss)	$ 470	$ 542	$ 464	$ 28	$ 47	$ (222)
Less: Income from discontinued operations		8				
Income (loss) from continuing operations	470	534	464	28	47	(222)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:						
Dividends received from Finance group	175	345	179			
Capital contributions paid to Finance group	(1)	(240)	(182)			
Non-cash items:						
Depreciation and amortization	371	358	371	18	25	32
Deferred income taxes	51	102	197	35	69	(116)
Portfolio losses on finance receivables				29	68	102
Valuation allowance on finance receivables held for sale				(31)	(76)	202
Goodwill and other asset impairment charges			57			
Other, net	86	97	166	(23)	(3)	12
Changes in assets and liabilities:						
Accounts receivable, net	(118)	32	36			
Inventories	(135)	(300)	(132)			
Other assets	(41)	21	92		(11)	10
Accounts payable	65	179	211			
Accrued and other liabilities	(171)	(77)	(149)	(21)	(19)	(26)
Income taxes, net	(119)	148	(22)	35	(96)	70
Pension, net	21	(241)	(475)	(4)	1	1
Other operating activities, net	4		(52)			
Net cash provided by operating activities of continuing operations	658	958	761	66	5	65
Net cash used in operating activities of discontinued operations	(3)	(8)	(5)			
Net cash provided by operating activities	655	950	756	66	5	65
Cash flows from investing activities						
Capital expenditures	(444)	(480)	(423)			
Net cash used in acquisitions	(196)	(11)	(14)			
Finance receivables repaid				675	1,004	1,289
Proceeds from sales of receivables and other finance assets				178	249	585
Finance receivables originated or purchased				(271)	(331)	(471)
Proceeds from collection on notes receivable from a prior disposition			58			
Other investing activities, net	16	15	(44)	42	12	50
Net cash provided by (used in) investing activities	(624)	(476)	(423)	624	934	1,453
Cash flows from financing activities						
Principal payments on long-term and nonrecourse debt	(313)	(189)	(29)	(743)	(426)	(756)
Proceeds from long-term debt	150		496	298	106	430
Settlement of convertible notes	(215)	(2)	(580)			
Proceeds from settlement of capped call	75					
Amendment of call option/warrant transactions and purchase of capped call			(30)			
Payments on long-term lines of credit						(1,440)
Purchases of Textron common stock		(272)				
Proceeds from exercise of stock options	31	19	3			
Dividends paid	(22)	(17)	(22)	(175)	(345)	(179)
Intergroup financing	57	490	(175)	(57)	(493)	167
Capital contributions paid to Finance group				1	240	182
Capital contributions paid to Cessna Export Finance Corp.						60
Other financing activities	(3)		(23)	(1)		
Net cash provided by (used in) financing activities	(240)	29	(360)	(677)	(918)	(1,536)

Effect of exchange rate changes on cash and equivalents	(6)	4				(1)
Net increase (decrease) in cash and equivalents	(215)	507	(27)	13	21	(19)
Cash and equivalents at beginning of year	1,378	871	898	35	14	33
Cash and equivalents at end of year	$ 1,163	$ 1,378	$ 871	$ 48	$ 35	$ 14

See Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation and Financial Statement Presentation

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

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

Collaborative Arrangements

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

Use of Estimates

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

During 2013, 2012 and 2011, we changed our estimates of revenues and costs on certain long-term contracts that are accounted for under the percentage-of-completion method of accounting. These changes in estimates increased income from continuing operations before income taxes in 2013, 2012 and 2011 by $29 million, $15 million and $54 million, respectively, ($18 million, $9 million and $34 million after tax, or $0.06, $0.03 and $0.11 per diluted share, respectively). For 2013, 2012 and 2011, the gross favorable program profit adjustments totaled $51 million, $88 million and $83 million, respectively. For 2013, 2012 and 2011, the gross unfavorable program profit adjustments totaled $22 million, $73 million and $29 million, respectively.

Revenue Recognition

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

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

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

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

Finance Revenues Finance revenues include interest on finance receivables, direct loan origination costs and fees received, and capital and leveraged lease earnings, as well as portfolio gains/losses. Portfolio gains/losses include impairment charges related to repossessed assets and properties and gains/losses on the sale or early termination of finance assets. Revenues on direct loan origination costs and fees received are deferred and amortized to finance revenues over the contractual lives of the respective receivables and credit lines using the interest method. When receivables are sold or prepaid, unamortized amounts are recognized in finance revenues.

We recognize interest using the interest method, which provides a constant rate of return over the terms of the receivables. Accrual of interest income is suspended if credit quality indicators suggest full collection of principal and interest is doubtful. In addition, we automatically suspend the accrual of interest income for accounts that are contractually delinquent by more than three months unless collection is not doubtful. Cash payments on nonaccrual accounts, including finance charges, generally are applied to reduce the net investment balance. We resume the accrual of interest when the loan becomes contractually current through payment according to the original terms of the loan or, if a loan has been modified, following a period of performance under the terms of the modification, provided we conclude that collection of all principal and interest is no longer doubtful. Previously suspended interest income is recognized at that time.

Cash and Equivalents

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

Inventories

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

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated primarily using the straight-line method. We capitalize expenditures for improvements that increase asset values and extend useful lives.

Goodwill

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

We calculate the fair value of each reporting unit, primarily using discounted cash flows. The discounted cash flows incorporate assumptions for short- and long-term revenue growth rates, operating margins and discount rates, which represent our best estimates of current and forecasted market conditions, cost structure, anticipated net cost reductions, and the implied rate of return that we believe a market participant would require for an investment in a business having similar risks and business characteristics to the reporting unit being assessed. If the reporting unit s estimated fair value exceeds its carrying value, the reporting unit is not impaired, and no further analysis is performed. Otherwise, the amount of the impairment must be determined by comparing the carrying amount of the reporting unit s goodwill to the implied fair value of that goodwill. The implied fair value of goodwill is determined by assigning a fair value to all of the reporting unit s assets and liabilities, including any unrecognized intangible assets, as if the reporting unit had been acquired in a business combination. If the carrying amount of the goodwill exceeds the implied fair value, an impairment loss would be recognized in an amount equal to that excess.

Intangible and Other Long-Lived Assets

At acquisition, we estimate and record the fair value of purchased intangible assets primarily using a discounted cash flow analysis of anticipated cash flows reflecting incremental revenues and/or cost savings resulting from the acquired intangible asset using market participant assumptions. Amortization of intangible assets with finite lives is recognized over their estimated useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise realized. Approximately 64% of our gross intangible assets are amortized based on the cash flow streams used to value the assets, with the remaining assets amortized using the straight-line method. Long-lived assets, including intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying value of the asset held for use exceeds the sum of the undiscounted expected future cash flows, the carrying value of the asset generally is written down to fair value. Long-lived assets held for sale are stated at the lower of cost or fair value less cost to sell. Fair value is determined using pertinent market information, including estimated future discounted cash flows.

Finance Receivables

Finance receivables primarily include finance receivables classified as held for investment, and also include finance receivables classified as held for sale. Finance receivables are classified as held for investment when we have the intent and the ability to hold the receivable for the foreseeable future or until maturity or payoff. Finance receivables held for investment are generally recorded at the amount of outstanding principal less allowance for losses.

We maintain an allowance for losses on finance receivables at a level considered adequate to cover inherent losses in the portfolio based on management s evaluation. For larger balance accounts specifically identified as impaired, including large accounts in homogeneous portfolios, a reserve is established based on comparing the expected future cash flows, discounted at the finance receivable s effective interest rate, or the fair value of the underlying collateral if the finance receivable is collateral dependent, to its carrying amount. The expected future cash flows consider collateral value; financial performance and liquidity of our borrower; existence and financial strength of guarantors; estimated recovery costs, including legal expenses; and costs associated with the repossession and eventual disposal of collateral. When there is a range of potential outcomes, we perform multiple discounted cash flow analyses and weight the potential outcomes based on their relative likelihood of occurrence. The evaluation of our portfolio is inherently subjective, as it requires estimates, including the amount and timing of future cash flows expected to be received on impaired finance receivables and the estimated fair value of the underlying collateral, which may differ from actual results. While our analysis is specific to each individual account, critical factors included in this analysis include industry valuation guides, age and physical condition of the collateral, payment history and existence and financial strength of guarantors. We also establish an allowance for losses to cover probable but specifically unknown losses existing in the portfolio. This allowance is established as a percentage of non-recourse finance receivables, which have not been identified as requiring specific reserves. The percentage is based on a combination of factors, including historical loss experience, current delinquency and default trends, collateral values and both general economic and specific industry trends. Finance receivables are charged off at the earlier of the date the collateral is repossessed or when no payment has been received for six months, unless management deems the receivable collectible. Repossessed assets are recorded at their fair value, less estimated cost to sell.

Finance receivables are classified as held for sale based on the determination that we no longer intend to hold the receivables for the foreseeable future, until maturity or payoff, or we no longer have the ability to hold to maturity. Our decision to classify certain finance receivables as held for sale is based on a number of factors, including, but not limited to, contractual duration, type of collateral, credit strength of the borrowers, interest rates and perceived marketability of the receivables. These receivables are carried at the lower of cost or fair value. At the time of transfer to the held for sale classification, we establish a valuation allowance for any shortfall between the carrying value and fair value. In addition, any allowance for loan losses previously allocated to these finance receivables is transferred to the valuation allowance account and adjusted quarterly. Fair value changes can occur based on market interest rates, market liquidity, and changes in the credit quality of the borrower and value of underlying loan collateral.

Pension and Postretirement Benefit Obligations

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

Derivative Financial Instruments

We are exposed to market risk primarily from changes in currency exchange rates and interest rates. We do not hold or issue derivative financial instruments for trading or speculative purposes. To manage the volatility relating to our exposures, we net these exposures on a consolidated basis to take advantage of natural offsets. For the residual portion, we enter into various derivative transactions pursuant to our policies in areas such as counterparty exposure and hedging practices. All derivative instruments are reported at fair value in the Consolidated Balance Sheets. Designation to support hedge accounting is performed on a specific exposure basis. For financial instruments qualifying as fair value hedges, we record changes in fair value in earnings, offset, in part or in whole, by corresponding changes in the fair value of the underlying exposures being hedged. For cash flow hedges, we record changes in the fair value of derivatives (to the extent they are effective as hedges) in OCI, net of deferred taxes. Changes in fair value of derivatives not qualifying as hedges are recorded in earnings.

Foreign currency denominated assets and liabilities are translated into U.S. dollars. Adjustments from currency rate changes are recorded in the cumulative translation adjustment account in shareholders equity until the related foreign entity is sold or substantially liquidated. We use foreign currency financing transactions to effectively hedge long-term investments in foreign operations with the same corresponding currency. Foreign currency gains and losses on the hedge of the long-term investments are recorded in the cumulative translation adjustment account.

Product Liabilities

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

Environmental Liabilities and Asset Retirement Obligations

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

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

Warranty and Product Maintenance Contracts

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

Research and Development Costs

Our customer-funded research and development costs are charged directly to the related contracts, which primarily consist of U.S. Government contracts. In accordance with government regulations, we recover a portion of company-funded research and development costs through overhead rate charges on our U.S. Government contracts. Research and development costs that are not reimbursable under a contract with the U.S. Government or another customer are charged to expense as incurred. Company-funded research and development costs were $651 million, $584 million, and $525 million in 2013, 2012 and 2011, respectively, and are included in cost of sales.

Income Taxes

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

Note 2. Business Acquisitions, Goodwill and Intangible Assets

Pending Business Acquisition

On December 26, 2013, we entered into an agreement and plan of merger pursuant to which we will acquire all outstanding equity interests in Beech Holdings, LLC (Beech), the parent of Beechcraft Corporation, for approximately $1.4 billion in cash. Beech designs, builds and supports aircraft, including the King Air turboprops, piston-engine Baron and Bonanza, and the T-6 trainer and AT-6 light attack military aircraft. Beech also has a global network of both factory-owned and authorized service centers. We plan to finance the purchase of the equity in Beech and the repayment of Beech s outstanding debt, which is required at closing, through a combination of available cash at Beech and Textron and up to $1.1 billion in new debt. The transaction is expected to close during the first half of 2014, subject to customary closing conditions, including regulatory approvals.

2013 Business Acquisitions

In 2013, we acquired the following businesses for an aggregate cash payment of $196 million:

Textron Systems

- Mechtronix, Inc. and OPINICUS Corporation, both acquired on December 6, 2013, design, develop, install and provide maintenance of advanced full flight simulators for both rotary- and fixed-wing aircraft.

Industrial

- Sherman & Reilly, Inc., a manufacturer of underground and aerial transmission and distribution products was acquired by our Greenlee business on May 1, 2013.

- HD Electric Company, a designer and manufacturer of power utility products that test, measure and control electric power was also acquired by our Greenlee business on December 18, 2013.

Cessna

- Two service centers located in Zurich, Switzerland and Düsseldorf, Germany were acquired on December 31, 2012.

The consideration paid for each of these businesses was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. We assigned $75 million to identifiable intangible assets, which primarily include platform technology and trade names. For the three acquisitions that were closed in December 2013, we made preliminary estimates of the fair value of certain assets and we expect to complete the valuation of the assets in the first quarter of 2014. The acquired intangible assets will be amortized over their estimate lives, which range from 7 to 11 years, primarily using accelerated amortization methods based on the cash flow streams used to value those assets. The excess of the purchase price over the estimated fair value of the net assets acquired totaled $82 million, which was recorded as goodwill, and reflects the expected revenue, assembled workforce and going concern nature of the businesses. Approximately $52 million of the goodwill is deductible for tax purposes.

The operating results for these acquisitions have been included in the Consolidated Statement of Operations since their respective closing dates. Pro forma information has not been included for these business acquisitions as the results would not be materially different from our consolidated results.

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

(In millions)	**Cessna**	**Bell**	**Textron Systems**	**Industrial**	**Total**
Balance at January 1, 2011	$ 322	$ 31	$ 974	$ 305	$ 1,632
Acquisitions				5	5
Foreign currency translation				(2)	(2)
Balance at December 31, 2011	322	31	974	308	1,635
Acquisitions	4			6	10
Foreign currency translation				4	4
Balance at December 29, 2012	326	31	974	318	1,649
Acquisitions			52	30	82
Foreign currency translation				4	4
Balance at December 28, 2013	$ 326	$ 31	$ 1,026	$ 352	$ 1,735

Our intangible assets are summarized below:

[redacted]

Amortization expense totaled $37 million, $40 million and $51 million in 2013, 2012 and 2011, respectively. Amortization expense is estimated to be approximately $43 million, $42 million, $36 million, $32 million and $25 million in 2014, 2015, 2016, 2017 and 2018, respectively.

Note 3. Accounts Receivable and Finance Receivables

Accounts Receivable

Accounts receivable is composed of the following:

(In millions)	December 28, 2013	December 29, 2012
Commercial	$ 654	$ 534
U.S. Government contracts	347	314
	1,001	848
Allowance for doubtful accounts	(22)	(19)
Total	$ 979	$ 829

We have unbillable receivables primarily on U.S. Government contracts that arise when the revenues we have appropriately recognized based on performance cannot be billed yet under terms of the contract. Unbillable receivables within accounts receivable totaled $163 million at December 28, 2013 and $149 million at December 29, 2012.

Finance Receivables

Finance receivables by classification are presented in the following table.

(In millions)	December 28, 2013	December 29, 2012
Finance receivables held for investment	$ 1,483	$ 1,934
Allowance for losses	(55)	(84)
Total finance receivables held for investment, net	1,428	1,850
Finance receivables held for sale	65	140
Total finance receivables, net	$ 1,493	$ 1,990

Finance receivables held for investment primarily includes loans and finance leases provided to purchasers of new and used Cessna aircraft and Bell helicopters and also includes loans and finance leases secured by used aircraft produced by other manufacturers. These agreements typically have initial terms ranging from five to ten years and amortization terms ranging from eight to fifteen years. The average balance of loans and finance leases was $1 million at December 28, 2013. Loans generally require the customer to pay a significant down payment, along with periodic scheduled principal payments that reduce the outstanding balance through the term of the loan. Finance leases with no significant residual value at the end of the contractual term are classified as loans, as their legal and economic substance is more equivalent to a secured borrowing than a finance lease with a significant residual value. Finance receivables held for investment also includes leveraged leases secured by the ownership of the leased equipment and real property.

Finance receivables held for sale includes the non-captive loan portfolio at December 28, 2013. These finance receivables are carried at the lower of cost or fair value and are not included in the credit performance tables below. During 2013, we determined that we no longer had the intent to hold the remaining non-captive loan portfolio for the foreseeable future and, accordingly, transferred $34 million of the remaining non-captive loans, net of a $1 million allowance for losses, from the held for investment classification to the held for sale classification. We received total proceeds of $64 million and $109 million in 2013 and 2012, respectively, from the sale of finance receivables held for sale and

$76 million and $207 million, respectively, from payoffs and collections.

Our finance receivables are diversified across geographic region and borrower industry. At December 28, 2013, 41% of our finance receivables were distributed throughout the U.S. compared with 45% at the end of 2012. At December 28, 2013 and December 29, 2012, finance receivables included $200 million and $341 million, respectively, of receivables that have been legally sold to a special purpose entity (SPE), which is a consolidated subsidiary of TFC. The assets of the SPE are pledged as collateral for its debt, which is reflected as securitized on-balance sheet debt in Note 7. Third-party investors have no legal recourse to TFC beyond the credit enhancement provided by the assets of the SPE.

Credit Quality Indicators and Nonaccrual Finance Receivables

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

We classify finance receivables as nonaccrual if credit quality indicators suggest full collection of principal and interest is doubtful. In addition, we automatically classify accounts as nonaccrual once they are contractually delinquent by more than three months unless collection of principal and interest is not doubtful. Recognition of interest income is suspended for these accounts and all cash collections are used to reduce the net investment balance. We resume the accrual of interest when the loan becomes contractually current through payment according to the original terms of the loan or, if a loan has been modified, following a period of performance under the terms of the modification, provided we conclude that collection of all principal and interest is no longer doubtful. Previously suspended interest income is recognized at that time. Accounts are classified as watchlist when credit quality indicators have deteriorated as compared with typical underwriting criteria, and we believe collection of full principal and interest is probable but not certain. All other finance receivables that do not meet the watchlist or nonaccrual categories are classified as performing.

A summary of finance receivables categorized based on the credit quality indicators discussed above is as follows:

(In millions)	**December 28, 2013**	**December 29, 2012**
Performing	$ 1,285	$ 1,661
Watchlist	93	130
Nonaccrual	105	143
Total	$ 1,483	$ 1,934
Nonaccrual as a percentage of total finance receivables	7.08%	7.39%

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

Finance receivables by delinquency aging category are summarized in the table below:

(In millions)	**December 28, 2013**	**December 29, 2012**
Less than 31 days past due	$ 1,295	$ 1,757
31-60 days past due	108	87
61-90 days past due	37	56
Over 90 days past due	43	34
Total	$ 1,483	$ 1,934

Accrual status loans that were greater than 90 days past due totaled $5 million at December 28, 2013. There were no accrual status loans that were greater than 90 days past due at December 29, 2012. At December 28, 2013 and December 29, 2012, 60+ days contractual delinquency as a percentage of finance receivables was 5.39% and 4.65%, respectively.

Loan Modifications

Troubled debt restructurings occur when we have either modified the contract terms of finance receivables for borrowers experiencing financial difficulties or accepted a transfer of assets in full or partial satisfaction of the loan balance. The types of modifications we typically make include extensions of the original maturity date of the contract, extensions of revolving borrowing periods, delays in the timing of required principal payments, deferrals of interest payments, advances to protect the value of our collateral and principal reductions contingent on full repayment prior to the maturity date. The changes effected by modifications made during 2013 and 2012 to finance receivables held for investment were not material.

Impaired Loans

On a quarterly basis, we evaluate individual finance receivables for impairment in non-homogeneous portfolios and larger accounts in homogeneous loan portfolios. A finance receivable is considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement based on our review of the credit quality indicators discussed above. Impaired finance receivables include both nonaccrual accounts and accounts for which full collection of principal and interest remains probable, but the account s original terms have been, or are expected to be, significantly modified. If the modification specifies an interest rate equal to or greater than a market rate for a finance receivable with comparable risk, the account is not considered impaired in years subsequent to the modification. There was no significant interest income recognized on impaired loans in 2013 or 2012.

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

(In millions)	December 28, 2013	December 29, 2012
[redacted]	$ 78	[redacted]
	59	
	$ 137	
	$ 141	
	14	
	155	

Allowance for Losses

A rollforward of the allowance for losses on finance receivables and a summary of its composition, based on how the underlying finance receivables are evaluated for impairment, is provided below. The finance receivables reported in this table specifically exclude $120 million and $122 million of leveraged leases at December 28, 2013 and December 29, 2012, respectively, in accordance with authoritative accounting standards.

[redacted]	December 28, 2013	[redacted]
	$ 84	
	(23)	
	(17)	
	12	
	(1)	
	$ 55	
	$ 41	
	14	
	$ 1,226	
	137	

Our Finance group provides financing for retail purchases and leases for new and used aircraft and equipment manufactured by our Manufacturing group. The finance receivables for these inventory sales that are included in the Finance group s balance sheets are summarized below:

[redacted]	December 28, 2013	[redacted]
	$ 1,121	
	80	
	$ 1,201	

In 2013, 2012 and 2011, our Finance group paid our Manufacturing group $248 million, $309 million and $284 million, respectively, related to the sale of Textron-manufactured products to third parties that were financed by the Finance group. Operating agreements specify that our Finance group has recourse to our Manufacturing group for certain uncollected amounts related to these transactions. At December 28, 2013 and December 29, 2012, finance receivables and operating leases subject to recourse to the Manufacturing group totaled $75 million and $83 million, respectively. Our Manufacturing group has established reserves for losses on its balance sheet within accrued and other liabilities for the amounts it guarantees.

Note 4. Inventories

Inventories are composed of the following:

	December 28, 2013	
[redacted]	$ 1,276	[redacted]
	2,477	
	407	
	4,160	
	(1,197)	
	$ 2,963	

Inventories valued by the LIFO method totaled $1.3 billion and $1.1 billion at the end of 2013 and 2012, respectively, and the carrying values of these inventories would have been higher by approximately $461 million and $435 million, respectively, had our LIFO inventories been valued at current costs. Inventories related to long-term contracts, net of progress/milestone payments, were $359 million and $382 million at the end of 2013 and 2012, respectively.

Note 5. Property, Plant and Equipment, Net

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

	December 28, 2013	
[redacted]	$ 1,636	[redacted]
	4,042	
	5,678	
	(3,463)	
	$ 2,215	

At the end of 2013 and 2012, assets under capital leases totaled $247 million and $251 million and had accumulated amortization of $56 million and $51 million, respectively. The Manufacturing group s depreciation expense, which included amortization expense on capital leases, totaled $335 million, $315 million and $317 million in 2013, 2012 and 2011, respectively.

Note 6. Accrued Liabilities

The accrued liabilities of our Manufacturing group are summarized below:

[redacted]	**December 28, 2013**	[redacted]
	$ 888	
	246	
	142	
	74	
	538	
	$ 1,888	

Changes in our warranty and product maintenance contract liability are as follows:

(In millions)	**2013**	**2012**	**2011**
Accrual at beginning of year	$ 222	$ 224	$ 242
Provision	299	255	223
Settlements	(293)	(250)	(223)
Adjustments to prior accrual estimates*	(5)	(7)	(18)
Accrual at end of year	$ 223	$ 222	$ 224

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

Note 7. Debt and Credit Facilities

Our debt is summarized in the table below:

[redacted]	December 28, 2013	[redacted]
	$	
	350	
	250	
	150	
	350	
	250	
	246	
	250	
	85	
	1,931	
	(8)	
	1,923	
	$ 1,931	
	$	
	100	
	42	
	200	
	378	
	63	
	172	
	299	
	2	
	$ 1,256	

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

The following table shows required payments during the next five years on debt outstanding at December 28, 2013:

(In millions)	2014	2015	2016	2017	2018
Manufacturing group	$ 8	$ 357	$ 408	$ 358	$ 7
Finance group	223	148	302	92	67
Total	$ 230	$ 505	$ 710	$ 450	$ 74

During the fourth quarter of 2013, Textron entered into a senior unsecured revolving credit facility for an aggregate principal amount of $1.0 billion, of which up to $100 million is available for the issuance of letters of credit. This facility expires in October 2018. At December 28, 2013, there were no amounts borrowed against the facility, and there were $35 million of letters of credit issued against it.

On January 30, 2014, we issued $250 million in 3.65% notes due 2021 and $350 million in 4.30% notes due 2024 under our shelf registration statement. We plan to use the net proceeds of the issuance of these notes to finance a portion of the acquisition of all outstanding equity interests in Beech Holdings, LLC, the parent of Beechcraft Corporation, which we have agreed to purchase for approximately $1.4 billion in cash. The transaction is expected to close during the first half of 2014, subject to customary closing conditions, including regulatory approvals. If the transaction is not completed, or the related merger agreement is terminated, on or before December 31, 2014, we will be required to redeem all outstanding 2021 notes at a redemption price equal to 101% of the principal amount thereof, plus accrued and unpaid interest.

On January 24, 2014, in order to finance the Beechcraft acquisition, we also entered into a five-year term loan with a syndicate of banks in the principal amount of $500 million which we intend to draw down upon the closing of the transaction.

4.50% Convertible Senior Notes and Related Transactions

On May 5, 2009, we issued $600 million of convertible senior notes with a maturity date of May 1, 2013 and interest payable semiannually. The convertible notes were accounted for in accordance with generally accepted accounting principles, which required us to separately account for the liability (debt) and the equity (conversion option) components of the convertible notes in a manner that reflected our non-convertible debt borrowing rate at time of issuance. Accordingly, we recorded a debt discount and corresponding increase to additional paid-in capital of $134 million at the issuance date. We amortized the debt discount utilizing the effective interest method over the life of the notes, which increased the effective interest rate of the convertible notes from its coupon rate of 4.50% to 11.72%. We incurred cash and non-cash interest expenses of $9 million in 2013, $25 million in 2012 and $58 million in 2011 for these notes.

On May 1, 2013, our remaining convertible senior notes matured, and we paid the holders of the notes $215 million in settlement of the face value of the notes. In addition, we issued 8.9 million shares of our common stock to converting holders in settlement of the excess of the conversion value over the face value of the notes; however, after giving effect to the exercise of the related call options and warrants discussed below, the incremental share settlement in excess of the face value of the notes resulted in a 7.4 million net share issuance.

Concurrently with the pricing of the convertible notes in May 2009, we entered into transactions with two counterparties, pursuant to which we purchased from the counterparties call options to acquire our common stock and sold to the counterparties warrants to purchase our common stock. The call options settled on May 1, 2013, while the warrants settled daily over a 45-day period beginning on February 27, 2013. We acquired 8.9 million shares of our common stock upon the settlement of the call options and issued an aggregate of 7.4 million shares of our common stock in connection with the settlement of the warrants during the first half of 2013. The settlement of the call options and warrants resulted in a $41 million net increase in treasury stock during 2013.

On October 25, 2011, we entered into capped call transactions with the counterparties that covered an aggregate of 28.7 million shares of our common stock as of the end of 2012. The capped calls had a strike price of $13.125 per share and a cap price of $15.75 per share, which entitled us to receive the per share value of our stock price in excess of $13.125 up to a maximum stock price of $15.75 at the expiration date. Upon expiration of the capped calls, the market price of our common stock exceeded the maximum stock price, and we received $75 million in cash from the counterparties in the second quarter of 2013.

6% Fixed-to-Floating Rate Junior Subordinated Notes

The Finance group s $299 million of 6% Fixed-to-Floating Rate Junior Subordinated Notes are unsecured and rank junior to all of its existing and future senior debt. The notes mature on February 15, 2067; however, we have the right to redeem the notes at par on or after February 15, 2017 and are obligated to redeem the notes beginning on February 15, 2042. The Finance group has agreed in a replacement capital covenant that it will not redeem the notes on or before February 15, 2047 unless it receives a capital contribution from the Manufacturing group and/or net proceeds from the sale of certain replacement capital securities at specified amounts. During 2013, the Manufacturing group made a capital contribution to TFC for the repurchase of $1 million of these notes. Interest on the notes is fixed at 6% until February 15, 2017 and floats at the three-month London Interbank Offered Rate + 1.735% thereafter.

Support Agreement

Under a Support Agreement, Textron Inc. is required to ensure that TFC maintains fixed charge coverage of no less than 125% and consolidated shareholder s equity of no less than $200 million. Cash payments of $240 million and $182 million were made to TFC in 2012 and 2011, respectively, to maintain compliance with the fixed charge coverage ratio.

Note 8. Derivative Instruments and Fair Value Measurements

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

We manufacture and sell our products in a number of countries throughout the world, and, therefore, we are exposed to movements in foreign currency exchange rates. We utilize foreign currency exchange contracts to manage this volatility. Our foreign currency exchange contracts are measured at fair value using the market method valuation technique. The inputs to this technique utilize current foreign currency exchange forward market rates published by third-party leading financial news and data providers. These are observable data that represent the rates that the financial institution uses for contracts entered into at that date; however, they are not based on actual transactions so they are classified as Level 2. At December 28, 2013 and December 29, 2012, we had foreign currency exchange contracts with notional amounts upon which the contracts were based of $636 million and $664 million, respectively. At December 28, 2013, the fair value amounts of our foreign currency exchange contracts were a $2 million asset and a $15 million liability. At December 29, 2012, the fair value amounts of our foreign currency exchange contracts were a $9 million asset and a $5 million liability.

We primarily utilize forward exchange contracts which have maturities of no more than three years. These contracts qualify as cash flow hedges and are intended to offset the effect of exchange rate fluctuations on forecasted sales, inventory purchases and overhead expenses. At December 28, 2013, we had a net deferred loss of $10 million in Accumulated other comprehensive loss related to these cash flow hedges. Net gains and losses recognized in earnings and Accumulated other comprehensive loss on these cash flow hedges, including gains and losses related to hedge ineffectiveness, amounted to a $16 million net loss in 2013 and were not significant in 2012. We expect to reclassify a $10 million net loss from Accumulated other comprehensive loss to earnings in the next twelve months.

We hedge our net investment position in major currencies and generate foreign currency interest payments that offset other transactional exposures in these currencies. To accomplish this, we borrow directly in foreign currency and designate a portion of foreign currency debt as a hedge of a net investment. We record changes in the fair value of these contracts in other comprehensive income to the extent they are effective as cash flow hedges. Currency effects on the effective portion of these hedges, which are reflected in the foreign currency translation adjustments within Accumulated other comprehensive loss, produced a $2 million after-tax gain in 2013, resulting in an accumulated net gain balance of $6 million at December 28, 2013. There was no ineffectiveness recorded related to these hedges during 2013.

Our Finance group has entered into interest rate exchange contracts to mitigate exposure to changes in the fair value of its fixed-rate receivables and debt due to fluctuations in interest rates. These interest rate exchange contracts are not exchange traded and are measured at fair value utilizing widely accepted, third-party developed valuation models. The actual terms of each individual contract are entered into a valuation model, along with interest rate data, which is based on readily observable market data published by third-party leading financial news and data providers. At December 28, 2013 and December 29, 2012, we had interest rate exchange contracts with notional amounts upon which the contracts were based of $229 million and $671 million, respectively. The fair value amounts of our interest rate exchange contracts recorded at December 28, 2013, were a $2 million asset and a $5 million liability. At December 29, 2012, the fair value amounts of our interest rate exchange contracts were an $8 million asset and an $8 million liability.

Our exposure to loss from nonperformance by the counterparties to our derivative agreements at the end of 2013 was minimal. We do not anticipate nonperformance by counterparties in the periodic settlements of amounts due. We historically have minimized this potential for risk by entering into contracts exclusively with major, financially sound counterparties having no less than a long-term bond rating of A. The credit risk generally is limited to the amount by which the counterparties contractual obligations exceed our obligations to the counterparty. We continuously monitor our exposures to ensure that we limit our risks.

Assets Recorded at Fair Value on a Nonrecurring Basis

During 2013 and 2012, certain assets in the Finance Group were measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3). The table below sets forth the balance of those assets at the end of the year in which a fair value adjustment was taken.

(In millions)	December 28, 2013	December 29, 2012
Finance receivables held for sale	$ 65	$ 140
Impaired finance receivables	45	72
Other assets	35	76

The following table represents the fair value adjustments recorded for each asset class measured at fair value on a non-recurring basis during 2013 and 2012.

	Gain (Loss)	
[redacted]	$ 31	[redacted]
	(7)	
	(14)	

Finance receivables held for sale are recorded at fair value on a nonrecurring basis during periods in which the fair value is lower than the cost value. There are no active, quoted market prices for these finance receivables. At December 28, 2013, our finance receivables held for sale included the non-captive loan portfolio. Fair values of each loan in this portfolio were determined based on a combination of discounted cash flow models and recent third-party offers to estimate the price we expect to receive in the principal market for each loan, in an orderly transaction. The gains on finance receivables held for sale during 2013 and 2012 were primarily the result of the payoff of loans in amounts, and sale of loans at prices, in excess of the values established in previous periods.

Impaired nonaccrual finance receivables represent assets recorded at fair value on a nonrecurring basis since the measurement of required reserves on our impaired finance receivables is significantly dependent on the fair value of the underlying collateral. For impaired nonaccrual finance receivables secured by aviation assets, the fair values of collateral are determined primarily based on the use of industry pricing guides. Fair value measurements recorded on impaired finance receivables resulted in charges to provision for loan losses and primarily related to initial fair value adjustments.

Other assets in the table above primarily include aviation assets and repossessed golf and hotel properties. The fair value of our aviation assets was largely determined based on the use of industry pricing guides. The fair value of our golf and hotel properties was determined based on the use of discounted cash flow models, bids from prospective buyers or inputs from market participants. If the carrying amount of these assets is higher than their estimated fair value, we record a corresponding charge to income for the difference.

Assets and Liabilities Not Recorded at Fair Value

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

	December 28, 2013		December 29, 2012	
(In millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Manufacturing group				
Long-term debt, excluding leases	$ (1,854)	$ (2,027)	$ (2,225)	$ (2,636)
Finance group				
Finance receivables held for investment, excluding leases	1,231	1,290	1,625	1,653
Debt	(1,256)	(1,244)	(1,686)	(1,678)

Fair value for the Manufacturing group debt is determined using market observable data for similar transactions or Level 2 inputs. At December 28, 2013 and December 29, 2012, approximately 30% and 46%, respectively, of the fair value of term debt for the Finance group was determined based on observable market transactions (Level 1). The remaining Finance group debt was determined based on discounted cash flow analyses using observable market inputs from debt with similar duration, subordination and credit default expectations (Level 2). Fair value estimates for finance receivables held for investment were determined based on internally developed discounted cash flow models primarily utilizing significant unobservable inputs (Level 3), which include estimates of the rate of return, financing cost, capital structure and/or discount rate expectations of current market participants combined with estimated loan cash flows based on credit losses, payment rates and expectations of borrowers ability to make payments on a timely basis.

Note 9. Shareholders Equity

Capital Stock

We have authorization for 15 million shares of preferred stock with a par value of $0.01 and 500 million shares of common stock with a par value of $0.125. Outstanding common stock activity for the three years ended December 28, 2013 is presented below:

(In thousands)	**2013**	**2012**	**2011**
Beginning balance	271,263	278,873	275,739
Exercise of stock options	1,333	1,159	177
Issued to Textron Savings Plan	1,921	2,159	2,686
Exercise of warrants	7,435		
Stock repurchases		(11,103)	
Other	107	175	271
Ending balance	282,059	271,263	278,873

Earnings per Share

We calculate basic and diluted earnings per share (EPS) based on net income, which approximates income available to common shareholders for each period. Basic EPS is calculated using the two-class method, which includes the weighted-average number of common shares outstanding during the period and restricted stock units to be paid in stock that are deemed participating securities as they provide nonforfeitable rights to dividends. Diluted EPS considers the dilutive effect of all potential future common stock, including stock options, restricted stock units and, prior to the maturity of our convertible notes on May 1, 2013, the shares that could have been issued upon the conversion of the notes and upon the exercise of the related warrants.

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

(In thousands)	**2013**	**2012**	**2011**
Basic weighted-average shares outstanding	279,299	280,182	277,684
Dilutive effect of:			
Convertible notes and warrants	4,801	14,053	28,869
Stock options and restricted stock units	328	428	702
Diluted weighted-average shares outstanding	284,428	294,663	307,255

The dilutive effect of the convertible notes and warrants decreased significantly in 2013 from prior years due to the maturity of our convertible notes as described in Note 7. We intended to settle the face value of the notes in cash and the excess of the conversion value over the face value in cash and/or shares of our common stock; accordingly, only the shares of our common stock potentially issuable with respect to the excess of the notes conversion value over the face amount were considered in calculating diluted EPS. The call options purchased in connection with the issuance of the convertible notes and the capped call transaction were excluded from the calculation of diluted EPS as their impact was always anti-dilutive.

In 2013, 2012 and 2011, stock options to purchase 5 million, 7 million and 5 million shares, respectively, of common stock outstanding are excluded from our calculation of diluted weighted-average shares outstanding as their effect would have been anti-dilutive.

Accumulated Other Comprehensive Loss

The components of Accumulated Other Comprehensive Loss are presented below:

(In millions)	**Foreign Currency**	**Pension and Postretirement**	**Deferred Gains/Losses**	**Accumulated Other**

	Translation Adjustments	Benefits Adjustments	on Hedge Contracts	Comprehensive Loss
Balance at December 31, 2011	$ 79	$ (1,711)	$ 7	$ (1,625)
Other comprehensive loss before reclassifications	2	(230)	11	(217)
Amounts reclassified from Accumulated Other Comprehensive Loss		84	(12)	72
Other comprehensive loss	2	(146)	(1)	(145)
Balance at December 29, 2012	81	(1,857)	6	(1,770)
Other comprehensive income before reclassifications	12	626	(15)	623
Amounts reclassified from Accumulated Other Comprehensive Loss		121	(1)	120
Other comprehensive income	12	747	(16)	743
Balance at December 28, 2013	$ 93	$ (1,110)	$ (10)	$ (1,027)

Other Comprehensive Income (Loss)

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

(In millions)	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
2013			
Pension and postretirement benefits adjustments:			
Unrealized gains	$ 1,019	$ (410)	$ 609
Amortization of net actuarial loss*	189	(67)	122
Amortization of prior service cost*	(2)	1	(1)
Recognition of prior service cost	29	(12)	17
Pension and postretirement benefits adjustments, net	1,235	(488)	747
Deferred gains/losses on hedge contracts:			
Current deferrals	(20)	5	(15)
Reclassification adjustments	(1)		(1)
Deferred gains/losses on hedge contracts, net	(21)	5	(16)
Foreign currency translation adjustments	13	(1)	12
Total	$ 1,227	$ (484)	$ 743
2012			
Pension and postretirement benefits adjustments:			
Unrealized losses	$ (417)	$ 186	$ (231)
Amortization of net actuarial loss*	124	(43)	81
Amortization of prior service cost*	5	(2)	3
Recognition of prior service cost	2	(1)	1
Pension and postretirement benefits adjustments, net	(286)	140	(146)
Deferred gains/losses on hedge contracts:			
Current deferrals	14	(3)	11
Reclassification adjustments	(15)	3	(12)
Deferred gains/losses on hedge contracts, net	(1)		(1)
Foreign currency translation adjustments	(6)	8	2
Total	$ (293)	$ 148	$ (145)
2011			
Pension and postretirement benefits adjustments:			
Unrealized losses	$ (542)	$ 182	$ (360)
Amortization of net actuarial loss *	89	(30)	59
Amortization of prior service cost*	8	(3)	5
Recognition of prior service cost	15	(5)	10
Pension and postretirement benefits adjustments, net	(430)	144	(286)
Deferred gains on hedge contracts			
Current deferrals	(7)	2	(5)
Reclassification adjustments	(22)	7	(15)
Deferred gains/losses on hedge contracts, net	(29)	9	(20)
Foreign currency translation adjustments	(1)	(2)	(3)
Total	$ (460)	$ 151	$ (309)

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

Note 10. Share-Based Compensation

Our 2007 Long-Term Incentive Plan (Plan) authorizes awards to our key employees in the form of options to purchase our shares, restricted stock, restricted stock units, stock appreciation rights, performance stock awards and other awards. A maximum of 12 million shares is authorized for issuance for all purposes under the Plan plus any shares that become available upon cancellation, forfeiture or expiration of awards granted under the 1999 Long-Term Incentive Plan. No more than 12 million shares may be awarded pursuant to incentive stock options, and no more than 3 million shares may be awarded pursuant to restricted stock units or other awards intended to be paid in shares. The Plan also authorizes performance share units to be paid in cash based upon the value of our common stock.

Through our Deferred Income Plan for Textron Executives (DIP), we provide certain executives the opportunity to voluntarily defer up to 25% of their base salary and up to 80% of annual, long-term incentive and other compensation. Elective deferrals may be put into either a stock unit account or an interest-bearing account. Executives who are eligible to participate in the DIP and have not achieved and/or maintained the required minimum stock ownership level are required to defer part of each subsequent long-term incentive compensation cash payout into the DIP stock unit account until the ownership requirements are satisfied. Participants cannot move amounts between the two accounts while actively employed by us and cannot receive distributions until termination of employment. The intrinsic value of amounts paid under the DIP totaled $1 million in each of the three years ended December 28, 2013.

Share-based compensation costs are reflected primarily in selling and administrative expenses. The compensation expense that has been recorded in net income for our share-based compensation plans is as follows:

(In millions)		**2013**		**2012**		**2011**
Compensation expense	$	86	$	71	$	50
Income tax benefit		(32)		(26)		(18)
Total net compensation cost included in net income	$	54	$	45	$	32

Compensation expense included approximately $26 million, $23 million and $17 million in 2013, 2012 and 2011, respectively, for a portion of the fair value of options issued and the portion of previously granted options for which the requisite service has been rendered.

Compensation cost for awards subject only to service conditions that vest ratably are recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award. As of December 28, 2013, we had not recognized $61 million of total compensation costs associated with unvested awards subject only to service conditions. We expect to recognize compensation expense for these awards over a weighted-average period of approximately two years.

Stock Options

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

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

	2013	2012	2011
Fair value of options at grant date	$ 9.69	$ 10.19	$ 9.84
Dividend yield	0.3%	0.3%	0.3%
Expected volatility	37.0%	40.0%	38.0%
Risk-free interest rate	0.9%	0.9%	2.4%
Expected term (in years)	5.5	5.5	5.5

The stock option activity under the Plan in 2013 is provided below:

(Options in thousands)	Number of Options		Weighted-Average Exercise Price
Outstanding at beginning of year	9,484	$	27.98
Granted	2,169		28.47
Exercised	(1,408)		(23.38)
Canceled, expired or forfeited	(1,227)		(37.13)
Outstanding at end of year	9,018	$	27.57
Exercisable at end of year	4,362	$	27.23

At December 28, 2013, our outstanding options had an aggregate intrinsic value of $88 million and a weighted-average remaining contractual life of six years. Our exercisable options had an aggregate intrinsic value of $47 million and a weighted-average remaining contractual life of five years at December 28, 2013. The total intrinsic value of options exercised during 2013, 2012 and 2011 amounted to $10 million, $11 million and $2 million, respectively.

Restricted Stock Units

In 2013 and 2012, we issued restricted stock units settled in both cash and stock (vesting one-third each in the third, fourth and fifth year following the year of the grant), which included the right to receive dividend equivalents. The fair value of these units is based solely on the trading price of our common stock on the grant date and is recognized ratably over the vesting period. During 2009 through 2011, we issued restricted stock units settled in cash that vested in equal installments over five years. In 2008, restricted stock unit awards generally were payable in shares of common stock (vesting one-third each in the third, fourth and fifth year following the year of the grant). The 2013 activity for restricted stock units is provided below:

	Units Payable in Stock			Units Payable in Cash		
(Shares/Units in thousands)	Number of Shares		Weighted-Average Grant Date Fair Value	Number of Units		Weighted-Average Grant Date Fair Value
Outstanding at beginning of year, nonvested	710	$	29.94	2,540	$	20.79
Granted	257		28.47	596		28.43
Vested	(146)		(40.36)	(720)		(17.19)
Forfeited	(41)		(27.87)	(391)		(23.85)
Outstanding at end of year, nonvested	780	$	27.56	2,025	$	23.73

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

(In millions)		2013		2012		2011
Fair value of awards vested	$	26	$	35	$	41
Cash paid		23		25		23

Performance Share Units

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

The 2013 activity for our performance share units is as follows:

(Units in thousands)	**Number of Units**		**Weighted-Average Grant Date Fair Value**
Outstanding at beginning of year, nonvested	875	$	27.14
Granted	421		28.47
Vested	(344)		(26.25)
Forfeited	(57)		(27.44)
Outstanding at end of year, nonvested	895	$	28.08

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

(In millions)	2013	2012	2011
Fair value of awards vested	$ 13	$ 10	$ 33
Cash paid	11	52	1

Note 11. Retirement Plans

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

We also have domestic and foreign funded and unfunded defined benefit pension plans that cover certain of our U.S. and foreign employees. In addition, several defined contribution plans are sponsored by our various businesses, of which the largest plan is the Textron Savings Plan, which is a qualified 401(k) plan subject to ERISA. Our defined contribution plans cost approximately $93 million, $88 million and $85 million in 2013, 2012 and 2011, respectively; these amounts include $19 million, $21 million and $23 million, respectively, in contributions to the RAP. We also provide postretirement benefits other than pensions for certain retired employees in the U.S., which include healthcare, dental care, Medicare Part B reimbursement and life insurance benefits.

Periodic Benefit Cost

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

	Pension Benefits			Postretirement Benefits Other than Pensions		
(In millions)	2013	2012	2011	2013	2012	2011
Net periodic benefit cost						
Service cost	$ 133	$ 119	$ 129	$ 6	$ 6	$ 8
Interest cost	290	305	327	19	25	33
Expected return on plan assets	(418)	(407)	(393)			
Amortization of prior service cost (credit)	15	16	16	(17)	(11)	(8)
Amortization of net actuarial loss	183	118	75	6	7	11
Curtailment and special termination charges			(1)			
Net periodic benefit cost	$ 203	$ 151	$ 153	$ 14	$ 27	$ 44
Other changes in plan assets and benefit obligations recognized in OCI						
Current year actuarial loss (gain)	$ (964)	$ 402	$ 556	$ (55)	$ 15	$ (17)
Current year prior service cost (credit)	16		7	(45)	(2)	(23)

Amortization of net actuarial loss		(183)		(118)		(75)		(6)		(7)		(11)
Amortization of prior service credit (cost)		(15)		(16)		(16)		17		11		8
Curtailments and settlements						1						
Total recognized in OCI, before taxes	$	(1,146)	$	268	$	473	$	(89)	$	17	$	(43)
Total recognized in net periodic benefit cost and OCI	$	(943)	$	419	$	626	$	(75)	$	44	$	1

The estimated amount that will be amortized from Accumulated other comprehensive loss into net periodic pension costs in 2014 is as follows:

(In millions)	Pension Benefits	Postretirement Benefits Other than Pensions
Net actuarial loss	$ 112	$ 2
Prior service cost (credit)	15	(22)
	$ 127	$ (20)

Obligations and Funded Status

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

	Pension Benefits		Postretirement Benefits Other than Pensions	
(In millions)	2013	2012	2013	2012
Change in benefit obligation				
Benefit obligation at beginning of year	$ 7,053	$ 6,325	$ 564	$ 561
Service cost	133	119	6	6
Interest cost	290	305	19	25
Amendments	16		(45)	(2)
Plan participants contributions			4	5
Actuarial losses (gains)	(566)	644	(55)	15
Benefits paid	(373)	(360)	(48)	(52)
Foreign exchange rate changes	(13)	29		
Other	4	(9)		6
Benefit obligation at end of year	$ 6,544	$ 7,053	$ 445	$ 564
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	$ 5,715	$ 5,013		
Actual return on plan assets	819	649		
Employer contributions	185	389		
Benefits paid	(373)	(360)		
Foreign exchange rate changes	(1)	24		
Fair value of plan assets at end of year	$ 6,345	$ 5,715		
Funded status at end of year	$ (199)	$ (1,338)	$ (445)	$ (564)

Amounts recognized in our balance sheets are as follows:

	Pension Benefits		Postretirement Benefits Other than Pensions	
(In millions)	2013	2012	2013	2012
Non-current assets	$ 413	$ 61	$	$
Current liabilities	(26)	(26)	(48)	(52)
Non-current liabilities	(586)	(1,373)	(397)	(512)
Recognized in Accumulated other comprehensive loss, pre-tax:				
Net loss	1,596	2,750	38	99
Prior service cost (credit)	114	113	(69)	(41)

The accumulated benefit obligation for all defined benefit pension plans was $6.1 billion and $6.6 billion at December 28, 2013 and December 29, 2012, respectively, which included $359 million and $388 million, respectively, in accumulated benefit obligations for unfunded plans where funding is not permitted or in foreign environments where funding is not feasible.

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

(In millions)	2013	2012
Projected benefit obligation	$ 2,828	$ 6,869
Accumulated benefit obligation	2,629	6,404
Fair value of plan assets	2,215	5,470

Assumptions

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

	Pension Benefits			Postretirement Benefits Other than Pensions		
	2013	2012	2011	2013	2012	2011
Net periodic benefit cost						
Discount rate	4.23%	4.94%	5.71%	3.75%	4.75%	5.50%
Expected long-term rate of return on assets	7.56%	7.58%	7.84%			
Rate of compensation increase	3.31%	3.49%	3.99%			
Benefit obligations at year-end						
Discount rate	4.94%	4.23%	4.95%	4.50%	3.75%	4.75%
Rate of compensation increases	3.34%	3.48%	3.49%			

Assumed healthcare cost trend rates are as follows:

	2013	2012
Medical cost trend rate	7.2%	8.4%
Prescription drug cost trend rate	7.2%	8.4%
Rate to which medical and prescription drug cost trend rates will gradually decline	5.0%	5.0%
Year that the rates reach the rate where we assume they will remain	2021	2021

These assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement benefits other than pensions. A one-percentage-point change in these assumed healthcare cost trend rates would have the following effects:

(In millions)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 2	$ (2)
Effect on postretirement benefit obligations other than pensions	23	(21)

Pension Assets

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

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

U.S. Plan Assets	
Domestic equity securities	26% to 40%
International equity securities	11% to 22%
Debt securities	25% to 35%
Private equity partnerships	5% to 11%
Real estate	7% to 13%
Hedge funds	0% to 5%
Foreign Plan Assets	
Equity securities	38% to 65%
Debt securities	29% to 38%
Real estate	3% to 14%

The fair value of total pension plan assets by major category and level in the fair value hierarchy as defined in Note 8 is as follows:

	December 28, 2013			**December 29, 2012**		
(In millions)	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Cash and equivalents	$ 17	$ 144	$	$ 16	$ 157	$
Equity securities:						
Domestic	1,179	866		1,149	560	
International	1,140	258		981	268	
Debt securities:						
National, state and local governments	506	411		594	318	
Corporate debt		638		13	647	
Asset-backed securities		153		1	91	
Private equity partnerships			305			308
Real estate			553			508
Hedge funds			175			104
Total	$ 2,842	$ 2,470	$ 1,033	$ 2,754	$ 2,041	$ 920

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

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

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

The table below presents a reconciliation of the beginning and ending balances for fair value measurements that use significant unobservable inputs (Level 3) by major category:

(In millions)	**Hedge Funds**	**Private Equity Partnerships**	**Real Estate**
Balance at beginning of year	$ 104	$ 308	$ 508
Actual return on plan assets:			
Related to assets still held at reporting date	16	(5)	26
Related to assets sold during the period		44	23
Purchases, sales and settlements, net	55	(42)	(4)
Balance at end of year	$ 175	$ 305	$ 553

Estimated Future Cash Flow Impact

Defined benefits under salaried plans are based on salary and years of service. Hourly plans generally provide benefits based on stated amounts for each year of service. Our funding policy is consistent with applicable laws and regulations. In 2014, we expect to contribute approximately $58 million to fund non-qualified plans and foreign plans, and $19 million to the RAP. We do not expect to contribute to our qualified pension plans or our other postretirement benefit plans. Benefit payments provided below reflect expected future employee service, as appropriate, and are expected to be paid, net of estimated participant contributions. These payments are based on the same assumptions used to measure our benefit obligation at the end of fiscal 2013. While pension benefit payments primarily will be paid out of qualified pension trusts, we will pay postretirement benefits other than pensions out of our general corporate assets. Benefit payments that we expect to pay are as follows:

(In millions)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019-2023**
Pension benefits	$ 367	$ 369	$ 373	$ 378	$ 384	$ 2,047
Post-retirement benefits other than pensions	49	48	46	44	42	171

Note 12. Income Taxes

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

(In millions)	**2013**	**2012**	**2011**
U.S.	$ 454	$ 644	$ 137
Non-U.S.	220	197	200
Total income from continuing operations before income taxes	$ 674	$ 841	$ 337

Income tax expense for continuing operations is summarized as follows:

(In millions)	**2013**	**2012**	**2011**
Current:			
Federal	$ 23	$ 40	$ (23)
State	10	9	15
Non-U.S.	56	29	29

	89	78	21
Deferred:			
Federal	91	169	67
State	13	23	1
Non-U.S.	(17)	(10)	6
	87	182	74
Income tax expense	$ 176	$ 260	$ 95

The current federal and state provisions for 2012 and 2011 included $25 million and $37 million, respectively, of tax related to the sale of certain leveraged leases in the Finance segment for which we had previously recorded significant deferred tax liabilities.

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

	2013	2012	2011
Federal statutory income tax rate	35.0%	35.0%	35.0%
Increase (decrease) in taxes resulting from:			
State income taxes	2.4	2.2	3.1
Non-U.S. tax rate differential and foreign tax credits	(7.2)	(5.4)	(9.4)
Research credit	(3.8)		(2.5)
Other, net	(0.3)	(0.9)	1.9
Effective rate	26.1%	30.9%	28.1%

The amount of income taxes we pay is subject to ongoing audits by U.S. federal, state and non-U.S. tax authorities, which may result in proposed assessments. Our estimate for the potential outcome for any uncertain tax issue is highly judgmental. We assess our income tax positions and record tax benefits for all years subject to examination based upon management s evaluation of the facts, circumstances and information available at the reporting date. For those tax positions for which it is more likely than not that a tax benefit will be sustained, we record the largest amount of tax benefit with a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. Interest and penalties are accrued, where applicable. If we do not believe that it is not more likely than not that a tax benefit will be sustained, no tax benefit is recognized.

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

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

(In millions)	December 28, 2013	December 29, 2012
Balance at beginning of year	$ 290	$ 294
Additions for tax positions related to current year	15	5
Additions for tax positions of prior years	1	2
Reductions for tax positions of prior years	(17)	(3)
Reductions for expiration of statute of limitations and settlements	(5)	(8)
Balance at end of year	$ 284	$ 290

At both December 28, 2013 and December 29, 2012, approximately $204 million of these unrecognized tax benefits, if recognized, would favorably affect our effective tax rate in a future period. The remaining $80 million in unrecognized tax benefits were related to discontinued operations.

It is reasonably possible that within the next 12 months our unrecognized tax benefits, exclusive of interest, may decrease in the range of $0 to $213 million, as a result of the conclusion of audits and any related appeals or review processes, the expiration of statutes of limitations and additional worldwide uncertain tax positions. This potential decrease primarily relates to uncertainties with respect to prior dispositions and research tax credits. However, based on the process of finalizing audits and any required review process by relevant authorities, it is difficult to estimate the timing and amount of potential changes to our unrecognized tax benefits. Although the outcome of these matters cannot be determined, we believe adequate provision has been made for any potential unfavorable financial statement impact.

In the normal course of business, we are subject to examination by taxing authorities throughout the world, including major jurisdictions such as Canada, China, Germany, Japan, Mexico and the U.S. With few exceptions, we no longer are subject to U.S. federal, state and local income tax examinations for years before 1997. We are no longer subject to non-U.S. income tax examinations in our major jurisdictions for years before 2005.

During 2013, 2012 and 2011, we recognized net tax-related interest expense totaling approximately $6 million, $9 million and $10 million, respectively, in the Consolidated Statements of Operations. At December 28, 2013 and December 29, 2012, we had a total of $126 million and $134 million, respectively, of net accrued interest expense included in our Consolidated Balance Sheets.

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

(In millions)	December 28, 2013	December 29, 2012
Deferred tax assets		
Obligation for pension and postretirement benefits	$ 358	$ 643
Accrued expenses*	182	205
Deferred compensation	161	180
Loss carryforwards	84	81
Allowance for credit losses	29	39
Inventory	18	30
Deferred income	14	29
Valuation allowance on finance receivables held for sale	7	40
Other, net	123	168
Total deferred tax assets	976	1,415
Valuation allowance for deferred tax assets	(166)	(165)
	$ 810	$ 1,250
Deferred tax liabilities		
Leasing transactions	$ (184)	$ (217)
Property, plant and equipment, principally depreciation	(174)	(138)
Prepaid pension and postretirement benefits	(143)	
Amortization of goodwill and other intangibles	(109)	(110)
Total deferred tax liabilities	(610)	(465)
Net deferred tax asset	$ 200	$ 785

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

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

The following table presents the breakdown between current and long-term net deferred tax assets:

(In millions)	December 28, 2013	December 29, 2012
Manufacturing group:		
Other current assets	$ 206	$ 256
Other assets	270	591
Other liabilities	(147)	
Finance group - Other liabilities	(129)	(62)
Net deferred tax asset	$ 200	$ 785

Our net operating loss and credit carryforwards at December 28, 2013 are as follows:

(In millions)	
Non-U.S. net operating loss with no expiration	$ 95
Non-U.S. net operating loss expiring through 2033	53
State net operating loss and tax credits, net of tax benefits, expiring through 2033	55

The undistributed earnings of our non-U.S. subsidiaries approximated $778 million at December 28, 2013. We consider the undistributed earnings to be indefinitely reinvested; therefore, we have not provided a deferred tax liability for any residual U.S. tax that may be due upon repatriation of these earnings. Because of the effect of U.S. foreign tax credits, it is not practicable to estimate the amount of tax that might be payable on these earnings in the event they no longer are indefinitely reinvested.

Note 13. Contingencies and Commitments

We are subject to legal proceedings and other claims arising out of the conduct of our business, including proceedings and claims relating to commercial and financial transactions; government contracts; alleged lack of compliance with applicable laws and regulations; production partners; product liability; patent and trademark infringement; employment disputes; and environmental, safety and health matters. Some of these legal proceedings and claims seek damages, fines or penalties in substantial amounts or remediation of environmental contamination. As a government contractor, we are subject to audits, reviews and investigations to determine whether our operations are being conducted in accordance with applicable regulatory requirements. Under federal government procurement regulations, certain claims brought by the U.S. Government could result in our suspension or debarment from U.S. Government contracting for a period of time. On the basis of information presently available, we do not believe that existing proceedings and claims will have a material effect on our financial position or results of operations.

In the ordinary course of business, we enter into standby letter of credit agreements and surety bonds with financial institutions to meet various performance and other obligations. These outstanding letter of credit arrangements and surety bonds aggregated to approximately $298 million and $323 million at December 28, 2013 and December 29, 2012, respectively.

Environmental Remediation

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

Based upon information currently available, we estimate that our potential environmental liabilities are within the range of $40 million to $170 million. At December 28, 2013, environmental reserves of approximately $74 million have been established to address these specific estimated liabilities. We estimate that we will likely pay our accrued environmental remediation liabilities over the next five to ten years and have classified $21 million as current liabilities. Expenditures to evaluate and remediate contaminated sites approximated $12 million, $15 million and $9 million in 2013, 2012 and 2011, respectively.

Leases

Rental expense approximated $95 million, $97 million and $93 million in 2013, 2012 and 2011, respectively. Future minimum rental commitments for noncancelable operating leases in effect at December 28, 2013 approximated $64 million for 2014, $46 million for 2015, $36 million for 2016, $28 million for 2017, $21 million for 2018 and a total of $148 million thereafter.

Note 14. Supplemental Cash Flow Information

We have made the following cash payments:

(In millions)	**2013**	**2012**	**2011**
Interest paid:			
Manufacturing group	$ 124	$ 135	$ 135
Finance group	46	64	89
Net taxes paid /(received):			
Manufacturing group	223	(7)	30
Finance group	(49)	43	(65)

Cash paid for interest by the Finance group included amounts paid to the Manufacturing group of $11 million and $26 million in 2012 and 2011, respectively. Cash paid for interest by the Finance group to the Manufacturing group was not significant in 2013.

In 2012, net taxes paid by the Finance group included a payment of $111 million primarily from a settlement related to the IRS s challenge of tax deductions claimed in prior years for certain leveraged lease transactions.

Note 15. Segment and Geographic Data

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

Cessna products include Citation jets, Caravan single-engine utility turboprops, single-engine utility and high-performance piston aircraft, and aftermarket services sold to a diverse base of corporate and individual buyers.

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

Textron Systems products include unmanned aircraft systems, marine and land systems, weapons and sensors and a variety of defense and aviation mission support products and services primarily for U.S. and non-U.S. governments. In December 2013, we acquired two flight simulation and aircraft training product businesses.

Industrial products and markets include the following:

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

- Greenlee products include powered equipment, electrical test and measurement instruments, mechanical and hydraulic tools, cable connectors, and fiber optic assemblies, principally used in the construction, maintenance, telecommunications, data communications, utility and plumbing industries. During 2013, we acquired two businesses, a manufacturer of underground and aerial transmission and distribution products, and a designer and manufacturer of power utility products; and

- E-Z-GO and Jacobsen products include golf cars; off-road, utility and light transportation vehicles; professional turf-maintenance equipment and specialized turf-care vehicles that are marketed primarily to golf courses, resort communities, municipalities, sporting venues, consumers, and commercial and industrial users.

The Finance segment provides commercial loans and leases primarily for new Cessna aircraft and Bell helicopters as well as pre-owned Cessna aircraft and Bell helicopters on a limited basis.

Segment profit is an important measure used for evaluating performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense and certain corporate expenses. The measurement for the Finance segment includes interest income and expense along with intercompany interest expense. Provisions for losses on finance receivables involving the sale or lease of our products are recorded by the selling manufacturing segment when our Finance group has recourse to the Manufacturing group.

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

	Revenues			**Segment Profit (Loss)**		
(In millions)	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**
Cessna	$ 2,784	$ 3,111	$ 2,990	$ (48)	$ 82	$ 60
Bell	4,511	4,274	3,525	573	639	521
Textron Systems	1,665	1,737	1,872	147	132	141
Industrial	3,012	2,900	2,785	242	215	202
Finance	132	215	103	49	64	(333)
Total	$ 12,104	$ 12,237	$ 11,275	$ 963	$ 1,132	$ 591
Corporate expenses and other, net				(166)	(148)	(114)
Interest expense, net for Manufacturing group				(123)	(143)	(140)
Income from continuing operations before income taxes				$ 674	$ 841	$ 337

Revenues by major product type are summarized below:

	Revenues		
(In millions)	**2013**	**2012**	**2011**
Rotor aircraft	$ 4,511	$ 4,274	$ 3,525
Fixed-wing aircraft	2,784	3,111	2,990
Unmanned aircraft systems, armored vehicles, precision weapons and other	1,665	1,737	1,872
Fuel systems and functional components	1,853	1,842	1,823
Powered equipment, testing and measurement instruments	446	398	402
Golf, turf-care, and light transportation vehicles	713	660	560
Finance	132	215	103
Total	$ 12,104	$ 12,237	$ 11,275

Our revenues included sales to the U.S. Government of approximately $3.7 billion, $3.6 billion and $3.5 billion in 2013, 2012 and 2011, respectively, primarily in the Bell and Textron Systems segments.

Other information by segment is provided below:

	Assets		Capital Expenditures			Depreciation and Amortization		
(In millions)	**December 28, 2013**	**December 29, 2012**	**2013**	**2012**	**2011**	**2013**	**2012**	**2011**
Cessna	$ 2,260	$ 2,224	$ 72	$ 93	$ 101	$ 87	$ 102	$ 109
Bell	2,899	2,399	197	172	184	116	102	95
Textron Systems	2,106	1,987	66	108	37	89	75	85
Industrial	1,956	1,755	89	97	94	72	70	72
Finance	1,725	2,322				18	25	32
Corporate	1,998	2,346	20	10	7	7	9	10
Total	$ 12,944	$ 13,033	$ 444	$ 480	$ 423	$ 389	$ 383	$ 403

Geographic Data

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

	Revenues*			Property, Plant and Equipment, net**	
(In millions)	**2013**	**2012**	**2011**	**December 28, 2013**	**December 29, 2012**
United States	$ 7,512	$ 7,586	$ 7,138	$ 1,701	$ 1,644
Europe	1,535	1,655	1,577	288	275
Canada	375	447	289	101	106
Latin America and Mexico	878	893	820	45	43
Asia and Australia	1,111	1,264	1,032	80	82
Middle East and Africa	693	392	419		
Total	$ 12,104	$ 12,237	$ 11,275	$ 2,215	$ 2,150

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

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

Quarterly Data

(Unaudited)	2013				2012			
(Dollars in millions, except per share amounts)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Revenues								
Cessna	$ 708	$ 560	$ 593	$ 923	$ 669	$ 763	$ 778	$ 901
Bell	949	1,025	1,162	1,375	994	1,056	1,075	1,149
Textron Systems	429	422	405	409	377	389	400	571
Industrial	727	801	711	773	755	756	683	706
Finance	42	31	33	26	61	55	64	35
Total revenues	$ 2,855	$ 2,839	$ 2,904	$ 3,506	$ 2,856	$ 3,019	$ 3,000	$ 3,362
Segment profit								
Cessna (a)	$ (8)	$ (50)	$ (23)	$ 33	$ (6)	$ 35	$ 30	$ 23
Bell	129	135	131	178	145	152	165	177
Textron Systems	38	34	35	40	35	40	21	36
Industrial	57	79	52	54	73	61	38	43
Finance	19	15	13	2	12	22	28	2
Total segment profit	235	213	208	307	259	310	282	281
Corporate expenses and other, net	(55)	(20)	(34)	(57)	(47)	(20)	(38)	(43)
Interest expense, net for Manufacturing group	(37)	(30)	(29)	(27)	(35)	(35)	(35)	(38)
Income tax expense	(28)	(49)	(47)	(52)	(57)	(82)	(67)	(54)
Income from continuing operations	115	114	98	171	120	173	142	146
Income (loss) from discontinued operations, net of income taxes	4	(1)	1	(4)	(2)	(1)	9	2
Net income	$ 119	$ 113	$ 99	$ 167	$ 118	$ 172	$ 151	$ 148
Basic earnings per share								
Continuing operations	$ 0.42	$ 0.41	$ 0.35	$ 0.60	$ 0.43	$ 0.61	$ 0.51	$ 0.52
Discontinued operations	0.02	(0.01)		(0.01)	(0.01)		0.03	0.01
Basic earnings per share	$ 0.44	$ 0.40	$ 0.35	$ 0.59	$ 0.42	$ 0.61	$ 0.54	$ 0.53
Basic average shares outstanding *(In thousands)*	273,200	280,163	281,525	282,308	280,022	281,114	281,813	277,780
Diluted earnings per share								
Continuing operations	$ 0.40	$ 0.40	$ 0.35	$ 0.60	$ 0.41	$ 0.58	$ 0.48	$ 0.50
Discontinued operations	0.01			(0.01)	(0.01)		0.03	0.01
Diluted earnings per share	$ 0.41	$ 0.40	$ 0.35	$ 0.59	$ 0.40	$ 0.58	$ 0.51	$ 0.51
Diluted average shares outstanding *(In thousands)*	288,978	283,824	281,710	282,707	294,632	295,547	296,920	291,562
Segment profit margins								
Cessna	(1.1)%	(8.9)%	(3.9)%	3.6%	(0.9)%	4.6%	3.9%	2.6%
Bell	13.6	13.2	11.3	12.9	14.6	14.4	15.3	15.4
Textron Systems	8.9	8.1	8.6	9.8	9.3	10.3	5.3	6.3
Industrial	7.8	9.9	7.3	7.0	9.7	8.1	5.6	6.1
Finance	45.2	48.4	39.4	7.7	19.7	40.0	43.8	5.7
Segment profit margin	8.2%	7.5%	7.2%	8.8%	9.1%	10.3%	9.4%	8.4%
Common stock information								
Price range: High	$ 31.30	$ 30.22	$ 29.81	$ 37.43	$ 28.29	$ 29.18	$ 28.80	$ 26.75
Low	$ 23.94	$ 24.87	$ 25.36	$ 26.17	$ 18.37	$ 21.97	$ 22.15	$ 22.84
Dividends declared per share	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02	$ 0.02

(a) The second quarter of 2013 included $28 million in severance costs. The fourth quarter of 2012 included a $27 million charge related to an award against Cessna in an arbitration proceeding.

Schedule II Valuation and Qualifying Accounts

[redacted]		2013	[redacted]
	$	19	
		7	
		(4)	
	$	22	
	$	136	
		54	
		(40)	
	$	150	

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

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

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures We have carried out an evaluation, under the supervision and with the participation of our management, including our Chairman, President and Chief Executive Officer (CEO) and our Executive Vice President and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Act)) as of the end of the fiscal year covered by this report. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective in providing reasonable assurance that (a) the information required to be disclosed by us in the reports that we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and (b) such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Report of Management See page 40.

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting See page 41.

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

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information appearing under ELECTION OF DIRECTORS Nominees for Director, The Board of Directors *Corporate Governance*, The Board of Directors *Code of Ethics*, Board Committees *Audit Committee*, and SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 23, 2014 is incorporated by reference into this Annual Report on Form 10-K.

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

Item 11. Executive Compensation

The information appearing under ELECTION OF DIRECTORS The Board of Directors-- *Compensation of Directors*, ELECTION OF DIRECTORS Board Committees-- *Compensation Committee Interlocks and Insider Participation*, COMPENSATION COMMITTEE REPORT, COMPENSATION DISCUSSION AND ANALYSIS and EXECUTIVE COMPENSATION in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 23, 2014 is incorporated by reference into this Annual Report on Form 10-K.

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

The information appearing under SECURITY OWNERSHIP and EXECUTIVE COMPENSATION Equity Compensation Plan Information in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 23, 2014 is incorporated by reference into this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information appearing under ELECTION OF DIRECTORS The Board of Directors--*Director Independence* and EXECUTIVE COMPENSATION Transactions with Related Persons in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 23, 2014 is incorporated by reference into this Annual Report on Form 10-K.

Item 14. Principal Accountant Fees and Services

The information appearing under RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM Fees to Independent Auditors in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 23, 2014 is incorporated by reference into this Annual Report on Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements and Schedules See Index on Page 39.

Exhibits

3.1A	Restated Certificate of Incorporation of Textron as filed with the Secretary of State of Delaware on April 29, 2010. Incorporated by reference to Exhibit 3.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2010.
3.1B	Certificate of Amendment of Restated Certificate of Incorporation of Textron Inc., filed with the Secretary of State of Delaware on April 27, 2011. Incorporated by reference to Exhibit 3.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2011.
3.2	Amended and Restated By-Laws of Textron Inc., effective April 28, 2010 and further amended April 27, 2011 and July 23, 2013. Incorporated by reference to Exhibit 3.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended June 29, 2013.
4.1	Support Agreement dated as of May 25, 1994, between Textron Inc. and Textron Financial Corporation. Incorporated by reference to Exhibit 4.1 to Textron s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.
NOTE:	Instruments defining the rights of holders of certain issues of long-term debt of Textron have not been filed as exhibits because the authorized principal amount of any one of such issues does not exceed 10% of the total assets of Textron and its subsidiaries on a consolidated basis. Textron agrees to furnish a copy of each such instrument to the Commission upon request.
NOTE:	Exhibits 10.1 through 10.16 below are management contracts or compensatory plans, contracts or agreements.
10.1A	Textron Inc. 2007 Long-Term Incentive Plan (Amended and Restated as of April 28, 2010). Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2012.
10.1B	Form of Non-Qualified Stock Option Agreement. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007.
10.1C	Form of Incentive Stock Option Agreement. Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007.
10.1D	

	Form of Restricted Stock Unit Grant Agreement. Incorporated by reference to Exhibit 10.4 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007.
10.1E	Form of Restricted Stock Unit Grant Agreement with Dividend Equivalents. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2008.
10.1F	Form of Cash-Settled Restricted Stock Unit Grant Agreement with Dividend Equivalents. Incorporated by reference to Exhibit 10.1G to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2009.

10.1G	Form of Performance Share Unit Grant Agreement. Incorporated by reference to Exhibit 10.1H to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2009.
10.1H	Form of Performance Cash Unit Grant Agreement. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 4, 2009.
10.2	Textron Inc. Short-Term Incentive Plan (As amended and restated effective January 3, 2010). Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2010.
10.3A	Textron Inc. 1999 Long-Term Incentive Plan for Textron Employees (Amended and Restated Effective April 28, 2010). Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 2010.
10.3B	Form of Non-Qualified Stock Option Agreement. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 2004. (SEC File No. 001-05480)
10.3C	Form of Incentive Stock Option Agreement. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 2004. (SEC File No. 001-05480)
10.4A	Textron Spillover Savings Plan, effective January 3, 2010, including Appendix A, Defined Contribution Provisions of the Supplemental Benefits Plan for Textron Key Executives (As in effect before January 1, 2008). Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2010.
10.4B	Second Amendment to the Textron Spillover Savings Plan, dated December 21, 2012. Incorporated by reference to Exhibit 10.4B to Textron s Annual Report on Form 10-K for the fiscal year ended December 29, 2012.
10.4C	Third Amendment to the Textron Spillover Savings Plan, dated October 7, 2013.
10.5A	Textron Spillover Pension Plan, As Amended and Restated Effective January 3, 2010, including Appendix A (as amended and restated effective January 3, 2010), Defined Benefit Provisions of the Supplemental Benefits Plan for Textron Key Executives (As in effect before January 1, 2007). Incorporated by reference to Exhibit 10.4 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2010.
10.5B	Amendments to the Textron Spillover Pension Plan, dated October 12, 2011. Incorporated by reference to Exhibit 10.5B to Textron s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.
10.5C	Second Amendment to the Textron Spillover Pension Plan, dated October 7, 2013.
10.6A	Deferred Income Plan for Textron Executives, Effective January 3, 2010, including Appendix A, Provisions of the Deferred Income Plan for Textron Key Executives (As in effect before January 1, 2008). Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2010.
10.6B	First Amendment to the Deferred Income Plan for Textron Executives, dated November 7, 2013.
10.7A	Deferred Income Plan for Non-Employee Directors, As Amended and Restated Effective January 1, 2009, including Appendix A, Prior Plan Provisions (As in effect before January 1, 2008). Incorporated by reference to Exhibit 10.9 to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2009.

10.7B	Amendment No. 1 to Deferred Income Plan for Non-Employee Directors, as Amended and Restated Effective January 1, 2009, dated as of November 6, 2012. Incorporated by reference to Exhibit 10.8B to Textron s Annual Report on Form 10-K for the fiscal year ended December 29, 2012.
10.8A	Severance Plan for Textron Key Executives, As Amended and Restated Effective January 1, 2010. Incorporated by reference to Exhibit 10.10 to Textron s Annual Report on Form 10-K for the fiscal year ended January 2, 2010.
10.8B	First Amendment to the Severance Plan for Textron Key Executives, dated October 26, 2010. Incorporated by reference to Exhibit 10.10B to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2011.
10.9	Form of Indemnity Agreement between Textron and its executive officers. Incorporated by reference to Exhibit A to Textron s Proxy Statement for its Annual Meeting of Shareholders on April 29, 1987. (SEC File No. 001-05480)
10.10	Form of Indemnity Agreement between Textron and its non-employee directors (approved by the Nominating and Corporate Governance Committee of the Board of Directors on July 21, 2009 and entered into with all non-employee directors, effective as of August 1, 2009). Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended October 3, 2009.
10.11A	Letter Agreement between Textron and Scott C. Donnelly, dated June 26, 2008. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended June 28, 2008.
10.11B	Amendment to Letter Agreement between Textron and Scott C. Donnelly, dated December 16, 2008, together with Addendum No.1 thereto, dated December 23, 2008. Incorporated by reference to Exhibit 10.15B to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2009.
10.11C	Agreement between Textron and Scott C. Donnelly, dated May 1, 2009, related to Mr. Donnelly s personal use of a portion of hangar space at T.F. Green Airport which is leased by Textron. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 4, 2009.
10.11D	Hangar License and Services Agreement made and entered into on April 25, 2011 to be effective as of December 5, 2010, between Textron Inc. and Mr. Donnelly s limited liability company. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2011.
10.12A	Letter Agreement between Textron and Frank Connor, dated July 27, 2009. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended October 3, 2009.
10.12B	Hangar License and Services Agreement made and entered into on April 25, 2011 to be effective as of December 5, 2010, between Textron Inc. and Mr. Connor s limited liability company. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2011.
10.13	Letter Agreement between Textron and Cheryl H. Johnson, dated June 12, 2012. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2012.
10.14A	Letter Agreement between Textron and E. Robert Lupone, dated December 22, 2011. Incorporated by reference to Exhibit 10.17 to Textron s Annual Report on Form 10-K for the fiscal year ended December 31, 2011.
10.14B	Amendment to letter agreement between Textron and E. Robert Lupone, dated July 27, 2012. Incorporated by reference to Exhibit 10.5 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended September 29, 2012.

10.15	Director Compensation. Incorporated by reference to Exhibit 10.21 to Textron s Annual Report on Form 10-K for the fiscal year ended December 29, 2007. (SEC File No. 001-05480)
10.16	Form of Aircraft Time Sharing Agreement between Textron and its executive officers. Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended September 27, 2008.
10.17	Credit Agreement, dated as of October 4, 2013, among Textron, the Lenders listed therein, JPMorgan Chase Bank, N.A., as Administrative Agent, Citibank, N.A. and Bank of America, N.A., as Syndication Agents, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Documentation Agent. Incorporated by reference to Exhibit 10.1 to Textron s Current Report on Form 8-K filed on October 4, 2013.
10.18A	Master Services Agreement between Textron Inc. and Computer Sciences Corporation dated October 27, 2004. Incorporated by reference to Exhibit 10.26 to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2005. * (SEC File No. 001-05480)
10.18B	Amendment No. 4 to Master Services Agreement between Textron Inc. and Computer Sciences Corporation, dated July 1, 2007. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended September 29, 2007.
10.18C	Amendment No. 5 to Master Services Agreement between Textron Inc. and Computer Sciences Corporation, dated as of March 13, 2008. * Incorporated by reference to Exhibit 10.22C to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2011.
10.18D	Amendment No. 6 to Master Services Agreement between Textron Inc. and Computer Sciences Corporation, dated as of June 17, 2009. Incorporated by reference to Exhibit 10.22D to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2011.
10.18E	Amendment No. 7 to Master Services Agreement between Textron Inc. and Computer Sciences Corporation, dated as of September 30, 2010. * Incorporated by reference to Exhibit 10.22E to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2011.
10.19	Agreement and Plan of Merger among Beech Holdings, LLC, Sky Intermediate Merger Sub, LLC, Textron Inc. and Textron Acquisition LLC, dated as of December 26, 2013.
10.20	Term Credit Agreement, dated as of January 24, 2014 Among Textron, JPMorgan Chase Bank, N.A., as administrative agent, Citibank, N.A. and Bank of America, N.A., as syndication agents, The Bank of Tokyo-Mitsubishi UFJ, Ltd., as documentation agent, and other lenders named therein.
12.1	Computation of ratio of income to fixed charges of Textron Inc. s Manufacturing group.
12.2	Computation of ratio of income to fixed charges of Textron Inc., including all majority-owned subsidiaries.
21	Certain subsidiaries of Textron. Other subsidiaries, which considered in the aggregate do not constitute a significant subsidiary, are omitted from such list.
23	Consent of Independent Registered Public Accounting Firm.
24	Power of attorney.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101	The following materials from Textron Inc. s Annual Report on Form 10-K for the year ended December 28, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income (Loss), (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Shareholders Equity, (v) the Consolidated Statements of Cash Flows, (vi) the Notes to the Consolidated Financial Statements, and (vii) Schedule II Valuation and Qualifying Accounts.

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

Signatures

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized on this 14th day of February 2014.

TEXTRON INC.
Registrant

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below on this 14th day of February 2014 by the following persons on behalf of the registrant and in the capacities indicated:

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

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