THERMO FISHER SCIENTIFIC INC.
Form 4
March 01, 2016

FORM 4

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Durbin Patrick M

(Last) (First) (Middle)

81 WYMAN STREET

(Street)

WALTHAM, MA 02451

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
THERMO FISHER SCIENTIFIC INC. [TMO]

3. Date of Earliest Transaction (Month/Day/Year)
02/26/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Senior Vice President

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/26/2016		F		250	D	$ 130.71	33,098	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Durbin Patrick M 81 WYMAN STREET WALTHAM, MA 02451			Senior Vice President	

Signatures

/s/ Barbara J. Lucas, Attorney-in-Fact for Patrick M. Durbin	03/01/2016
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. font size="1" face="Times New Roman" style="font-size:8.0pt;">(44

)

42

12

50

Net cash provided by (used in) investing activities

(624

)

(476

)

(423

)

624

934

1,453

Cash flows from financing activities

Principal payments on long-term and nonrecourse debt

(313

)

(189

)

(29

)

(743

)

(426

)

(756

)

Proceeds from long-term debt

150

496

298

106

430

Settlement of convertible notes

(215

)

(2

)

(580

)

Explanation of Responses:

Proceeds from settlement of capped call

75

Amendment of call option/warrant transactions and purchase of capped call

(30

)

Payments on long-term lines of credit

(1,440

)

Purchases of Textron common stock

(272

)

Proceeds from exercise of stock options

31

19

3

Dividends paid

(22

)

(17

)

(22

)

(175

)

(345

)

(179

)

Intergroup financing

57

490

(175

)

(57

)

(493

)

167

Capital contributions paid to Finance group

1

240

182

Capital contributions paid to Cessna Export Finance Corp.

60

Other financing activities

(3

)

(23

)

(1

)

Net cash provided by (used in) financing activities

(240

)

29

(360

)

(677

)

(918

)

(1,536

)

Effect of exchange rate changes on cash and equivalents

(6

)

4

(1

)

Net increase (decrease) in cash and equivalents

(215

)

507

(27

)

13

21

(19

)

Cash and equivalents at beginning of year

1,378

871

898

35

14

33

Cash and equivalents at end of year

$

1,163

$

1,378

$

871

$

48

Explanation of Responses:

$

35

$

14

See Notes to the Consolidated Financial Statements.

48

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation and Financial Statement Presentation

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

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

Collaborative Arrangements

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

Use of Estimates

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

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

Revenue Recognition

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

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

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

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

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

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

Cash and Equivalents

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

Inventories

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

Property, Plant and Equipment

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

Goodwill

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

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

Intangible and Other Long-Lived Assets

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

Finance Receivables

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

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

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

Pension and Postretirement Benefit Obligations

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

Derivative Financial Instruments

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

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

Product Liabilities

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

Environmental Liabilities and Asset Retirement Obligations

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

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

Warranty and Product Maintenance Contracts

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

Research and Development Costs

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

Income Taxes

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

Note 2. Business Acquisitions, Goodwill and Intangible Assets

Pending Business Acquisition

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

2013 Business Acquisitions

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

Textron Systems

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

Industrial

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

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

Cessna

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

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

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

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

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

Our intangible assets are summarized below:

[redacted]

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

Note 3. Accounts Receivable and Finance Receivables

Accounts Receivable

Accounts receivable is composed of the following:

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

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

Finance Receivables

Finance receivables by classification are presented in the following table.

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

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

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

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

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

Credit Quality Indicators and Nonaccrual Finance Receivables

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

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

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

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

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

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

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

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

Loan Modifications

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

Impaired Loans

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

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

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

Allowance for Losses

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

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

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

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

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

Note 4. Inventories

Inventories are composed of the following:

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

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

Note 5. Property, Plant and Equipment, Net

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

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

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

Note 6. Accrued Liabilities

The accrued liabilities of our Manufacturing group are summarized below:

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

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

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

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

Note 7. Debt and Credit Facilities

Our debt is summarized in the table below:

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

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

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

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

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

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

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

4.50% Convertible Senior Notes and Related Transactions

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

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

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

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

6% Fixed-to-Floating Rate Junior Subordinated Notes

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

Support Agreement

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

Note 8. Derivative Instruments and Fair Value Measurements

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

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

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

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

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

Assets Recorded at Fair Value on a Nonrecurring Basis

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

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

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

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

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

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

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

Assets and Liabilities Not Recorded at Fair Value

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

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

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

Note 9. Shareholders Equity

Capital Stock

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

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

Earnings per Share

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

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

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

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

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

Accumulated Other Comprehensive Loss

The components of Accumulated Other Comprehensive Loss are presented below:

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

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

Other Comprehensive Income (Loss)

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

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

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

Note 10. Share-Based Compensation

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

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

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

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

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

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

Stock Options

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

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

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

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

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

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

Restricted Stock Units

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

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

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

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

Performance Share Units

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

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

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

66

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

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

Note 11. Retirement Plans

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

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

Periodic Benefit Cost

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

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

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

67

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

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

Obligations and Funded Status

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

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

Amounts recognized in our balance sheets are as follows:

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

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

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

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

Assumptions

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

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

Assumed healthcare cost trend rates are as follows:

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

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

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

Pension Assets

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

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

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

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

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

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

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

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

70

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

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

Estimated Future Cash Flow Impact

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

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

Note 12. Income Taxes

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

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

Income tax expense for continuing operations is summarized as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 13. Contingencies and Commitments

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

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

Environmental Remediation

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

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

Leases

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

Note 14. Supplemental Cash Flow Information

We have made the following cash payments:

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

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

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

Note 15. Segment and Geographic Data

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

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

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

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

Industrial products and markets include the following:

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

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

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

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

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

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

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

75

Revenues by major product type are summarized below:

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

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

Other information by segment is provided below:

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

Geographic Data

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

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

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

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

76

Quarterly Data

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

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

77

Schedule II Valuation and Qualifying Accounts

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

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

78

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

None.

Item 9A. Controls and Procedures

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

Report of Management See page 40.

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

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

PART III

Item 10. Directors, Executive Officers and Corporate Governance

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

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

Item 11. Executive Compensation

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

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

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

Item 13. Certain Relationships and Related Transactions and Director Independence

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

Item 14. Principal Accountant Fees and Services

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

PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements and Schedules See Index on Page 39.

Exhibits

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

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

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

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

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

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

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

Signatures

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

TEXTRON INC.
Registrant

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

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

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

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