TEXTRON INC
Form 10-K
February 15, 2013
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 29, 2012

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 29, 2012 was approximately $7.0 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 2, 2013, 271,544,305 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 24, 2013.

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PART I

Item 1. Business

Textron Inc. is a multi-industry company that leverages its global network of aircraft, defense, industrial and finance businesses to provide customers with innovative products and services around the world. We have approximately 33,000 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 17 to the Consolidated Financial Statements on pages 80 through 81 of this Annual Report on Form 10-K. The following description of our business should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations on pages 19 through 38 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, single-engine piston aircraft and lift solutions by CitationAir. Aftermarket services include parts, maintenance, inspection and repair services. Revenues in the Cessna segment accounted for approximately 25%, 26% and 24% of our total revenues in 2012, 2011 and 2010, respectively. Revenues for Cessna s principal lines of business were as follows:

(In millions)		**2012**		**2011**		**2010**
Aircraft sales	$	2,318	$	2,263	$	1,896
Aftermarket		793		727		667
	$	3,111	$	2,990	$	2,563

The family of jets currently produced by Cessna includes the Mustang, Citation CJ2+, Citation CJ3, Citation CJ4, Citation XLS+, Citation Sovereign and Citation X. Deliveries of the Citation M2 are expected to begin in the second half of 2013, and Cessna anticipates receiving certification and beginning delivery of the new Citation X model, with updated design and performance from the original Citation X, in late 2013. During 2012, Cessna announced the development of the Citation Longitude, a super midsize business jet expected to enter into service in 2017, as well as the new Citation Sovereign, an upgraded midsize business jet planned for a late 2013 entry into service. In addition, Cessna increased the range for the previously announced Citation Latitude to 2,500 nautical miles; this aircraft is expected to enter into service in 2015.

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 humanitarian flights, tourism and freight transport. Cessna also offers a single-engine piston product line, which includes the Skycatcher, Skyhawk SP, Skylane, Stationair and the Corvalis TTX. The

Turbo Skylane JT-A was announced in 2012 with deliveries expected to begin in 2013.

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, product support and reputation.

CitationAir provides a spectrum of private aviation lift solutions, including Jet Charter, Jet Management and Corporate Solutions throughout the contiguous U.S. and in Canada, Mexico, the Caribbean, the Bahamas and Bermuda.

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Bell Segment

Bell Helicopter is one of the leading suppliers of military and commercial helicopters, tiltrotor aircraft, and related spare parts and services in the world. Revenues for Bell accounted for approximately 35%, 31% and 31% of our total revenues in 2012, 2011 and 2010, respectively. Revenues by Bell s principal lines of business were as follows:

(In millions)		2012		2011		2010
Military:						
V-22 Program	$	1,611	$	1,380	$	1,155
Other Military		940		919		845
Commercial		1,723		1,226		1,241
	$	4,274	$	3,525	$	3,241

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). 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 helicopter.

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, 412, 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.

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 Bell-operated service sites, service facilities co-located with Cessna, 108 independent service centers and six 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, land and marine 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%, 17% and 19% of Textron s revenues in 2012, 2011 and 2010, 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)		**2012**		**2011**		**2010**
Unmanned Aircraft Systems	$	694	$	701	$	785
Land and Marine Systems		443		519		503
Weapons and Sensors		285		298		284
Mission Support and Other		315		354		407
	$	1,737	$	1,872	$	1,979

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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.

Land and Marine Systems

The Land and Marine 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.

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 communities. TDS is the U.S. Air Force s prime contractor for the Sensor Fuzed Weapon and the U.S. Army s lead provider for networked munitions systems.

Mission Support and Other

Mission Support and Other includes three businesses: AAI Test & Training, Lycoming and Textron Systems Advanced Systems. AAI Test & Training provides training and simulation systems and automated aircraft test and maintenance equipment. Lycoming specializes in the engineering, manufacture, service and support of piston aircraft engines for the general aviation and remotely piloted aircraft markets. Textron Systems Advanced Systems brings together cutting-edge technologies and innovations, including intelligence software solutions for U.S. and international defense, intelligence and law enforcement communities, through its Overwatch business.

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)		**2012**		**2011**		**2010**
Fuel Systems and Functional Components	$	1,842	$	1,823	$	1,640
Golf, Turf Care and Light Transportation Vehicles		660		560		554
Powered Tools, Testing and Measurement Equipment		398		402		330
	$	2,900	$	2,785	$	2,524

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%, 16% and 16% of our total revenues in 2012, 2011 and 2010, 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

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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. 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, along with three other finance subsidiaries owned by Textron Inc. In the fourth quarter of 2008, we announced a plan to exit the non-captive portion of the commercial finance business of our Finance segment while retaining the captive portion of the business that supports customer purchases of products that we manufacture. The non-captive portion of this business is based primarily in North America and includes the following product lines: Golf Mortgage, Timeshare and Structured Capital. The exit plan is being effected through a combination of orderly liquidation and selected sales. During 2012, we reduced our total finance receivable portfolio by $821 million primarily through liquidations. We expect to liquidate the majority of the remaining $370 million in the non-captive portfolio over the next two years.

Our Finance segment continues to originate new customer relationships and finance receivables in the captive finance business, which provides financing primarily for new Cessna aircraft and Bell helicopters and, to a limited extent, for new E-Z-GO and Jacobsen equipment. We also provide financing to purchasers of 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 United States. 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 2012, 2011 and 2010, our Finance group paid our Manufacturing group $309 million, $284 million and $416 million, respectively, related to the sale of Textron-manufactured products to third parties that were financed by the Finance group. Our Cessna and Industrial segments also received proceeds in those years of $19 million, $2 million and $10 million, respectively, from the sale of equipment from their manufacturing operations to our Finance group for use under operating lease agreements.

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 30 for a discussion of the credit quality of this portfolio.

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Backlog

Our backlog at the end of 2012 and 2011 is summarized below:

(In millions)	December 29, 2012	December 31, 2011
U.S. Government:		
Bell	$ 6,382	$ 6,507
Textron Systems	2,037	1,145
Cessna		45
Total U.S. Government backlog	8,419	7,697
Commercial:		
Bell	1,087	839
Cessna	1,062	1,844
Textron Systems	882	192
Industrial	13	37
Total commercial backlog	3,044	2,912
Total	$ 11,463	$ 10,609

Approximately 56% of our total backlog at December 29, 2012 represents orders that are not expected to be filled in 2013. 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 $3.1 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 2012, approximately 29% 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 54 of this Annual Report on Form 10-K.

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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; 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; 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; E-Z-GO; Gator Grips; Grand Caravan; Greenlee; H-1; Huey; Huey II; iCommand; IE2; Instinct; Integrated Command Suite; Jacobsen; Kautex; Kiowa Warrior; Klauke; Lycoming; M1117 ASV; McCauley; Millenworks; Mustang; Next Generation Fuel System; NGFS; On a Mission; Overwatch; PDCue; Power Advantage; Pro-Fit; ProParts; Ransomes; Recoil; Relentless; Rothenberger LLC; RXV; Sensor Fuzed Weapon; ServiceDirect; Shadow; Shadow Knight; Shadow Master; SkyBOOKS; Skycatcher; Skyhawk; Skyhawk SP; Skylane; SkyPLUS; Sovereign; Speed Punch; 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; V-22 Osprey; 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 15 to the Consolidated Financial Statements on page 79 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 29, 2012, we had approximately 33,000 employees.

Executive Officers of the Registrant

The following table sets forth certain information concerning our executive officers as of February 15, 2013.

Name	**Age**	**Current Position with Textron Inc.**
Scott C. Donnelly	51	Chairman, President and Chief Executive Officer

Frank T. Connor	53	Executive Vice President and Chief Financial Officer
Cheryl H. Johnson	52	Executive Vice President, Human Resources
E. Robert Lupone	53	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.

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Mr. Connor joined Textron in August 2009 as Executive Vice President and Chief Financial Officer. Previously, Mr. Connor was head of Telecom Investment Banking at Goldman, Sachs & Co from 2003 to 2008. Prior to that position, he served as Chief Operating Officer of Telecom, Technology and Media Investment Banking at Goldman, Sachs 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:

- 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 its 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 and of assets acquired upon foreclosure 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;

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- 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;
- Difficult conditions in the financial markets which may adversely impact our customers ability to fund or finance purchases of our products; and
- Continued demand softness or volatility in the markets in which we do business.

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 2012, we derived approximately 29% 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 more at risk for non-reimbursement of those costs until additional funds are appropriated. The reduction or termination of funding, or changes in the timing of funding, for U.S. Government programs in which we currently provide, or propose to provide, products or services would result in a reduction or loss of anticipated future revenues and 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.

Mounting pressure for U.S. Government deficit reduction and reduced national spending have created an environment where national security spending is being closely examined. In August 2011, Congress passed the Budget Control Act of 2011 which committed the U.S. Government to significantly reduce the federal deficit over ten years. Under this Act, very substantial automatic spending cuts, known as sequestration, including approximately $600 billion in cuts to the U.S. defense budget over a nine year period, are scheduled to be triggered beginning in 2013. In addition, the nation s debt ceiling is currently expected to be reached during the first half of 2013. Congress and the Administration continue to debate how the nation should proceed on these 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 the sequester 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, earnings 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

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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, U.S. Government contracts generally require the contractor to continue to perform on a contract even if 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 disclose may result in a termination for default or cause, suspension and/or debarment, and potential fines.

In 2010, the DoD issued guidance to its acquisition workforce to obtain greater efficiency and productivity in defense spending through an initiative known as the Better Buying Power Initiative. The DoD has announced that an updated initiative, to be known as Better Buying Power 2.0 will be launched in early 2013. These efforts may significantly affect 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 our 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, which 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 we incur in performing under the contract, our financial condition and results of operations could be adversely affected. Cost overruns also may adversely affect our ability to sustain existing programs and obtain future contract awards.

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

As a result of the continued worldwide economic softness, we have experienced continued weak demand for our fixed-wing aircraft, particularly our business jets. Soft demand for new and pre-owned jets could persist and could continue to adversely impact the pricing of new jets and the valuation of pre-owned jets. We have accepted a higher proportion of trade-ins of pre-owned jets in order to sell new jets, and we are winding down our fractional business jet ownership business. These two factors have increased our inventory of pre-owned jets.

Concerns regarding the financial stability of certain Eurozone countries, the overall stability of the euro and the suitability of the euro as a single currency may have an adverse impact on financial institutions and capital markets in Europe and globally which could impede the ability of our customers to obtain financing to purchase our jets and helicopters and further reduce demand for our products. In addition, both U.S. and foreign governments and government agencies regulate the aviation industry; 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 that may adversely impact demand for jets and/or helicopters. A prolonged weakness in the markets for our commercial aircraft products could adversely impact our results of operations and our future prospects.

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. The performance of our liquidating non-captive finance receivable portfolios may be adversely affected by other variables, including changes in our liquidation strategy and changes in external factors affecting the value and/or marketability of our assets. Valuations of the types of collateral securing our captive finance portfolio, particularly valuations of pre-owned aircraft, have decreased over the past several 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 or, in the case of assets in our liquidating portfolios, if they are unable to obtain alternative sources of financing at loan maturity. 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. Significant delay or difficulty in executing the continued liquidation of our liquidating portfolios and/or substantial losses in any of our finance asset portfolios could negatively impact the ability of our Finance segment to generate the cash necessary to service its debt, resulting in adverse effects on our cash flow, profitability and financial condition.

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 and/or to support our operations. Although we currently have access to the capital markets, our access and the cost of borrowings, is 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.

Our ability to fund our captive financing activities at economically competitive levels depends on our ability to borrow and the cost of borrowing in the credit markets.

Our Finance segment s ability to continue to offer customer financing for the products that we manufacture, and the long-term viability and profitability of the captive finance business, is largely dependent on our ability to obtain funding and at a reasonable cost both of which are dependent on a number of factors including market conditions and our credit ratings. If we are unable to continue to offer customer financing or if we are unable to offer competitive customer financing, it could negatively impact our Manufacturing group s ability to generate sales, which could adversely affect our results of operations and financial condition.

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,

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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 security threats and other disruptions.

As a U.S. defense contractor, we face certain security threats, including threats to our information technology 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. Our information technology networks and related systems are critical to the smooth operation of our business and essential to our ability to perform day to day operations. 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. An information technology system failure or breach of data security could disrupt our operations, cause the loss of business information or the compromise of confidential information and require significant management attention and resources. The potential consequences of a material cybersecurity incident include reputational damage, litigation with third parties, diminution in the value of our investment in research, development and engineering and increased cybersecurity protection and remediation costs, which in turn could adversely affect our competitiveness and our results of operations. In addition, we outsource certain support functions, including certain global information technology infrastructure services, to third-party service providers. Any disruption of such outsourced processes or functions also could have a material adverse impact on 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 in our current and future markets 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 the general efficacy of our research and development investments to develop products is less than expected or if we do not adequately protect the intellectual property developed through our research and development 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.

Our international business, including U.S. exports, exposes us to potentially greater risks than our domestic business. 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; 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 first 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

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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 implement 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, we could be affected by U.S. or foreign laws or regulations imposed in response to climate change concerns. Likewise, pursuant to the requirements of the Dodd-Frank Act and recently enacted Securities and Exchange Commission rules, we will be required to report on our use of conflict minerals originating from the Democratic Republic of Congo and surrounding countries. Compliance with these rules is expected to be time-consuming and costly and also could affect the cost and availability of minerals used to manufacture certain of our products. Compliance with new or changing laws and regulations or related interpretation and policies could increase our costs of doing business, affect how we conduct our operations and 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

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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. Changes in the funded status of defined benefit pension plans are recognized in other comprehensive income (loss) in the year in which they occur. 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 6,400 of our U.S. employees, or 26% of our total U.S. employees, are unionized, and approximately 2,800 of our non-U.S. employees, or 33% 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. In particular, the uncertainty with respect to the ability of certain European countries to continue to service their sovereign debt obligations and the related European financial restructuring efforts may cause the value of the euro to fluctuate. Currency variations also contribute to variations in sales of products and services in impacted jurisdictions. For example, in the event that one or more European countries were to replace the euro with another currency, our sales into such countries, or into Europe generally, would likely be adversely affected until stable exchange rates are established. 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.

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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 29, 2012, we operated a total of 61 plants located throughout the U.S. and 50 plants outside the U.S. We own 54 plants and lease the remainder for a total manufacturing space of approximately 20.9 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. Six additional substantially similar class action lawsuits were subsequently filed by other individuals. The complaints varyingly name Textron and certain present and former employees, officers and directors as defendants. These lawsuits alleged that the defendants 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. On February 2, 2010, an amended class action complaint was filed consolidating the seven previous lawsuits into a single complaint. On March 19, 2010, all defendants moved to dismiss the consolidated amended complaint, and on September 6, 2011, the Court granted the motion to dismiss in part and denied the motion in part. Specifically, the Court ruled that plaintiffs failed to plead sufficient allegations to support any claim that defendants made material misrepresentations that would be actionable under ERISA, but permitted the remainder of the Amended Complaint to survive the pleadings stage. On September 20, 2011, all defendants moved for partial reconsideration of the Court s decision not to dismiss the Amended Complaint. On December 5, 2011, the Court denied the motion for partial reconsideration without rendering a decision on the merits of the issues raised therein. 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. Because this is a class action, settlements of this type are subject to preliminary and final review by the Court with an opportunity for class members to respond to the proposed settlement and object if they so desire. Neither Textron nor any of the other defendants in the settlement admitted any wrongdoing with respect to the allegations in the case.

As previously reported in Textron s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, on February 7, 2012, a lawsuit was filed in the United States Bankruptcy Court, Northern District of Ohio, Eastern Division (Akron) by Brian A. Bash, Chapter 7 Trustee for Fair Finance Company against TFC, Fortress Credit Corp. and Fair Facility I, LLC. TFC provided a revolving line of credit of up to $17.5 million to Fair Finance Company from 2002 through 2007. The complaint alleged numerous counts against TFC, as Fair Finance Company s working capital lender, including receipt of fraudulent transfers and assisting in fraud perpetrated on Fair Finance investors. The Trustee sought avoidance and recovery of alleged fraudulent transfers in the amount of $316 million, as well as damages of $223 million on the other claims. The Trustee also sought trebled damages on all claims under Ohio law. TFC moved to dismiss all claims in the complaint, and on November 9, 2012, the court granted TFC s motion to dismiss in its entirety and dismissed TFC from the lawsuit.

We also are subject to other actual and threatened legal proceedings and other claims arising out of the conduct of our business. These proceedings include 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 seek damages, fines or

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penalties in substantial amounts or remediation of environmental contamination. Under federal government procurement regulations, certain claims brought by the U.S. Government could result in our suspension or debarment from U.S. Government contracting for a period of time. On the basis of information presently available, we do not believe that existing proceedings and claims will have a material effect on our financial position or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

The principal market on which our common stock is traded is the New York Stock Exchange under the symbol TXT. At December 29, 2012, there were approximately 12,500 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:

	2012			2011		
	High	**Low**	**Dividends per Share**	**High**	**Low**	**Dividends per Share**
First quarter	$ 28.29	$ 18.37	$ 0.02	$ 28.87	$ 23.50	$ 0.02
Second quarter	29.18	21.97	0.02	28.65	20.86	0.02
Third quarter	28.80	22.15	0.02	25.17	14.66	0.02
Fourth quarter	26.75	22.84	0.02	20.41	16.37	0.02

Issuer Repurchases of Equity Securities

Fourth Quarter *(shares in millions)*	**Total Number of Shares Purchased***	**Average Price Paid per Share (excluding commissions)**	**Total Number of Shares Purchased as part of Publicly Announced Plan***	**Maximum Number of Shares that may be Purchased under the Plan**
Month 1 (September 30, 2012 November 3, 2012)	3,532	$ 25.34	3,532	7,571
Month 2 (November 4, 2012 December 1, 2012)	4,465	24.11	4,465	3,106
Month 3 (December 2, 2012 December 29, 2012)	3,106	24.09	3,106	
Total	11,103	$ 24.51	11,103	

**These shares were purchased pursuant to a plan authorizing the repurchase of up to 24 million shares of Textron common stock that had been announced on July 19, 2007, which had no expiration date. During the fourth quarter of 2012, all remaining shares available under this plan* *were repurchased.*

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.

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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, 2007 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.

	2007	2008	2009	2010	2011	2012
Textron Inc.	$ 100.00	$ 20.04	$ 27.40	$ 34.57	$ 27.14	$ 35.52
S&P 500	100.00	63.00	79.68	91.68	93.61	106.78
S&P 500 A&D	100.00	63.46	79.10	91.05	95.86	108.37
S&P 500 IC	100.00	48.50	53.43	63.41	63.86	76.92

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Item 6. Selected Financial Data

(Dollars in millions, except per share amounts)	**2012**	**2011**	**2010**	**2009**	**2008**
Revenues					
Cessna	$ 3,111	$ 2,990	$ 2,563	$ 3,320	$ 5,662
Bell	4,274	3,525	3,241	2,842	2,827
Textron Systems	1,737	1,872	1,979	1,899	1,880
Industrial	2,900	2,785	2,524	2,078	2,918
Finance	215	103	218	361	723
Total revenues	$ 12,237	$ 11,275	$ 10,525	$ 10,500	$ 14,010
Segment profit					
Cessna	$ 82	$ 60	$ (29)	$ 198	$ 905
Bell	639	521	427	304	278
Textron Systems	132	141	230	240	251
Industrial	215	202	162	27	67
Finance (a)	64	(333)	(237)	(294)	(50)
Total segment profit	1,132	591	553	475	1,451
Special charges (b)			(190)	(317)	(526)
Corporate expenses and other, net	(148)	(114)	(137)	(164)	(171)
Interest expense, net for Manufacturing group	(143)	(140)	(140)	(143)	(125)
Income tax (expense) benefit	(260)	(95)	6	76	(305)
Income (loss) from continuing operations	$ 581	$ 242	$ 92	$ (73)	$ 324
Per share of common stock					
Income (loss) from continuing operations basic	$ 2.07	$ 0.87	$ 0.33	$ (0.28)	$ 1.32
Income (loss) from continuing operations diluted (c)	$ 1.97	$ 0.79	$ 0.30	$ (0.28)	$ 1.29
Dividends declared	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.92
Book value at year-end	$ 11.03	$ 9.84	$ 10.78	$ 10.38	$ 9.75
Common stock price: High	$ 29.18	$ 28.87	$ 25.30	$ 21.00	$ 71.69
Low	$ 18.37	$ 14.66	$ 15.88	$ 3.57	$ 10.09
Year-end	$ 24.12	$ 18.49	$ 23.64	$ 18.81	$ 15.37
Common shares outstanding *(In thousands)*					
Basic average	280,182	277,684	274,452	262,923	246,208
Diluted average (c)	294,663	307,255	302,555	262,923	250,338
Year-end	271,263	278,873	275,739	272,272	242,041
Financial position					
Total assets	$ 13,033	$ 13,615	$ 15,282	$ 18,940	$ 20,031
Manufacturing group debt	$ 2,301	$ 2,459	$ 2,302	$ 3,584	$ 2,569
Finance group debt	$ 1,686	$ 1,974	$ 3,660	$ 5,667	$ 7,388
Shareholders equity	$ 2,991	$ 2,745	$ 2,972	$ 2,826	$ 2,366
Manufacturing group debt-to-capital (net of cash)	24%	37%	32%	39%	46%
Manufacturing group debt-to-capital	44%	47%	44%	56%	52%
Investment data					
Capital expenditures	$ 480	$ 423	$ 270	$ 238	$ 545
Depreciation	$ 336	$ 343	$ 334	$ 344	$ 331

(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, $237 million and $64 million in 2010, 2009 and 2008, 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. In 2008, special charges include charges related to strategic actions taken in the Finance segment to exit portions of the commercial finance business, including an impairment charge of $169 million for unrecoverable goodwill and the initial

valuation allowance adjustment of $293 million related to the designation of a portion of finance receivables as held for sale.

(c) *For 2009, the potential dilutive effect of stock options, restricted stock units and the shares that could be issued upon the conversion of our convertibles 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.*

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

(Dollars in millions, except per share amounts)	**2012**	**2011**	**2010**
Revenues	$ 12,237	$ 11,275	$ 10,525
Operating expenses:			
Manufacturing cost of sales	10,019	9,308	8,605
Selling and administrative expenses	1,168	1,183	1,231
Net cash provided by operating activities of continuing operations for Manufacturing group	958	761	730
Diluted earnings per share (EPS) from continuing operations	1.97	0.79	0.30

An analysis of our consolidated operating results is provided below and a more detailed analysis of our segments operating results is provided in the Segment Analysis section on pages 21 to 30.

Revenues

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.

Revenues increased $750 million, 7%, in 2011, compared with 2010, primarily due to an 8% increase in Manufacturing revenues with increases in the Cessna, Bell, and Industrial segments that were partially offset by lower revenues in the Textron Systems segment. The net revenue increase included the following factors:

- Higher Cessna revenues of $427 million, primarily due to higher volume, largely due to the impact of higher Citation jet volume and the mix of light- and mid-size jets sold during the period.
- Higher Bell revenues of $284 million, largely due to higher volume in our military programs, which included more deliveries of V-22 and H-1 aircraft.
- Increased Industrial segment revenues of $261 million, primarily due to higher volume of $138 million, mostly reflecting higher automotive industry demand, and a favorable foreign exchange impact of $77 million, largely related to strengthening of the euro.
- Lower revenues at the Finance segment of $115 million, primarily attributable to the lower average finance receivable portfolio balance resulting from continued liquidation.
- Lower Textron Systems revenues of $107 million, primarily due to $140 million in lower volume in the UAS and Mission Support and Other product lines, partially offset by higher volume in the Land & Marine and Weapons and Sensors product lines of $28 million.

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Cost of Sales and Selling and Administrative Expense

(Dollars in millions)	2012	2011	2010
Operating expenses	$ 11,187	$ 10,491	$ 9,836
% change compared with prior period	7%	7%	
Cost of sales	$ 10,019	$ 9,308	$ 8,605
% change compared with prior period	8%	8%	
Gross margin as a percentage of Manufacturing revenues	16.7%	16.7%	16.5%
Selling and administrative expenses	$ 1,168	$ 1,183	$ 1,231
% change compared with prior period	(1)%	(4)%	

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 83.3% in both 2012 and 2011, and 83.5% in 2010.

Consolidated manufacturing cost of sales increased $711 million, 8%, in 2012, 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 $15 million, 1%, to $1,168 million 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.

Consolidated manufacturing cost of sales increased $703 million, 8%, in 2011, compared with 2010, principally due to higher sales volume in the Cessna, Bell and Industrial segments. In 2011, gross margin increased as a percentage of revenues primarily due to favorable product mix and improved leverage and manufacturing efficiencies on higher volume at Cessna and Bell. These improvements were partially offset by a $64 million increase in engineering and development expenses throughout our manufacturing businesses and $60 million in charges at Textron Systems related to the impairment of certain intangible assets and severance costs. In 2011, selling and administrative expense decreased $48 million, 4%, to $1.2 billion, compared with 2010, primarily due to $44 million in lower operating expense at the Finance segment, largely reflecting progress towards our exit from the non-captive commercial finance business, and a $23 million decrease in corporate expense, primarily due to the impact of changes in our stock price on compensation expense. These decreases were partially offset by higher bid and proposal costs at Textron Systems in 2011.

Interest Expense

(Dollars in millions)	2012	2011	2010
Interest expense	$ 212	$ 246	$ 270
% change compared with prior period	(14)%	(9)%	

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 $34 million, 14%, in 2012, compared with 2011, primarily due to lower average debt outstanding. In 2011, consolidated interest expense decreased $24 million, 9%, compared with 2010, primarily due to a decrease in the Finance group, largely due to the reduction in its debt from liquidations in the non-captive portfolio.

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.

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Special Charges

There were no amounts recorded within special charges in 2012 and 2011. In 2010, special charges included restructuring charges totaling $99 million, including $76 million of severance costs. These charges were related to a global restructuring program initiated in the fourth quarter of 2008 to reduce overhead costs and improve productivity across the company and included the announcement of the exit of portions of our commercial finance business. This restructuring program was substantially completed at the end of 2011. In 2010, special charges also included a $91 million non-cash pre-tax charge to reclassify a foreign exchange loss from equity to the Statement of Operations as a result of substantially liquidating a Canadian Finance entity.

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 as discussed in Note 2 to the Consolidated Financial Statements.

Income Tax Expense (Benefit)

Our effective rate was 30.9% in 2012, 28.1% in 2011 and (6.4)% in 2010, and generally differs from the U.S. federal statutory rate of 35% due to certain earnings from our operations in lower-tax jurisdictions throughout the world. The jurisdictions with favorable tax rates that have the most significant effective rate impact in the periods presented include primarily Canada, 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 United States. Our effective rate will fluctuate based on the mix of earnings from our U.S. and foreign operations. For a full reconciliation of our effective rate to the U.S. federal statutory rate of 35% see Note 14 to the Consolidated Financial Statements.

Subsequent to year end, 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 in the first quarter of 2013 will include a discrete tax benefit that will reduce the annual effective tax rate by approximately one percent.

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, certain corporate expenses and special charges. The measurement for the Finance segment excludes special charges and 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 29% of our revenues were derived from contracts with the U.S. Government in 2012. 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.

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Cessna

				% Change	
(Dollars in millions)	**2012**	**2011**	**2010**	**2012**	**2011**
Revenues	$ 3,111	$ 2,990	$ 2,563	4%	17%
Operating expenses	3,029	2,930	2,592	3%	13%
Segment profit (loss)	82	60	(29)	37%	307%
Profit margin	3%	2%	(1)%		
Backlog	$ 1,062	$ 1,889	$ 2,928	(44)%	(35)%

Cessna Revenues and Operating Expenses

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 from an unfavorable arbitration award described below.

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

On November 16, 2012, in an arbitration proceeding initiated by Avcorp Industries, Inc. against Cessna, an arbitral panel entered an award against Cessna in the amount of $27 million. The dispute related to an alleged breach of a supply agreement under which Avcorp made various components for Cessna aircraft. Although we are vigorously contesting this award, we recorded a charge of $27 million in the fourth quarter of 2012.

Factors contributing to the 2011 year-over-year revenue change are provided below:

(In millions)	**2011 versus 2010**
Volume	$ 419
Other	8
Total change	$ 427

Cessna s revenues increased $427 million, 17%, in 2011, compared with 2010, primarily due to higher Citation jet volume and the mix of light- and mid-size jets sold during the period, which had a $262 million impact, higher pre-owned aircraft volume of $76 million reflecting improved market demand and higher aftermarket volume of $62 million, in part due to continued investment in additional service offerings. We delivered 183 Citation jets in 2011, compared with 179 jets in 2010. During 2011, the portion of Cessna s revenues derived from aftermarket sales and services represented 24% of Cessna s revenues, compared with 26% in the corresponding period of 2010.

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Cessna s operating expenses increased by $338 million, 13%, in 2011, compared with 2010, principally due to higher sales volume, which resulted in a $271 million increase in direct material costs and a $27 million increase in manufacturing overhead. Operating expenses also increased due to higher engineering and development expenses of $28 million, primarily due to new product development. Cost inflation was offset by a $45 million favorable benefit related to the last-in, first-out (LIFO) method of accounting for inventories. In 2011, Cessna had a LIFO benefit of $22 million resulting from operational improvements that led to a reduction in inventory levels, compared with expense of $23 million in 2010.

Cessna Segment Profit (Loss)

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.

Factors contributing to 2011 year-over-year segment profit change are provided below:

(In millions)		**2011 versus 2010**
Volume	$	85
Other		4
Total change	$	89

Cessna s segment profit increased $89 million in 2011, compared with 2010, primarily due to higher volume of $85 million. Segment profit was also impacted by the following contributing factors included within the Other line:

- $28 million in higher engineering and development expenses, primarily due to new product development.
- $22 million in cost improvements realized during the period, which were driven by factory efficiencies due to higher production volume.
- $16 million in lower pre-owned aircraft write-downs.

In addition, cost inflation was offset by a $45 million favorable LIFO benefit discussed above.

Cessna Backlog

Cessna s backlog decreased $827 million, 44%, in 2012 and $1.0 billion, 35%, in 2011, mainly attributable to deliveries in excess of new orders and canceled Citation jet orders.

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Bell

(Dollars in millions)	2012	2011	2010	% Change 2012	% Change 2011
Revenues:					
V-22 program	$ 1,611	$ 1,380	$ 1,155	17%	19%
Other military	940	919	845	2%	9%
Commercial	1,723	1,226	1,241	41%	(1)%
Total revenues	4,274	3,525	3,241	21%	9%
Operating expenses	3,635	3,004	2,814	21%	7%
Segment profit	639	521	427	23%	22%
Profit margin	15%	15%	13%		
Backlog	$ 7,469	$ 7,346	$ 6,473	2%	13%

Bell Revenues and Operating Expenses

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.

Factors contributing to the 2011 year-over-year revenue change are provided below:

(In millions)	2011 versus 2010

Volume	$	258
Other		26
Total change	$	284

Bell s revenues increased $284 million, 9%, in 2011, compared with 2010, primarily due to higher volume, which included the following factors:

- $225 million increase in volume related to the V-22 program, primarily reflecting higher deliveries. Bell delivered 34 V-22 aircraft in 2011, compared with 26 deliveries in 2010.
- $74 million increase in other military volume, primarily reflecting higher H-1 deliveries, with 25 H-1 aircraft delivered in 2011, compared with 18 aircraft in 2010; this increase is net of a $55 million decrease in aftermarket volume, largely due to the completion of several non-recurring programs in 2010.
- $41 million decrease in commercial volume, primarily reflecting lower deliveries. Bell delivered 125 commercial aircraft in 2011, compared with 131 aircraft in 2010.

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Bell s operating expenses increased $190 million, 7%, in 2011, compared with 2010, primarily due to higher sales volume discussed above, partially offset by improved cost performance. Improved cost performance was primarily related to our military programs due to efficiencies realized through our production ramp-up as described below.

Bell Segment Profit

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.

Factors contributing to 2011 year-over-year segment profit change are provided below:

(In millions)		**2011 versus 2010**
Performance	$	109
Volume and mix		(22)
Other		7
Total change	$	94

Bell s segment profit increased $94 million, 22%, in 2011, compared with 2010, primarily due to improved program performance of $109 million, partially offset by an unfavorable mix of military and commercial aircraft sold during the period. Bell s improved performance included the following:

- $122 million resulting from improved manufacturing efficiencies in our military programs, resulting from efficiencies realized in connection with the ramp up of production lines.
- $30 million unfavorable net change in program profit adjustments; this change was largely due to a $21 million adjustment recognized in 2010 related to the recognition of profit on the H-1 and V-22 programs for reimbursement of prior year costs.

Bell Backlog

In 2012 and 2011, Bell s backlog reflected orders in excess of deliveries resulting in a $123 million, 2%, increase in 2012 and an $873 million, 13%, increase in 2011.

Textron Systems

				% Change	
(Dollars in millions)	**2012**	**2011**	**2010**	**2012**	**2011**
Revenues	$ 1,737	$ 1,872	$ 1,979	(7)%	(5)%
Operating expenses	1,605	1,731	1,749	(7)%	(1)%
Segment profit	132	141	230	(6)%	(39)%
Profit margin	8%	8%	12%		
Backlog	$ 2,919	$ 1,337	$ 1,598	118%	(16)%

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Textron Systems Revenues and Operating Expenses

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 reflecting the following changes:

- Lower Land & Marine volume of $76 million, primarily related to lower deliveries based on current contract requirements.
- Lower Mission Support and Other product line volume of $45 million, primarily due to the completion of certain contracts in 2011 and the timing of test and training revenues.
- Lower Weapons and Sensors volume of $13 million, primarily due to the completion of several contracts in 2011, partially offset by higher international Sensor Fuzed Weapon volume of $67 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 our new UAS fee-for-service contracts, 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.

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 costs 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. Our current financial guidance and backlog do not reflect additional task orders under the MEUAS II IDIQ contract after the current active orders conclude in April 2013.

Factors contributing to the 2011 year-over-year revenue change are provided below:

(In millions)

		2011 versus 2010
Volume	$	(112)
Other		5
Total change	$	(107)

Revenues at Textron Systems decreased $107 million, 5%, in 2011, compared with 2010, primarily due to lower volume, reflecting the following changes:

- Lower UAS volume of $84 million, largely due to lower deliveries and to the timing of revenues from various programs.

- Lower Mission Support and Other product line volume of $56 million, largely due to the completion of several test and training programs and lower intelligence systems volume.

- Higher Land & Marine volume of $18 million, primarily related to Armored Security Vehicles.

- Higher Weapons and Sensors revenues of $10 million, largely due to higher Sensor Fuzed Weapon volume.

Textron Systems operating expenses decreased $18 million, 1%, in 2011, compared with 2010, primarily due to the lower volume, which was partially offset by the $41 million intangible asset impairment charge and $19 million, primarily in severance costs related to the workforce reduction taken in 2011.

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Textron Systems Segment Profit

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 contracts described above.

Factors contributing to 2011 year-over-year segment profit change are provided below:

(In millions)	2011 versus 2010
Volume	$ (37)
Impairment charge	(41)
Inflation	(5)
Other	(6)
Total change	$ (89)

Segment profit at Textron Systems decreased $89 million, 39%, in 2011, compared with 2010, primarily due to the impact of lower volume described above and mix, along with the $41 million intangible asset impairment charge and approximately $19 million in severance costs related to the workforce reduction included in the Other line.

Textron Systems Backlog

In 2012, Textron Systems backlog increased $1.6 billion, 118%, largely due to additional orders in the UAS and Land & Marine product lines, including the Canadian TAPV contract for $693 million received in the second quarter of 2012. In 2011, Textron Systems backlog decreased $261 million, reflecting deliveries in excess of new orders related to various military programs.

Industrial

				% Change	
(Dollars in millions)	**2012**	**2011**	**2010**	**2012**	**2011**
Revenues:					
Fuel Systems and Functional Components	$ 1,842	$ 1,823	$ 1,640	1%	11%
Other Industrial	1,058	962	884	10%	9%
Total revenues	2,900	2,785	2,524	4%	10%
Operating expenses	2,685	2,583	2,362	4%	9%
Segment profit	215	202	162	6%	25%
Profit margin	7%	7%	6%		

Industrial Revenues and Operating Expenses

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

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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.

Factors contributing to the 2011 year-over-year revenue change are provided below:

(In millions)		**2011 versus 2010**
Volume	$	138
Foreign exchange		77
Acquisitions, net of dispositions		18
Other		28
Total change	$	261

Industrial segment revenues increased $261 million, 10%, in 2011 from 2010. Volume increased and mix improved largely due to a $117 million increase in the Fuel Systems and Functional Components product line, reflecting higher automotive industry demand, and $21 million in the Other Industrial product lines, largely related to the Powered Tools, Testing and Measurement Equipment product line reflecting higher sales in North America and Europe. The favorable foreign exchange impact was primarily related to strengthening of the euro, which mostly impacted the Fuel Systems and Functional Components product line. Higher Other Industrial revenues of $78 million included a $27 million impact from acquisitions and improved pricing of $20 million, in addition to the higher volume.

Operating expenses for the Industrial segment increased $221 million, 9%, in 2011, compared with 2010, primarily due to a $115 million increase in direct material costs due to higher sales volume, a $68 million impact from foreign exchange related to strengthening of the euro, and $40 million in inflation for direct materials related to various commodity and material components throughout the segment.

Industrial Segment Profit

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.

Factors contributing to 2011 year-over-year segment profit change are provided below:

(In millions)	**2011 versus 2010**
Volume	$ 31
Performance	34
Inflation, net of pricing	(35)
Other	10
Total change	$ 40

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Industrial segment profit increased $40 million, 25%, in 2011 from 2010, primarily due to a $34 million impact from improved performance and a $31 million impact from higher volume, as described above, partially offset by inflation, net of pricing of $35 million. Performance was favorable for the period due to continued cost reduction activities and improved manufacturing leverage resulting from higher volume. Inflation, net of pricing was primarily due to higher direct material costs for commodity and material components that exceeded related price increases, principally in the Fuel Systems and Functional Components product line.

Finance

(In millions)	**2012**	**2011**	**2010**
Revenues	$ 215	$ 103	$ 218
Segment profit (loss)	64	(333)	(237)

Our plan to exit the non-captive commercial finance business of our Finance segment has been effected through a combination of orderly liquidation and selected sales. We expect to liquidate the majority of the remaining $370 million of finance receivables in the non-captive portfolio over the next two years.

Finance Revenues

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 revenues decreased $115 million in 2011 compared with 2010, primarily attributable to the impact of a $1.8 billion lower average finance receivable balance.

Finance Segment Profit (Loss)

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 segment loss increased $96 million in 2011 compared with 2010, primarily due to the $186 million valuation allowance recorded on the transfer of the remaining Golf Mortgage portfolio from held for investment to the held for sale classification during the fourth quarter of 2011 and a $61 million reduction in interest margin resulting from the lower average finance receivable balance. These increases were partially offset by $131 million in lower provision for loan losses, primarily the result of a decline in new troubled accounts in the non-captive portfolio during 2011 and a $36 million reversal of the allowance for losses related to one significant account. In addition, administrative expense declined by $44 million primarily due to lower compensation expense associated with a workforce reduction and other cost reductions related to the exit of the non-captive business.

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Finance Portfolio Quality

The following table reflects information about the Finance segment s credit performance related to finance receivables held for investment:

(Dollars in millions)	December 29, 2012	December 31, 2011
Finance receivables	$ 1,934	$ 2,477
Nonaccrual finance receivables	143	321
Allowance for losses	84	156
Ratio of nonaccrual finance receivables to finance receivables	7.39%	12.96%
Ratio of allowance for losses on impaired nonaccrual finance receivables to impaired nonaccrual finance receivables	21.24%	28.52%
Ratio of allowance for losses on finance receivables to nonaccrual finance receivables	58.74%	48.60%
Ratio of allowance for losses on finance receivables to finance receivables	4.34%	6.30%
60+ days contractual delinquency as a percentage of finance receivables	4.65%	6.70%
60+ days contractual delinquency	$ 90	$ 166
Repossessed assets and properties	81	199

Finance receivables held for sale are reflected at the lower of cost or fair value on the Consolidated Balance Sheets and are not included in the credit performance statistics above. Finance receivables held for sale in the non-captive portfolio totaled $140 million at the end of 2012, compared with $418 million at the end of 2011.

Nonaccrual finance receivables decreased $178 million, 55%, from 2011, primarily due to reductions of $129 million in the Timeshare portfolio and $38 million in the Captive portfolio. The decrease in the Timeshare portfolio was primarily due to the liquidation of one significant account. The Captive portfolio decreased mostly due to repossession of collateral and cash collections, partially offset by new accounts identified as nonaccrual in 2012.

Liquidity and Capital Resources

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 TFC, its consolidated subsidiaries and three other finance subsidiaries owned by Textron Inc. 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 29, 2012	December 31, 2011
Manufacturing group		
Cash and equivalents	$ 1,378	$ 871
Debt	2,301	2,459
Shareholders equity	2,991	2,745
Capital (debt plus shareholders equity)	5,292	5,204
Net debt (net of cash and equivalents) to capital	24%	37%
Debt to capital	44%	47%
Finance group		
Cash and equivalents	$ 35	$ 14
Debt	1,686	1,974

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 with our existing cash and equivalents, along with the cash we expect to generate from our manufacturing operations, we will have sufficient cash to meet our future needs.

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Textron has a senior unsecured revolving credit facility that expires in March 2015 for an aggregate principal amount of $1.0 billion, up to $200 million of which is available for the issuance of letters of credit. At December 29, 2012, there were no amounts borrowed against the facility, and there were $37 million of letters of credits issued against it. We also 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.

At December 29, 2012, the principal amount of our convertible notes outstanding was $215 million. Under the terms of the Indenture that governs the notes, the notes are currently convertible at the holder s option through April 29, 2013, the second trading day preceding their May 1, 2013 maturity date. We may deliver shares of common stock, cash or a combination of cash and shares of common stock in satisfaction of our obligations upon conversion of the convertible notes. We intend to settle the face value of the convertible notes in cash.

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)	**2012**	**2011**	**2010**
Operating activities	$ 958	$ 761	$ 730
Investing activities	(476)	(423)	(353)
Financing activities	29	(360)	(1,215)

We generated $958 million in cash from operating activities in 2012 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 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 the Cessna segment primarily due to higher trade-in activities, which was largely offset by a reduction in net taxes paid. We made pension contributions of $405 million, $642 million and $417 million in 2012, 2011 and 2010, respectively. Cash flows from operating activities increased in 2011, compared with 2010, largely due to higher earnings for the Manufacturing group, partially offset by higher cash pension contributions.

Investing cash flows in 2012, 2011 and 2010 primarily included capital expenditures of $480 million, $423 million, and $270 million, respectively, in support of our new product development and cost improvement strategies.

We generated cash from financing activities in 2012, largely due to the receipt of $490 million from the Finance group in payment of its intergroup borrowing, partially offset by share repurchases in the fourth quarter of 2012 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. In 2010, we repaid $1.2 billion of our bank credit lines.

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 22, 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 and for opportunistic capital management purposes.

Dividends

Dividend payments to shareholders totaled $17 million, $22 million and $22 million in 2012, 2011 and 2010, respectively.

Capital Contributions Paid To and Dividends Received From the Finance Group

Under a Support Agreement between Textron Inc. and TFC, Textron Inc. is required to maintain a controlling interest in TFC. The agreement also requires Textron Inc. 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)	**2012**	**2011**	**2010**
Dividends paid by TFC to Textron Inc.	$ 345	$ 179	$ 505
Capital contributions paid to TFC under Support Agreement	(240)	(182)	(383)

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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 Statement 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

During 2012, we liquidated $821 million of the Finance group s finance receivables, net of originations. These finance receivable reductions occurred in both the non-captive and captive finance portfolios, but were primarily driven by the non-captive portfolio in connection with our exit plan, including $241 million and $218 million in the Golf Mortgage and Timeshare product lines, respectively. Depending on market conditions, we expect to liquidate the majority of the remaining $370 million of finance receivables in the non-captive portfolio over the next two years.

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

(In millions)	**2012**	**2011**	**2010**
Operating activities	$ 5	$ 65	$ (35)
Investing activities	934	1,453	2,305
Financing activities	(918)	(1,536)	(2,383)

Cash flows from operating activities decreased in 2012, primarily due to changes in taxes paid/received, partially offset by higher earnings. Net tax (payments)/refunds were $(43) million, $65 million and $(101) million in 2012, 2011 and 2010, respectively. Net tax payments in 2012 and 2010 included settlements related to the IRS s challenge of tax deductions claimed in prior years for certain leveraged lease transactions.

Cash receipts from the collection of finance receivables continued to outpace finance receivable originations, which resulted in net cash inflow from investing activities for the past three years. Finance receivables repaid and proceeds from sales totaled $1.1 billion in 2012, $1.8 billion in 2011 and $3.0 billion in 2010. Cash outflows for originations declined to $331 million in 2012 from $471 million in 2011 and $866 million in 2010. These decreases were largely driven by the wind down of the non-captive business.

Cash used in financing activities included principal payments on long-term debt of $0.4 billion, $0.8 billion and $2.1 billion in 2012, 2011 and 2010, respectively. These cash outflows were partially offset by proceeds from the issuance of long term debt of $106 million, $430 million and $231 million, respectively. In 2012, the Finance group also made cash payments totaling $493 million to the Manufacturing group related to intergroup borrowings. In 2011 and 2010, the Finance group paid $1.4 billion and $0.3 billion, respectively, 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)	**2012**	**2011**	**2010**
Operating activities	$ 935	$ 1,068	$ 993
Investing activities	378	843	1,549
Financing activities	(781)	(1,951)	(3,493)

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 flow from operating activities increased in 2011, compared with 2010, primarily due to higher earnings for the Manufacturing group, partially offset by higher cash pension contributions made in 2011. In addition, cash payments related to the restructuring program that we substantially completed at the end of 2010 decreased to $44 million in 2011, from $72 million in 2010.

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Cash receipts from the collection of finance receivables continued to outpace finance receivable originations, which resulted in net cash inflow from investing activities for the past three years. Finance receivables repaid and proceeds from sales totaled $0.7 billion in 2012, $1.2 billion in 2011 and $2.2 billion in 2010. Cash outflows for originations declined to $22 million in 2012 from $187 million in 2011 and $450 million in 2010. These decreases are largely due to our ongoing exit from the non-captive business. Investing activities also included capital expenditures of $480 million, $423 million, and $270 million in 2012, 2011 and 2010, respectively, in support of our new product development and cost improvement strategies.

Cash used in financing activities included principal payments on long-term debt of $0.6 billion, $0.8 billion and $2.2 billion in 2012, 2011 and 2010, respectively. In 2011 and 2010, financing activities also included repayments of $1.4 billion and $1.5 billion, respectively, against the outstanding balance on our bank credit lines. Cash used in financing activities also included $272 million of share repurchases in 2012 and $580 million in payments related to the purchase of convertible notes in 2011. These cash outflows were partially offset by proceeds from the issuance of long term debt of $106 million, $926 million and $231 million, respectively.

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)	**2012**	**2011**	**2010**
Reclassifications from investing activities:			
Finance receivable originations for Manufacturing group inventory sales	$ (309)	$ (284)	$ (416)
Cash received from customers and the sale of receivables	405	520	840
Other capital contributions made to Finance group		(60)	(30)
Other	(16)	11	9
Total reclassifications from investing activities	80	187	403
Reclassifications from financing activities:			
Capital contribution paid by Manufacturing group to Finance group under Support Agreement	240	182	383
Dividends received by Manufacturing group from Finance group	(345)	(179)	(505)
Other capital contributions made to Finance group		60	30
Other	(3)	(8)	(13)
Total reclassifications from financing activities	(108)	55	(105)
Total reclassifications and adjustments to cash flow from operating activities	$ (28)	$ 242	$ 298

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Contractual Obligations

Manufacturing Group

The following table summarizes the known contractual obligations, as defined by reporting regulations, of our Manufacturing group as of December 29, 2012:

		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	$ 2,307	$ 535	$ 364	$ 614	$ 794
Interest on borrowings	619	123	200	151	145
Pension benefits for unfunded plans *(1)*	388	26	48	44	270
Postretirement benefits other than pensions *(1)*	564	52	94	81	337
Other long-term liabilities *(2)*	556	159	137	66	194
Liabilities not reflected in balance sheet:					
Operating leases *(3)*	343	57	83	53	150
Purchase obligations *(4)*	2,844	2,257	586	1	
Total Manufacturing group	$ 7,621	$ 3,209	$ 1,512	$ 1,010	$ 1,890

(1) We maintain defined benefit pension plans and postretirement benefit plans other than pensions as discussed in Note 13 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 2013, we expect to make contributions to our funded pension plans of approximately $160 million and approximately $22 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 2014 through 2017 are estimated to be in the range of approximately $100 million to $200 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 29, 2012, 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 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.

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Finance Group

The following table summarizes the known contractual obligations, as defined by reporting regulations, of our Finance group as of December 29, 2012:

		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	$ 1,096	$ 563	$ 254	$ 149	$ 130
Securitized debt *(1)*	282	74	133	49	26
Subordinated debt	300				300
Interest on borrowings *(2)*	286	45	67	39	135
Total Finance group	$ 1,964	$ 682	$ 454	$ 237	$ 591

(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 29, 2012, the Finance group also had $75 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.

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

The following table sets forth the aggregate gross amount of all program profit adjustments that are included within segment profit for the three years ended December 29, 2012:

(In millions)		**2012**		**2011**		**2010**
Gross favorable	$	88	$	83	$	98
Gross unfavorable		(73)		(29)		(20)
Net adjustments	$	15	$	54	$	78

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.

For the Bell reporting unit, we performed a qualitative assessment based on economic, industry and company-specific factors as the initial step in the annual goodwill impairment test. Based on the results of the qualitative assessment, we concluded that it is more likely than not that the unit s fair value is greater than its carrying amount and the next step of the impairment analysis was not required. For our other reporting units, we performed the next step of the impairment analysis, which required us to calculate fair value of each reporting unit.

Fair values were established primarily using discounted cash flows that incorporated 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 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. These plans do not include any potential impact that sequestration budget cuts may have on our businesses that serve the U.S. Government. 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 at fair value. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss would be recognized in an amount equal to that excess.

Based on our annual impairment reviews, 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.

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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 2012, the assumed expected long-term rate of return on plan assets used in calculating pension expense was 7.58%, compared with 7.84% in 2011. In 2012 and 2011, the assumed rate of return for our domestic plans, which represent approximately 90% of our total pension assets, was 7.75% and 8.00%, respectively. A 50-basis-point decrease in this long-term rate of return in 2012 would have increased pension expense for our domestic plans by approximately $24 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 2012, the weighted-average discount rate used in calculating pension expense was 4.94%, compared with 5.71% in 2011. For our domestic plans, the assumed discount rate was 5.00% in 2012, compared with 5.75% for 2011. A 50-basis-point decrease in this discount rate in 2012 would have increased pension expense for our domestic plans by approximately $27 million.

The trend in healthcare costs is difficult to estimate, and it has an important effect on postretirement liabilities. The 2012 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 2012 medical rate of 8.40% is assumed to decrease to 5.00% by 2021 and then remain at that level. The 2012 prescription drug rate of 8.40% is assumed to decrease to 5.00% by 2021 and then remain at that level. See Note 13 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.

Allowance for Losses on Finance Receivables Held for Investment

Finance receivables held for investment 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 carrying value with either a) the expected future cash flows, discounted at the finance receivable s effective interest rate; or b) the fair value of the underlying collateral, if the finance receivable is collateral dependent. 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/foreclosure and eventual disposal of collateral. When there is a range of potential outcomes, we perform multiple discounted cash flow analyses and weight the 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 underlying collateral, which may differ from actual results. While our analysis is specific to each individual account, critical factors included in this analysis for the Captive product line include industry valuation guides, age and physical condition of collateral, payment history and existence and financial strength of guarantors.

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We also establish an allowance for losses to cover probable but specifically unknown losses existing in the portfolio. For the Captive product line, the 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. We recognize net tax-related interest and penalties for continuing operations in income tax expense.

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

Interest Rate Risks

Our financial results are affected by changes in the U.S. and foreign 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 for the captive business with a strategy of matching floating-rate assets with floating-rate liabilities, which includes the use of interest rate exchange agreements.

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 $0.7 billion and $0.6 billion at the end of 2012 and 2011, respectively.

The impact of foreign exchange rate changes for 2012 and 2011 from the prior year for each period is provided below:

(In millions)	**2012**	**2011**
Impact of foreign exchange rates increased (decreased):		
Revenues	$ (80)	$ 77
Segment profit	(10)	8

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.

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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:

	2012			2011		
(*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	$ (564)	$ (598)	$ (60)	$ (543)	$ (564)	$ (56)
Foreign currency exchange contracts	6	6	34	5	5	46
	$ (558)	$ (592)	$ (26)	$ (538)	$ (559)	$ (10)
Interest rate risk						
Debt	$ (2,225)	$ (2,636)	$ (9)	$ (2,328)	$ (2,561)	$ (14)
Finance group						
Interest rate risk						
Finance receivables	$ 1,766	$ 1,793	$ 36	$ 2,415	$ 2,266	$ 90
Debt, including intergroup	(1,687)	(1,678)	(13)	(2,467)	(2,347)	(24)
	$ 79	$ 115	$ 23	$ (52)	$ (81)	$ 66

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

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Item 8. Financial Statements and Supplementary Data

Our Consolidated Financial Statements and the related 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.

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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. 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 29, 2012.

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 29, 2012, 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. Both the independent auditors and the internal auditors have free and full access to senior management and the Audit Committee.

/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 15, 2013

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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 29, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (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 29, 2012, 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 29, 2012 and December 31, 2011, 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 29, 2012 of Textron Inc. and our report dated February 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts

February 15, 2013

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Textron Inc.

We have audited the accompanying Consolidated Balance Sheets of Textron Inc. as of December 29, 2012 and December 31, 2011, 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 29, 2012. Our audits also included the financial statement schedule contained on page 83. 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 29, 2012 and December 31, 2011 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 29, 2012, 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 29, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2013 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Boston, Massachusetts

February 15, 2013

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Consolidated Statements of Operations

For each of the years in the three-year period ended December 29, 2012

(In millions, except per share data)		2012		2011		2010
Revenues						
Manufacturing revenues	$	12,022	$	11,172	$	10,307
Finance revenues		215		103		218
Total revenues		12,237		11,275		10,525
Costs, expenses and other						
Cost of sales		10,019		9,308		8,605
Selling and administrative expense		1,168		1,183		1,231
Interest expense		212		246		270
Provision for losses on finance receivables		(3)		12		143
Valuation allowance on transfer of Golf Mortgage portfolio to held for sale				186		
Special charges						190
Other losses, net				3		
Total costs, expenses and other		11,396		10,938		10,439
Income from continuing operations before income taxes		841		337		86
Income tax expense (benefit)		260		95		(6)
Income from continuing operations		581		242		92
Income (loss) from discontinued operations, net of income taxes		8				(6)
Net income	$	589	$	242	$	86
Basic earnings per share						
Continuing operations	$	2.07	$	0.87	$	0.33
Discontinued operations		0.03				(0.02)
Basic earnings per share	$	2.10	$	0.87	$	0.31
Diluted earnings per share						
Continuing operations	$	1.97	$	0.79	$	0.30
Discontinued operations		0.03				(0.02)
Diluted earnings per share	$	2.00	$	0.79	$	0.28

See Notes to the Consolidated Financial Statements.

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Consolidated Statements of Comprehensive Income (Loss)

For each of the years in the three-year period ended December 29, 2012

(In millions)	**2012**	**2011**	**2010**
Net income	$ 589	$ 242	$ 86
Other comprehensive income (loss), net of tax:			
Pension adjustments, net of reclassifications	(146)	(286)	(71)
Deferred gains/losses on hedge contracts, net of reclassifications	(1)	(20)	4
Foreign currency translation adjustment	2	(3)	(2)
Recognition of currency translation loss (see Note 11)			74
Comprehensive income (loss)	$ 444	$ (67)	$ 91

See Notes to the Consolidated Financial Statements.

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Consolidated Balance Sheets

(In millions, except share data)	**December 29, 2012**	**December 31, 2011**
Assets		
Manufacturing group		
Cash and equivalents	$ 1,378	$ 871
Accounts receivable, net	829	856
Inventories	2,712	2,402
Other current assets	470	1,134
Total current assets	5,389	5,263
Property, plant and equipment, net	2,149	1,996
Goodwill	1,649	1,635
Other assets	1,524	1,508
Total Manufacturing group assets	10,711	10,402
Finance group		
Cash and equivalents	35	14
Finance receivables held for investment, net	1,850	2,321
Finance receivables held for sale	140	418
Other assets	297	460
Total Finance group assets	2,322	3,213
Total assets	$ 13,033	$ 13,615
Liabilities and shareholders equity		
Liabilities		
Manufacturing group		
Current portion of long-term debt	$ 535	$ 146
Accounts payable	1,021	833
Accrued liabilities	1,956	1,952
Total current liabilities	3,512	2,931
Other liabilities	2,798	2,826
Long-term debt	1,766	2,313
Total Manufacturing group liabilities	8,076	8,070
Finance group		
Other liabilities	279	333
Due to Manufacturing group	1	493
Debt	1,686	1,974
Total Finance group liabilities	1,966	2,800
Total liabilities	10,042	10,870
Shareholders equity		
Common stock (282.6 million and 279.1 million shares issued, respectively, and 271.3 million and 278.9 million shares outstanding, respectively)	35	35
Capital surplus	1,177	1,081
Retained earnings	3,824	3,257
Accumulated other comprehensive loss	(1,770)	(1,625)
	3,266	2,748
Less cost of treasury shares	275	3
Total shareholders equity	2,991	2,745
Total liabilities and shareholders equity	$ 13,033	$ 13,615

See Notes to the Consolidated Financial Statements.

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Consolidated Statements of Shareholders Equity

(In millions, except per share data)	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance at January 2, 2010	$ 35	$ 1,369	$ 2,973	$ (230)	$ (1,321)	$ 2,826
Net income			86			86
Other comprehensive income					5	5
Dividends declared ($0.08 per share)			(22)			(22)
Share-based compensation activity		(68)		145		77
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

See Notes to the Consolidated Financial Statements.

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Consolidated Statements of Cash Flows

For each of the years in the three-year period ended December 29, 2012

	Consolidated		
(In millions)	**2012**	**2011**	**2010**
Cash flows from operating activities			
Net income	$ 589	$ 242	$ 86
Less: Income (loss) from discontinued operations	8		(6)
Income from continuing operations	581	242	92
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:			
Dividends received from Finance group			
Capital contributions paid to Finance group			
Non-cash items:			
Depreciation and amortization	383	403	393
Provision for losses on finance receivables held for investment	(3)	12	143
Portfolio losses on finance receivables	68	102	112
Valuation allowance on finance receivables held for sale	(76)	202	8
Goodwill and other asset impairment charges		59	19
Deferred income taxes	171	81	69
Other, net	97	166	109
Changes in assets and liabilities:			
Accounts receivable, net	32	36	(1)
Inventories	(316)	(127)	(10)
Other assets	85	76	99
Accounts payable	179	211	54
Accrued and other liabilities	(122)	(105)	(249)
Pension, net	(240)	(474)	(269)
Captive finance receivables, net	96	236	424
Other operating activities, net		(52)	
Net cash provided by operating activities of continuing operations	935	1,068	993
Net cash used in operating activities of discontinued operations	(8)	(5)	(9)
Net cash provided by operating activities	927	1,063	984
Cash flows from investing activities			
Finance receivables repaid	599	824	1,635
Finance receivables originated or purchased	(22)	(187)	(450)
Proceeds on receivables sales	116	421	528
Capital expenditures	(480)	(423)	(270)
Proceeds from collection on notes receivable from a prior disposition		58	
Net cash used in acquisitions	(11)	(14)	(57)
Proceeds from sale of repossessed assets and properties	133	109	129
Other investing activities, net	43	55	34
Net cash provided by investing activities	378	843	1,549
Cash flows from financing activities			
Principal payments on long-term debt and nonrecourse debt	(615)	(785)	(2,241)
Net proceeds from issuance of long-term debt	106	926	231
Payments on long-term lines of credit		(1,440)	(1,467)
Intergroup financing			
Settlement of convertible notes	(2)	(580)	
Capital contributions paid to Finance group under Support Agreement			
Capital contributions paid to Cessna Export Finance Corp.			
Amendment of call option/warrant transactions and purchase of capped call		(30)	
Purchases of Textron common stock	(272)		
Dividends paid	(17)	(22)	(22)
Other financing activities.	19	(20)	6
Net cash used in financing activities	(781)	(1,951)	(3,493)
Effect of exchange rate changes on cash and equivalents	4	(1)	(1)

Net increase (decrease) in cash and equivalents	528	(46)	(961)
Cash and equivalents at beginning of year	885	931	1,892
Cash and equivalents at end of year	$ 1,413	$ 885	$ 931

See Notes to the Consolidated Financial Statements.

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Consolidated Statements of Cash Flows continued

For each of the years in the three-year period ended December 29, 2012

	Manufacturing Group			Finance Group		
(In millions)	**2012**	**2011**	**2010**	**2012**	**2011**	**2010**
Cash flows from operating activities						
Net income (loss)	$ 542	$ 464	$ 314	$ 47	$ (222)	$ (228)
Less: Income (loss) from discontinued operations	8					