TEXTRON INC

FORM 10-Q
(Quarterly Report)

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

Form 10-Q

(Mark One)
[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 29, 2014

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______.

Commission File Number 1-5480

Textron Inc.
(Exact name of registrant as specified in its charter)

Delaware	**05-0315468**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
40 Westminster Street, Providence, RI	**02903**
(Address of principal executive offices)	(Zip code)

(401) 421-2800
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ✓ No____

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

Large accelerated filer [✓] Accelerated filer [__] Non-accelerated filer [__] Smaller reporting company [__]

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

As of April 18, 2014, there were 279,137,664 shares of common stock outstanding.

TEXTRON INC.

IND EX

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

TEXTRON INC.
Consolidated Statements of Operations (Unaudited)

(In millions, except per share amounts)	Three Months Ended March 29, 2014	Three Months Ended March 30, 2013
Revenues		
Manufacturing revenues	$ 2,818	$ 2,813
Finance revenues	29	42
Total revenues	2,847	2,855
Costs and expenses		
Cost of sales	2,357	2,382
Selling and administrative expense	302	279
Interest expense	47	51
Acquisition and restructuring costs	16	—
Total costs and expenses	2,722	2,712
Income from continuing operations before income taxes	125	143
Income tax expense	38	28
Income from continuing operations	87	115
Income (loss) from discontinued operations, net of income taxes	(2)	4
Net income	$ 85	$ 119
Basic earnings per share		
Continuing operations	$ 0.31	$ 0.42
Discontinued operations	(0.01)	0.02
Basic earnings per share	$ 0.30	$ 0.44
Diluted earnings per share		
Continuing operations	$ 0.31	$ 0.40
Discontinued operations	(0.01)	0.01
Diluted earnings per share	$ 0.30	$ 0.41
Dividends per share		
Common stock	$ 0.02	$ 0.02

See Notes to the consolidated financial statements.

TEXTRON INC.
Consolidated Statements of Comprehensive Income (Unaudited)

(In millions)	Three Months Ended March 29, 2014	Three Months Ended March 30, 2013
Net income	$ 85	$ 119
Other comprehensive income, net of tax:		
Pension and postretirement benefits adjustments, net of reclassifications	18	32
Deferred gains/losses on hedge contracts, net of reclassifications	(7)	(7)
Foreign currency translation adjustments	(6)	(10)
Other comprehensive income	5	15
Comprehensive income	$ 90	$ 134

See Notes to the consolidated financial statements.

TEXTRON INC.
Consolidated Balance Sheets (Unaudited)

(Dollars in millions)	March 29, 2014	December 28, 2013
Assets		
Manufacturing group		
Cash and equivalents	$ 682	$ 1,163
Accounts receivable, net	1,141	979
Inventories	3,909	2,963
Other current assets	603	467
Total current assets	6,335	5,572
Property, plant and equipment, less accumulated depreciation and amortization of $3,541 and $3,463	2,456	2,215
Goodwill	1,980	1,735
Other assets	2,481	1,697
Total Manufacturing group assets	13,252	11,219
Finance group		
Cash and equivalents	98	48
Finance receivables, net	1,434	1,493
Other assets	179	184
Total Finance group assets	1,711	1,725
Total assets	$ 14,963	$ 12,944
Liabilities and shareholders' equity		
Liabilities		
Manufacturing group		
Short-term debt and current portion of long-term debt	$ 543	$ 8
Accounts payable	1,158	1,107
Accrued liabilities	2,237	1,888
Total current liabilities	3,938	3,003
Other liabilities	2,481	2,118
Long-term debt	2,682	1,923
Total Manufacturing group liabilities	9,101	7,044
Finance group		
Other liabilities	252	260
Debt	1,247	1,256
Total Finance group liabilities	1,499	1,516
Total liabilities	10,600	8,560
Shareholders' equity		
Common stock	35	35
Capital surplus	1,376	1,331
Treasury stock	(150)	—
Retained earnings	4,124	4,045
Accumulated other comprehensive loss	(1,022)	(1,027)
Total shareholders' equity	4,363	4,384
Total liabilities and shareholders' equity	$ 14,963	$ 12,944
Common shares outstanding *(in thousands)*	278,888	282,059

See Notes to the consolidated financial statements.

TEXTRON INC.
Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended March 29, 2014 and March 30, 2013, respectively

	Consolidated	
(In millions)	2014	2013
Cash flows from operating activities		
Net income	$ 85	$ 119
Less: Income (loss) from discontinued operations	(2)	4
Income from continuing operations	87	115
Adjustments to reconcile income from continuing operations to net cash used in operating activities:		
Non-cash items:		
Depreciation and amortization	98	97
Deferred income taxes	(8)	11
Other, net	31	9
Changes in assets and liabilities:		
Accounts receivable, net	(49)	(121)
Inventories	(180)	(254)
Other assets	(11)	13
Accounts payable	(99)	31
Accrued and other liabilities	25	(303)
Pension, net	13	(94)
Income taxes, net	31	28
Captive finance receivables, net	34	75
Other operating activities, net	2	(2)
Net cash used in operating activities of continuing operations	(26)	(395)
Net cash used in operating activities of discontinued operations	(1)	(4)
Net cash used in operating activities	(27)	(399)
Cash flows from investing activities		
Net cash used in acquisitions	(1,489)	(18)
Capital expenditures	(66)	(77)
Finance receivables repaid	33	72
Other investing activities, net	2	39
Net cash provided by (used in) investing activities	(1,520)	16
Cash flows from financing activities		
Proceeds from long-term debt	1,131	41
Increase in short-term debt	184	205
Principal payments on long-term and nonrecourse debt	(62)	(482)
Purchases of Textron common stock	(150)	—
Dividends paid	(6)	(5)
Other financing activities, net	19	11
Net cash provided by (used in) financing activities	1,116	(230)
Effect of exchange rate changes on cash and equivalents	—	(9)
Net decrease in cash and equivalents	(431)	(622)
Cash and equivalents at beginning of period	1,211	1,413
Cash and equivalents at end of period	$ 780	$ 791

See Notes to the consolidated financial statements.

TEXTRON INC.
Consolidated Statements of Cash Flows (Unaudited) (Continued)
For the Three Months Ended March 29, 2014 and March 30, 2013, respectively

	Manufacturing Group		Finance Group	
(In millions)	**2014**	**2013**	**2014**	**2013**
Cash flows from operating activities				
Net income	$ 82	$ 107	$ 3	$ 12
Less: Income (loss) from discontinued operations	(2)	4	—	—
Income from continuing operations	84	103	3	12
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:				
Dividends received from Finance Group	—	20	—	—
Non-cash items:				
Depreciation and amortization	95	92	3	5
Deferred income taxes	(4)	1	(4)	10
Other, net	27	20	4	(11)
Changes in assets and liabilities:				
Accounts receivable, net	(49)	(121)	—	—
Inventories	(180)	(255)	—	—
Other assets	(11)	13	—	—
Accounts payable	(99)	31	—	—
Accrued and other liabilities	34	(297)	(9)	(16)
Pension, net	13	(86)	—	(8)
Income taxes, net	26	9	5	19
Other operating activities, net	—	2	2	(4)
Net cash provided by (used in) operating activities of continuing operations	(64)	(468)	4	7
Net cash used in operating activities of discontinued operations	(1)	(4)	—	—
Net cash provided by (used in) operating activities	(65)	(472)	4	7
Cash flows from investing activities				
Net cash used in acquisitions	(1,489)	(18)	—	—
Capital expenditures	(66)	(77)	—	—
Finance receivables repaid	—	—	108	173
Finance receivables originated or purchased	—	—	(41)	(26)
Other investing activities, net	(1)	—	3	50
Net cash provided by (used in) investing activities	(1,556)	(95)	70	197
Cash flows from financing activities				
Proceeds from long-term debt	1,093	—	38	41
Increase in short-term debt	184	205	—	—
Principal payments on long-term and nonrecourse debt	—	(312)	(62)	(170)
Purchases of Textron common stock	(150)	—	—	—
Dividends paid	(6)	(5)	—	(20)
Other financing activities, net	19	11	—	—
Net cash provided by (used in) financing activities	1,140	(101)	(24)	(149)
Effect of exchange rate changes on cash and equivalents	—	(9)	—	—
Net increase (decrease) in cash and equivalents	(481)	(677)	50	55
Cash and equivalents at beginning of period	1,163	1,378	48	35
Cash and equivalents at end of period	$ 682	$ 701	$ 98	$ 90

See Notes to the consolidated financial statements.

TEXTRON INC.
Notes to the Consolidated Financial Statements (Unaudited)

Note 1. Basis of Presentation

Our Consolidated Financial Statements include the accounts of Textron Inc. (Textron) and its majority-owned subsidiaries. On March 14, 2014, we completed the acquisition of all of the outstanding equity interests in Beech Holdings, LLC, which included Beechcraft Corporation and other subsidiaries, (collectively "Beechcraft"). The results of Beechcraft have been included in our consolidated financial statements only for the period subsequent to the completion of the acquisition. As a result, the consolidated financial results for the three months ended March 29, 2014 do not reflect a full three months of Beechcraft operations.

We have prepared these unaudited consolidated financial statements in accordance with accounting principles generally accepted in the U.S. for interim financial information. Accordingly, these interim financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. The consolidated interim financial statements included in this quarterly report should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 28, 2013. In the opinion of management, the interim financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for the fair presentation of our consolidated financial position, results of operations and cash flows for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

Our financings are conducted through two separate borrowing groups. The Manufacturing group consists of Textron consolidated with its majority-owned subsidiaries that operate in the Bell, Textron Systems and Industrial segments, and the newly formed Textron Aviation segment, which includes the legacy Cessna segment and the recently acquired Beechcraft business. 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. All significant intercompany transactions are eliminated from the Consolidated Financial Statements, including retail and wholesale financing activities for inventory sold by our Manufacturing group and financed by our Finance group.

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 2014 and 2013, 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 the first quarter of 2014 and 2013 by $21 million and $7 million, respectively, ($13 million and $5 million after tax, or $0.05 and $0.02 per diluted share, respectively). For the first quarter of 2014 and 2013, the gross favorable program profit adjustments totaled $24 million and $9 million, respectively, and the gross unfavorable program profit adjustments totaled $3 million and $2 million, respectively.

Note 2 . Business Acquisitions

On March 14, 2014, we acquired Beechcraft for an aggregate cash payment of $1.5 billion that included a repayment of a portion of Beechcraft's working capital credit facility at closing. We financed a portion of the purchase price with the issuance of $600 million in senior notes on January 30, 2014 and by drawing $500 million under the five-year term loan agreement entered into on January 24, 2014. The balance was paid from cash on hand.

Beechcraft is a leading manufacturer of business, special mission, light attack and trainer aircraft, including the King Air turboprops, piston-engine Baron and Bonanza, and the T-6 trainer and AT-6 light attack military aircraft. Beechcraft also has a global network of both factory-owned and authorized service centers. The acquisition of Beechcraft and the formation of the new Textron Aviation segment provide increased scale and complementary product offerings, allowing us to strengthen our position across the aviation industry and enhance our ability to support our customers.

The consideration paid for this business was allocated on a preliminary basis to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. Due to the size and breadth of this acquisition, additional time is necessary to adequately analyze and assess the factors used in establishing the asset and liability fair values as of the acquisition date including the significant contractual and operational factors used in determining the fair values of certain assets, the assumptions made for certain liabilities and the related tax impacts of any changes made. We will finalize the purchase accounting as soon as reasonably possible during the one-year-measurement period allowed under generally accepted accounting principles. Any potential adjustments to the preliminary fair values could be material. Our preliminary allocation of the purchase price is presented below.

(In millions)	**March 14, 2014**
Accounts receivable	$ 112
Inventories	771
Other current assets	168
Property, plant and equipment	260
Intangible assets	594
Goodwill	214
Other assets	187
Accounts payable	(144)
Accrued liabilities	(301)
Other liabilities	(383)
Total net assets acquired	$ 1,478

On a preliminary basis, we recorded $214 million of goodwill, primarily related to expected synergies from combining operations and the value of the existing workforce, and $594 million in intangible assets, which primarily include unpatented technology related to original equipment manufactured parts and designs and customer relationships valued at $386 million and trade names valued at $208 million. The unpatented technology and customer relationships assets have a life of 15 years, resulting in amortization expense in the range of approximately $18 million to $32 million annually. Substantially all of the trade names intangible asset has an indefinite life and therefore is not subject to amortization. Approximately $265 million of tax-deductible goodwill was acquired in this transaction.

During the first quarter of 2014, we incurred transaction costs related to the acquisition of $11 million, which were recorded within Acquisition and restructuring costs on the Consolidated Statements of Operations.

In connection with the integration of Beechcraft, we initiated a restructuring program in our Textron Aviation segment in the first quarter of 2014 to align the Cessna and Beechcraft businesses, reduce operating redundancies and maximize efficiencies. We expect to incur costs for this program related to employee terminations, facility consolidations, contract terminations and other transition-related costs, and estimate that this program will result in charges of approximately $35 million in 2014. We expect to incur additional costs in 2015, but do not expect these costs to be material. In the first quarter of 2014, we recorded $5 million of charges related to restructuring activities that are included in the Acquisition and restructuring costs line on the Consolidated Statements of Operations. On April 23, 2014, we announced a reduction of approximately 750 positions and expect to record a charge of $12 million related to this action in the second quarter of 2014.

The results of Beechcraft have been included in our consolidated financial statements only for the period subsequent to the completion of the acquisition. From the closing date through March 29, 2014, Beechcraft's revenues totaled $101 million. Presentation of pro-forma financial results for the Beechcraft acquisition will be included in our Form 10-Q for the period ending June 28, 2014, as it is impracticable to include in the first quarter filing without undue cost and effort due to the close proximity of the transaction closing date to the end of our first quarter.

Note 3. Retirement Plans

We provide defined benefit pension plans and other postretirement benefits to eligible employees. The components of net periodic benefit cost for these plans are as follows:

	Pension Benefits		Postretirement Benefits Other Than Pensions	
(In millions)	March 29, 2014	March 30, 2013	March 29, 2014	March 30, 2013
Three Months Ended				
Service cost	$ 27	$ 33	$ 1	$ 2
Interest cost	79	73	5	5
Expected return on plan assets	(111)	(105)	—	—
Amortization of prior service cost (credit)	4	4	(6)	(3)
Amortization of net actuarial loss	28	46	1	2
Net periodic benefit cost	$ 27	$ 51	$ 1	$ 6

Note 4. Share-Based Compensation

Our share-based compensation plans provide restricted stock, restricted stock units, stock options, stock appreciation rights, performance stock awards and deferred income plan stock unit awards. Compensation expense included in net income for these plans is as follows:

	Three Months Ended	
(In millions)	March 29 , 2014	March 30, 2013
Compensation expense	$ 34	$ 30
Income tax benefit	(12)	(11)
Total net compensation expense	$ 22	$ 19

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 respective periods and the assumptions used in our option-pricing model for such grants are as follows:

	Three Months Ended	
	March 29, 2014	March 30, 2013
Fair value of options at grant date	$ 12.72	$ 9.69
Dividend yield	0.2%	0.3%
Expected volatility	34.5%	37.0%
Risk-free interest rate	1.5%	0.9%
Expected term (in years)	5.0	5.5

The stock option activity during the first quarter of 2014 is provided below:

(Options in thousands)	Number of Options	Weighted-Average Exercise Price
Outstanding at beginning of period	9,018	$ 27.57
Granted	1,753	39.70
Exercised	(648)	26.05
Canceled, expired or forfeited	(238)	40.50
Outstanding at end of period	9,885	$ 29.51
Exercisable at end of period	5,799	$ 26.94

At March 29, 2014 , our outstanding options had an aggregate intrinsic value of $96 million and a weighted-average remaining contractual life of 7 years. Our exercisable options had an aggregate intrinsic value of $71 million and a weighted-average remaining contractual life of 6 years at March 29, 2014 . The total intrinsic value of options exercised during the first quarter of 2014 and 2013 was $8 million and $4 million, respectively.

Restricted Stock Units
The activity for restricted stock units payable in stock and for restricted stock units payable in cash during the first quarter of 2014 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	780	$ 27.56	2,025	$ 23.73
Granted	192	39.70	419	39.70
Vested	(42)	26.27	(481)	15.61
Forfeited	(15)	28.12	(88)	27.05
Outstanding at end of period, nonvested	915	$ 30.21	1,875	$ 29.22

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

	Three Months Ended	
(In millions)	March 29, 2014	March 30, 2013
Fair value of awards vested	$ 20	$ 21
Cash paid	19	18

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. 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 activity for our performance share units during the first quarter of 2014 is as follows:

(Units in thousands)	Number of Units	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year, nonvested	895	$ 28.08
Granted	296	39.70
Forfeited	(46)	28.20
Outstanding at end of period, nonvested	1,145	$ 31.08

Cash paid under these awards totaled $12 million and $11 million during the first quarter of 2014 and 2013, respectively.

Note 5. Earnings Per Share

In February 2014, we entered into an accelerated share repurchase agreement (ASR) with a counterparty and repurchased 4.3 million shares of our outstanding common stock from the counterparty for $150 million. The initial delivery of shares resulted in an immediate reduction of the outstanding shares used to calculate the weighted average common shares for basic and diluted earnings per share. The ASR is scheduled to settle in December 2014. Upon final settlement of the ASR, we may receive additional shares or pay additional cash or shares, at our option, based on the daily volume weighted average market price (VWAP) of our common stock over the course of the calculation period, less a discount. We intend to settle any amount payable by us in shares. At March 29, 2014, based on the VWAP through that date, we would be required to issue to the counterparty approximately 341,000 shares to settle the ASR. For accounting purposes, the ASR is considered a treasury stock purchase for the 4.3 million shares delivered to us by the counterparty, and a forward contract indexed to our common stock for the shares to be delivered upon settlement, if any. The forward contract is not required to be separately accounted for as a derivative.

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 shares that would have been delivered if the ASR were settled at March 29,

2014. In addition, for the first quarter of 2013, prior to the maturity of our convertible notes on May 1, 2013 as disclosed in Note 7 of our 2013 Annual Report on Form 10-K, diluted EPS includes 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:

	Three Months Ended	
(In thousands)	**March 29, 2014**	**March 30, 2013**
Basic weighted-average shares outstanding	281,094	273,200
Dilutive effect of:		
Stock options and restricted stock units	2,049	317
ASR	184	—
Convertible notes and warrants	—	15,461
Diluted weighted-average shares outstanding	283,327	288,978

Stock options to purchase 1 million and 5 million shares of common stock outstanding at March 29, 2014 and March 30, 2013, respectively, were not included in the computation of diluted weighted average shares outstanding, as their effect would have been anti-dilutive.

Note 6. Accounts Receivable and Finance Receivables

Accounts Receivable
Accounts receivable is composed of the following:

(In millions)	**March 29, 2014**	**December 28, 2013**
Commercial	$ 849	$ 654
U.S. Government contracts	317	347
	1,166	1,001
Allowance for doubtful accounts	(25)	(22)
Total	$ 1,141	$ 979

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 $142 million at March 29, 2014 and $163 million at December 28, 2013.

Finance Receivables
Finance receivables by classification are presented in the following table:

(In millions)	**March 29, 2014**	**December 28, 2013**
Finance receivables held for investment	$ 1,427	$ 1,483
Allowance for losses	(54)	(55)
Total finance receivables held for investment, net	1,373	1,428
Finance receivables held for sale	61	65
Total finance receivables, net	$ 1,434	$ 1,493

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)	**March 29, 2014**	**December 28, 2013**
Performing	$ 1,208	$ 1,285
Watchlist	121	93
Nonaccrual	98	105
Total	$ 1,427	$ 1,483
Nonaccrual as a percentage of total finance receivables	6.87%	7.08%

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)	**March 29, 2014**	**December 28, 2013**
Less than 31 days past due	$ 1,204	$ 1,295
31-60 days past due	98	108
61-90 days past due	87	37
Over 90 days past due	38	43
Total	$ 1,427	$ 1,483

There were no significant accrual status loans greater than 90 days past due at March 29, 2014. Accrual status loans that were greater than 90 days past due totaled $5 million at December 28, 2013. At March 29, 2014 and December 28, 2013, 60+ days contractual delinquency as a percentage of finance receivables was 8.76% and 5.39%, 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, delays in the timing of required principal payments and deferrals of interest payments. The changes effected by modifications made during the first quarter of 2014 and 2013 to finance receivables were not material.

Impaired Loans
On a quarterly basis, we evaluate individual finance receivables for impairment in non-homogeneous portfolios and larger balance 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. Interest income recognized on impaired loans was not significant in the first quarter of 2014 or 2013.

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

(In millions)	March 29, 2014	December 28, 2013
Recorded investment:		
Impaired loans with no related allowance for losses	$ 35	$ 78
Impaired loans with related allowance for losses	62	59
Total	$ 97	$ 137
Unpaid principal balance	$ 101	$ 141
Allowance for losses on impaired loans	16	14
Average recorded investment	117	155

A summary of the allowance for losses on finance receivables that are evaluated on an individual basis and on a collective basis is provided below. The finance receivables included in the table below excludes leveraged leases in accordance with generally accepted accounting principles.

(In millions)	March 29, 2014	December 28, 2013
Allowance based on collective evaluation	$ 38	$ 41
Allowance based on individual evaluation	16	14
Finance receivables evaluated collectively	$ 1,209	$ 1,226
Finance receivables evaluated individually	97	137

Allowance for Losses

We maintain the allowance for losses on finance receivables at a level considered adequate to cover inherent losses in the portfolio based on management's evaluation. For larger balance accounts specifically identified as impaired, 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 are 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. The allowance is established as a percentage of non-recourse finance receivables, which have not been identified as requiring specific reserves. The percentage is based on a combination of factors, including historical loss experience, current delinquency and default trends, collateral values and both general economic and specific industry trends. 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.

A rollforward of the allowance for losses on finance receivables is provided below:

	Three Months Ended	
(In millions)	March 29, 2014	March 30, 2013
Balance at the beginning of period	$ 55	$ 84
Provision for losses	4	(7)
Charge-offs	(6)	(3)
Recoveries	1	3
Balance at the end of period	$ 54	$ 77

Note 7. Inventories

Inventories are composed of the following:

(In millions)	March 29, 2014	December 28, 2013
Finished goods	$ 1,572	$ 1,276
Work in process	2,905	2,477
Raw materials and components	581	407
	5,058	4,160
Progress/milestone payments	(1,149)	(1,197)
Total	$ 3,909	$ 2,963

Note 8. Accrued Liabilities

We provide limited warranty and product maintenance programs, including parts and labor, for certain products for periods ranging from one to five years. Changes in our warranty and product maintenance liabilities are as follows:

	Three Months Ended	
(In millions)	March 29, 2014	March 30, 2013
Accrual at the beginning of period	$ 223	$ 222
Provision	70	67
Settlements	(69)	(70)
Acquisitions	56	—
Adjustments*	(4)	—
Accrual at the end of period	$ 276	$ 219

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

Note 9. Debt

On January 24, 2014, we entered into a five-year term loan agreement with a syndicate of banks in the principal amount of $500 million. 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. Upon the closing of the Beechcraft acquisition on March 14, 2014, we fully drew down on the five-year term loan and used the cash, along with the net proceeds of the issuance of the notes, to finance a portion of the acquisition.

Note 10. Accumulated Other Comprehensive Loss and Other Comprehensive Income

The components of Accumulated Other Comprehensive Loss are presented below:

(In millions)	Foreign Currency Translation Adjustments	Pension and Postretirement Benefit Adjustments	Deferred Gains/Losses on Hedge Contracts	Accumulated Other Comprehensive Loss
For the three months ended March 29, 2014				
Beginning balance	$ 93	$ (1,110)	$ (10)	$ (1,027)
Other comprehensive income before reclassifications	(6)	—	(9)	(15)
Amounts reclassified from Accumulated Other Comprehensive Loss	—	18	2	20
Other comprehensive income	(6)	18	(7)	5
Ending balance	$ 87	$ (1,092)	$ (17)	$ (1,022)
For the three months ended March 30, 2013				
Beginning balance	$ 81	$ (1,857)	$ 6	$ (1,770)
Other comprehensive loss before reclassifications	(10)	—	(5)	(15)
Amounts reclassified from Accumulated Other Comprehensive Loss	—	32	(2)	30
Other comprehensive income	(10)	32	(7)	15
Ending balance	$ 71	$ (1,825)	$ (1)	$ (1,755)

The before and after-tax components of Other Comprehensive Income are presented below:

(In millions)		Pre-Tax Amount		Tax (Expense) Benefit		After-Tax Amount
For the three months ended March 29, 2014						
Pension and postretirement benefits adjustments:						
Amortization of net actuarial loss*	$	29	$	(10)	$	19
Amortization of prior service cost*		(2)		1		(1)
Pension and postretirement benefits adjustments, net		27		(9)		18
Deferred gains/losses on hedge contracts:						
Current deferrals		(11)		2		(9)
Reclassification adjustments		2		—		2
Deferred gains/losses on hedge contracts, net		(9)		2		(7)
Foreign currency translation adjustments		(7)		1		(6)
Total	$	11	$	(6)	$	5
For the three months ended March 30, 2013						
Pension and postretirement benefits adjustments:						
Amortization of net actuarial loss*	$	48	$	(17)	$	31
Amortization of prior service cost*		1		—		1
Pension and postretirement benefits adjustments, net		49		(17)		32
Deferred gains/losses on hedge contracts:						
Current deferrals		(6)		1		(5)
Reclassification adjustments		(2)		—		(2)
Deferred gains/losses on hedge contracts, net		(8)		1		(7)
Foreign currency translation adjustments		(2)		(8)		(10)
Total	$	39	$	(24)	$	15

**These components of other comprehensive income are included in the computation of net periodic pension cost. See Note 11 of our 2013 Annual Report on Form 10-K for additional information.*

Note 11. Commitments and Contingencies

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.

Note 12. 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 March 29, 2014 and December 28, 2013, we had foreign currency exchange contracts with notional amounts upon which the contracts were based of $510 million and $636 million, respectively. At March 29, 2014, the fair value amounts of our foreign currency exchange contracts were a $2 million asset and a $19 million liability. At December 28, 2013, the fair value amounts of our foreign currency exchange contracts were a $2 million asset and a $15 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 March 29, 2014, we had a net deferred loss of $17 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 cash flow hedges, including gains and losses related to hedge ineffectiveness, amounted to a $7 million net loss in both the first quarter of 2014 and 2013. We expect to reclassify a $13 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 loss in the first quarter of 2014, resulting in an accumulated net gain balance of $4 million at March 29, 2014. There was no ineffectiveness recorded related to these hedges during the first quarter of 2014.

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 March 29, 2014 and December 28, 2013, we had interest rate exchange contracts with notional amounts upon which the contracts were based of $203 million and $229 million, respectively. The fair value amounts of our interest rate exchange contracts were a $2 million asset and a $5 million liability at both March 29, 2014 and December 28, 2013.

Our exposure to loss from nonperformance by the counterparties to our derivative agreements at March 29, 2014 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 the periods ended March 29, 2014 and December 28, 2013, 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 period in which a fair value adjustment was taken.

(In millions)	**March 29, 2014**	**December 28, 2013**
Finance receivables held for sale	$ 61	$ 65
Impaired finance receivables	46	45
Other assets	9	35

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

	Gain (Loss)	
	Three Months Ended	
(In millions)	March 29, 2014	March 30, 2013
Finance receivables held for sale	$ 1	$ 12
Impaired finance receivables	(5)	(3)
Other assets	(1)	(4)

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. 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 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 tables above primarily include repossessed aviation assets. The fair value of these assets was largely determined based on the use of industry pricing guides. If the carrying amount of the 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:

	March 29, 2014		December 28, 2013	
(In millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Manufacturing group				
Long-term debt, excluding leases	$ (2,965)	$ (3,164)	$ (1,854)	$ (2,027)
Finance group				
Finance receivables held for investment, excluding leases	1,173	1,236	1,231	1,290
Debt	(1,247)	(1,244)	(1,256)	(1,244)

Fair value for the Manufacturing group debt is determined using market observable data for similar transactions or Level 2 inputs. At both March 29, 2014 and December 28, 2013, approximately 30% 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 13. Income Tax Expense

Income tax expense equated to an effective income tax rate of 30.4% and 19.8% in the first quarter of 2014 and 2013, respectively, compared with the U.S. federal statutory income tax rate of 35.0%. In the first quarter of 2014, the difference between the statutory and the effective income tax rate was primarily due to benefits from income attributable to international operations in countries with lower tax rates. In the first quarter of 2013, the difference between the statutory and the effective income tax rate was primarily related to the retroactive reinstatement and extension of the Federal Research and Development Tax Credit as part of the American Taxpayer Relief Act of 2012 enacted on January 2, 2013.

Note 14. Segment Information

We operate in, and report financial information for, the following five business segments: Bell, Textron Systems, Industrial, Finance and the newly formed Textron Aviation segment as discussed in Note 1.

Segment profit is an important measure used for evaluating performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense, certain corporate expenses and acquisition and restructuring costs related to the Beechcraft acquisition. The measurement for the Finance segment includes interest income and expense along with intercompany interest expense. Our revenues by segment and a reconciliation of segment profit to income from continuing operations before income taxes are as follows:

	Three Months Ended	
(In millions)	**March 29, 2014**	**March 30, 2013**
REVENUES		
Manufacturing group		
Textron Aviation	$ 785	$ 708
Bell	873	949
Textron Systems	363	429
Industrial	797	727
	2,818	2,813
Finance segment	29	42
Total revenues	$ 2,847	$ 2,855
SEGMENT PROFIT		
Manufacturing group		
Textron Aviation	$ 14	$ (8)
Bell	96	129
Textron Systems	39	38
Industrial	66	57
	215	216
Finance segment	4	19
Segment profit	219	235
Corporate expenses and other, net	(43)	(55)
Interest expense, net for Manufacturing group	(35)	(37)
Acquisition and restructuring costs	(16)	—
Income from continuing operations before income taxes	$ 125	$ 143

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview and Consolidated Results of Operations

On March 14, 2014, we completed the acquisition of Beech Holdings, LLC, which included Beechcraft Corporation and other subsidiaries, (collectively "Beechcraft"). The acquired Beechcraft business and the legacy Cessna segment have been combined to form a new segment named Textron Aviation. The results of Beechcraft have been included in Textron's consolidated financial statements only for the period subsequent to the completion of the acquisition. As a result, the consolidated financial results for the three months ended March 29, 2014 do not reflect a full three months of Beechcraft operations.

An analysis of our consolidated operating results is set forth below. A more detailed analysis of our segments' operating results is provided in the Segment Analysis section on pages 21 to 26.

Revenues

	Three Months Ended	
(Dollars in millions)	**March 29, 2014**	**March 30, 2013**
Revenues	$ 2,847	$ 2,855
% change compared with prior period	—	

Revenues decreased $8 million in the first quarter of 2014, compared with the first quarter of 2013, reflecting the following fluctuations:

- Lower Bell revenues of $76 million, primarily due to lower commercial volume reflecting lower aircraft deliveries.
- Lower Textron Systems revenues of $66 million, largely due to lower volume in the Unmanned Aircraft Systems (UAS) product line.
- Lower Finance revenues of $13 million, primarily attributable to gains on the disposition of finance receivables held for sale during the first quarter of 2013.
- Higher Textron Aviation revenues of $77 million, primarily due to the impact of the Beechcraft acquisition of $101 million, partially offset by lower volume of $38 million. The volume impact was primarily the result of lower pre-owned aircraft and CitationAir volume of $91 million, partially offset by higher Citation jet, Caravan and aftermarket volume of $47 million.
- Higher Industrial segment revenues of $70 million, primarily due to higher volume of $38 million, largely in the Fuel Systems and Functional Components product line, and a $22 million impact from acquisitions.

Cost of Sales and Selling and Administrative Expense

	Three Months Ended	
(Dollars in millions)	**March 29, 2014**	**March 30, 2013**
Operating expenses	$ 2,659	$ 2,661
Cost of sales	2,357	2,382
% change compared with prior period	*(1)%*	
Gross margin percentage of Manufacturing revenues	*16.4%*	*15.3%*
Selling and administrative expenses	$ 302	$ 279
% change compared with prior period	*8%*	

Manufacturing cost of sales and selling and administrative expenses together comprise our operating expenses. Cost of sales decreased $25 million, 1%, in the first quarter of 2014, compared with the first quarter of 2013, principally due to lower net volume, partially offset by the impact from acquired businesses. In the first quarter of 2014, gross margin increased as a percentage of Manufacturing revenues reflecting improved pricing, largely at the Textron Aviation segment and lower research and development expenses of $14 million, partially offset by lower margin at the Bell segment, largely due to an unfavorable mix of commercial aircraft deliveries.

Selling and administrative expense increased $23 million, 8%, to $302 million in the first quarter of 2014, compared with the first quarter of 2013. The increase was primarily due to a $19 million impact from acquired businesses and $11 million of higher provision for loan losses at the Finance segment.

Acquisition and Restructuring Costs

In the first quarter of 2014, we incurred $16 million in acquisition and restructuring costs related to the Beechcraft acquisition, which includes $11 million of transaction costs, primarily related to advisory services, and $5 million of severance costs resulting from a restructuring program as described below. These costs are not included in segment profit.

In connection with the integration of Beechcraft, we initiated a restructuring program in our Textron Aviation segment in the first quarter of 2014 to align the Cessna and Beechcraft businesses, reduce operating redundancies and maximize efficiencies. We expect to incur costs for this program related to employee terminations, facility consolidations, contract terminations and other transition-related costs, and estimate that this program will result in charges of approximately $35 million in 2014. We expect to incur additional costs in 2015, but do not expect these costs to be material. On April 23, 2014, we announced a reduction of approximately 750 positions and expect to record a charge of $12 million related to this action in the second quarter of 2014.

Income Taxes

Income tax expense equated to an effective income tax rate of 30.4% and 19.8% in the first quarter of 2014 and 2013, respectively, compared with the U.S. federal statutory income tax rate of 35.0%. In the first quarter of 2014, the difference between the statutory and the effective income tax rate was primarily due to benefits from income attributable to international operations in countries with lower tax rates. In the first quarter of 2013, the difference between the statutory and the effective income tax rate was primarily related to the retroactive reinstatement and extension of the Federal Research and Development Tax Credit as part of the American Taxpayer Relief Act of 2012 enacted on January 2, 2013.

Backlog

(In millions)	**March 29, 2014**	**December 28, 2013**
Bell	$ 6,253	$ 6,450
Textron Systems	2,821	2,803
Textron Aviation	1,521	1,018

Backlog increased $503 million at the Textron Aviation segment primarily as a result of the Beechcraft acquisition.

Segment Analysis

We operate in, and report financial information for, the following five business segments: Textron Aviation, which consists of the legacy Cessna segment combined with the newly-acquired Beechcraft business, Bell, Textron Systems, Industrial and Finance. Segment profit is an important measure used for evaluating performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense, certain corporate expenses and acquisition and restructuring costs related to the Beechcraft acquisition. The measurement for the Finance segment includes interest income and expense along with intercompany interest expense.

In our discussion of comparative results for the Manufacturing group, changes in revenue and segment profit typically are expressed for our commercial business in terms of volume, pricing, foreign exchange and acquisitions. Additionally, changes in segment profit may be expressed in terms of mix, inflation and cost performance. Volume changes in revenue represent increases/decreases in the number of units delivered or services provided. Pricing represents changes in unit pricing. Foreign exchange is the change resulting from translating foreign-denominated amounts into U.S. dollars at exchange rates that are different from the prior period. Acquisitions refer to the results generated from businesses that were acquired within the previous 12 months. For segment profit, mix represents a change due to the composition of products and/or services sold at different profit margins. Inflation represents higher material, wages, benefits, pension or other costs. Cost performance reflects an increase or decrease in research and development, depreciation, selling and administrative costs, warranty, product liability, quality/scrap, labor efficiency, overhead, product line profitability, start-up, ramp up and cost-reduction initiatives or other manufacturing inputs.

Approximately 30% of our 2013 revenues were derived from contracts with the U.S. Government. For our segments that have significant contracts with the U.S. Government, we typically express changes in segment profit related to the government business in terms of volume, changes in program performance or changes in contract mix. Changes in volume that are discussed in net sales typically drive corresponding changes in our segment profit based on the profit rate for a particular contract. Changes in program performance typically relate to profit recognition associated with revisions to total estimated costs at completion that reflect improved or deteriorated operating performance or award fee rates. Changes in contract mix refers to changes in operating margin due to a change in the relative volume of contracts with higher or lower fee rates such that the overall average margin rate for the segment changes.

Textron Aviation

	Three Months Ended	
(Dollars in millions)	March 29, 2014	March 30, 2013
Revenues	$ 785	$ 708
Operating expenses	771	716
Segment profit (loss)	14	(8)
Profit margin	2%	(1)%

Textron Aviation Revenues and Operating Expenses

The following factors contributed to the change in Textron Aviation's revenues from the prior year quarter:

(In millions)	2014 versus 2013
Acquisitions	$ 101
Volume	(38)
Pricing	14
Total change	$ 77

In the first quarter of 2014, Textron Aviation's revenues increased $77 million, 11%, compared with the first quarter of 2013, primarily due to the impact of the Beechcraft acquisition of $101 million and favorable pricing of $14 million in most of our product offerings, partially offset by lower volume of $38 million. The volume impact was primarily the result of lower pre-owned aircraft volume of $66 million and lower CitationAir volume of $25 million, largely related to exiting our fractional share business, partially offset by higher Citation jet, Caravan and aftermarket volume of $47 million. We delivered 35 Citation jets in the first quarter of 2014, compared with 32 jets in the first quarter of 2013. During the first quarter of 2014, the portion of the segment's revenues derived from aftermarket sales and services represented 33% of its total revenues, compared with 31% in the first quarter of 2013.

Textron Aviation's operating expenses increased by $55 million, 8%, in the first quarter of 2014, compared with the first quarter of 2013, primarily due to the incremental operating costs related to the Beechcraft acquisition, partially offset by the impact of lower expenses due to lower net sales volume at Cessna as described above. Textron Aviation's operating expenses exclude acquisition and restructuring costs related to Beechcraft, which are reported separately and are discussed in the Acquisition and Restructuring Costs section above.

Textron Aviation Segment Profit

The following factors contributed to the change in Textron Aviation's segment profit from the prior year quarter:

(In millions)	2014 versus 2013
Pricing, net of inflation	$ 12
Volume and mix	7
Other	3
Total change	$ 22

Textron Aviation's segment profit increased $22 million in the first quarter of 2014, compared with the first quarter of 2013, largely due to higher pricing as described above. Segment profit was also favorably impacted by volume and mix of $7 million, primarily resulting from higher Citation jet and Caravan volume.

Bell

(Dollars in millions)	Three Months Ended March 29, 2014	Three Months Ended March 30, 2013
Revenues:		
V-22 program	$ 380	$ 361
Other military	215	225
Commercial	278	363
Total revenues	873	949
Operating expenses	777	820
Segment profit	96	129
Profit margin	11%	14%

Bell manufactures helicopters, tiltrotor aircraft, and related spare parts and provides services for military and commercial markets. Bell's major U.S. Government programs at this time are the V-22 tiltrotor aircraft and the H-1 helicopter platforms, which are both in the production stage and represent a significant portion of Bell's revenues from the U.S. Government.

Bell Revenues and Operating Expenses
The following factors contributed to the change in Bell's revenues from the prior year quarter:

(In millions)	2014 versus 2013
Volume	$ (83)
Other	7
Total change	$ (76)

Bell's revenues decreased $76 million, 8%, in the first quarter of 2014, compared with the first quarter of 2013, primarily due to lower volume, which included the following factors:

- $92 million decrease in commercial volume, largely related to lower aircraft deliveries. Bell delivered 34 commercial aircraft in the first quarter of 2014, compared with 40 commercial aircraft in the first quarter of 2013.
- $10 million decrease in other military volume, primarily reflecting lower H-1 program volume. Bell delivered 5 H-1 aircraft in the first quarter of 2014, compared with 6 aircraft in the first quarter of 2013.
- $19 million increase in V-22 program volume, primarily reflecting higher product support volume of $35 million. This increase was partially offset by lower aircraft deliveries as we delivered 8 V-22 aircraft in the first quarter of 2014, compared with 9 aircraft in the first quarter of 2013.

Bell's operating expenses decreased $43 million, 5%, in the first quarter of 2014, compared with the first quarter of 2013, primarily due to lower sales volume as discussed above.

Bell Segment Profit
The following factors contributed to the change in Bell's segment profit from the prior year quarter:

(In millions)	2014 versus 2013
Volume and mix	$ (31)
Other	(2)
Total change	$ (33)

Bell's segment profit decreased $33 million, 26%, in the first quarter of 2014, compared with the first quarter of 2013, primarily due to the unfavorable mix of commercial aircraft deliveries and lower volume as described above.

Textron Systems

	Three Months Ended	
(Dollars in millions)	March 29, 2014	March 30, 2013
Revenues	$ 363	$ 429
Operating expenses	324	391
Segment profit	39	38
Profit margin	11%	9%

Textron Systems Revenues and Operating Expenses
The following factors contributed to the change in Textron Systems' revenues from the prior year quarter:

(In millions)	2014 versus 2013
Volume	$ (71)
Acquisitions	5
Total change	$ (66)

Revenues at Textron Systems decreased $66 million, 15%, in the first quarter of 2014, compared with the first quarter of 2013, primarily due to lower volume in the UAS product line of $58 million and in the Marine and Land Systems product line of $21 million, partially offset by higher volume in the Weapons and Sensors product line of $11 million.

Textron Systems' operating expenses decreased $67 million, 17%, in the first quarter of 2014, compared with the first quarter of 2013, primarily due to lower volume.

Textron Systems Segment Profit
The following factors contributed to the change in Textron Systems' segment profit from the prior year quarter:

(In millions)	2014 versus 2013
Performance	$ 7
Volume and mix	(4)
Other	(2)
Total change	$ 1

Segment profit at Textron Systems increased $1 million, 3%, in the first quarter of 2014, compared with the first quarter of 2013, primarily due to favorable performance of $7 million, largely due to cost reduction initiatives across most product lines, partially offset by lower volume described above.

Industrial

	Three Months Ended	
(Dollars in millions)	March 29, 2014	March 30, 2013
Revenues:		
Fuel Systems and Functional Components	$ 492	$ 457
Other Industrial	305	270
Total revenues	797	727
Operating expenses	731	670
Segment profit	66	57
Profit margin	8%	8%

Industrial Revenues and Operating Expenses
The following factors contributed to the change in Industrial's revenues from the prior year quarter:

(In millions)		2014 versus 2013
Volume	$	38
Acquisitions		22
Other		10
Total change	$	70

Industrial segment revenues increased $70 million, 10%, in the first quarter of 2014, compared with the first quarter of 2013, primarily due to higher volume of $38 million and the impact of acquisitions of $22 million. Higher volume was largely related to the Fuel Systems and Functional Components product line, principally reflecting automotive industry demand in Europe and Asia.

Operating expenses for the Industrial segment increased $61 million, 9%, in the first quarter of 2014, compared with the first quarter of 2013, largely due to the impact from higher sales volume discussed above and additional operating expenses from recently acquired businesses.

Industrial Segment Profit
The following factors contributed to the change in Industrial's segment profit from the prior year quarter:

(In millions)		2014 versus 2013
Volume and mix	$	8
Other		1
Total change	$	9

Segment profit for the Industrial segment increased $9 million, 16%, in the first quarter of 2014, compared with the first quarter of 2013, primarily due to the impact from higher volume as described above.

Finance

	Three Months Ended			
(In millions)		March 29, 2014		March 30, 2013
Revenues	$	29	$	42
Segment profit		4		19

Finance segment revenues decreased $13 million in the first quarter of 2014, compared with the first quarter of 2013, primarily attributable to a $12 million impact from gains on the disposition of finance receivables held for sale during the first quarter of 2013. These gains resulted from the payoff of loans in amounts, and sale of loans at prices, in excess of the values established in previous periods.

Finance segment profit decreased $15 million in the first quarter of 2014, compared with the first quarter of 2013, primarily due to an impact from gains on finance receivables held for sale as discussed above and higher provision for loan losses of $11 million. These decreases in segment profit were partially offset by lower administrative expense of $5 million, primarily associated with the exit of the non-captive business.

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

(Dollars in millions)	**March 29, 2014**	**December 28, 2013**
Finance receivables	$ 1,427	$ 1,483
Nonaccrual finance receivables	98	105
Ratio of nonaccrual finance receivables to finance receivables	6.87%	7.08%
60+ days contractual delinquency	$ 125	$ 80
60+ days contractual delinquency as a percentage of finance receivables	8.76%	5.39%

Liquidity and Capital Resources

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

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

(Dollars in millions)	**March 29, 2014**	**December 28, 2013**
Manufacturing group		
Cash and equivalents	$ 682	$ 1,163
Debt	3,225	1,931
Shareholders' equity	4,363	4,384
Capital (debt plus shareholders' equity)	7,588	6,315
Net debt (net of cash and equivalents) to capital	37%	15%
Debt to capital	43%	31%
Finance group		
Cash and equivalents	$ 98	$ 48
Debt	1,247	1,256

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

We maintain an effective shelf registration statement filed with the Securities and Exchange Commission that allows us to issue an unlimited amount of public debt and other securities. On January 30, 2014, we issued $250 million in 3.65% notes due 2021 and $350 million in 4.30% notes due 2024 under this registration statement. On January 24, 2014, we also entered into a five-year term loan agreement with a syndicate of banks in the principal amount of $500 million. Upon the closing of the Beechcraft acquisition on March 14, 2014, we fully drew down on the five-year term loan and used the cash, along with the net proceeds of the issuance of the notes, to finance a portion of the acquisition. The balance of the Beechcraft acquisition purchase price was paid from cash on hand.

Manufacturing Group Cash Flows

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

(In millions)	Three Months Ended March 29, 2014	Three Months Ended March 30, 2013
Operating activities	$ (64)	$ (468)
Investing activities	(1,556)	(95)
Financing activities	1,140	(101)

The first quarter of our fiscal year typically results in net cash outflow from operating activities, in part due to the timing of incentive and deferred compensation payments and pension contributions. Consistent with prior years, we expect positive cash flows from operating activities for the full year.

In the first quarter of 2014, we made $96 million in incentive and deferred compensation payments and $17 million in pension contributions, compared to $149 million and $140 million, respectively, in the first quarter of 2013. These lower payments in the first quarter of 2014, accounted for $176 million of the improvement in net operating cash flows, while the remaining improvement was largely attributable to other favorable changes in working capital, including a $168 million increase in customer deposits at Bell, resulting from higher performance-based payments on certain contracts, along with more deposits on commercial aircraft.

Investing cash flows in the first quarter of 2014 included a $1.5 billion aggregate cash payment to acquire Beechcraft. Cash flows from investing activities also included capital expenditures of $66 million and $77 million in the first quarter of 2014 and 2013, respectively.

In the first quarter of 2014, financing activities primarily consisted of proceeds of $1.1 billion from long-term debt, which was used to finance a portion of the Beechcraft acquisition, and proceeds of $184 million from the issuance of commercial paper. Financing activities in the first quarter of 2013 primarily included the repayment of $312 million of outstanding debt, which was partially offset by proceeds of $205 million from the issuance of commercial paper. In February 2014, we repurchased 4.3 million shares of our outstanding common stock from a counterparty for $150 million under an accelerated share repurchase agreement as disclosed in Note 5 to the Consolidated Financial Statements.

Finance Group Cash Flows

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

(In millions)	Three Months Ended March 29, 2014	Three Months Ended March 30, 2013
Operating activities	$ 4	$ 7
Investing activities	70	197
Financing activities	(24)	(149)

Cash flows from investing activities primarily included collections on finance receivables totaling $108 million and $173 million in the first quarter of 2014 and 2013, respectively, partially offset by finance receivable originations of $41 million and $26 million, respectively.

Cash used for financing activities included $62 million of cash payments on long-term and nonrecourse debt in the first quarter of 2014, compared with $170 million of payments in the first quarter of 2013. These cash outflows were partially offset by proceeds from long-term debt of $38 million and $41 million in the first quarter of 2014 and 2013, respectively.

Consolidated Cash Flows

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

	Three Months Ended	
(In millions)	March 29, 2014	March 30, 2013
Operating activities	$ (26)	$ (395)
Investing activities	(1,520)	16
Financing activities	1,116	(230)

In the first quarter of 2014, we made $99 million in incentive and deferred compensation payments and $17 million in pension contributions, compared to $154 million and $149 million, respectively, in the first quarter of 2013. These lower payments in the first quarter of 2014, accounted for $187 million of the improvement in net operating cash flows, while the remaining improvement was largely attributable to other favorable changes in working capital, including a $168 million increase in customer deposits at Bell, resulting from higher performance-based payments on certain contracts, along with more deposits on commercial aircraft.

In the first quarter of 2014, investing activities primarily included a $1.5 billion aggregate cash payment to acquire Beechcraft. Total cash provided by financing activities in the first quarter of 2014 primarily consisted of proceeds of $1.1 billion from long-term debt, which was used to finance a portion of the Beechcraft acquisition, and proceeds of $184 million from the issuance of commercial paper, partially offset by $150 million related to an accelerated share repurchase program. In the first quarter of 2013, financing activities primarily included the repayment of $482 million of outstanding debt, which was partially offset by the issuance of $205 million of commercial paper.

Captive Financing and Other Intercompany Transactions

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

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

	Three Months Ended	
(In millions)	March 29, 2014	March 30, 2013
Reclassifications from investing activities:		
Finance receivable originations for Manufacturing group inventory sales	$ (41)	$ (26)
Cash received from customers and sale of receivables	75	101
Other	—	11
Total reclassifications from investing activities	34	86
Reclassifications from financing activities:		
Dividends received by Manufacturing group from Finance group	—	(20)
Total reclassifications and adjustments to cash flow from operating activities	$ 34	$ 66

Critical Accounting Estimates

The accounting policies that we believe are most critical to the portrayal of our financial condition and results of operations are disclosed on pages 34 through 37 in our 2013 Annual Report on Form 10-K. The following section provides an update of the year-end disclosure for long-term contracts to include program profit adjustments made during the quarter.

Long-Term Contracts

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

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

	Three Months Ended	
(In millions)	**March 29, 2014**	**March 30, 2013**
Gross favorable	$ 24	$ 9
Gross unfavorable	(3)	(2)
Net program profit adjustments	$ 21	$ 7

Forward-Looking Information

Certain statements in this Quarterly Report on Form 10-Q and other oral and written statements made by us from time to time are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements, which may describe strategies, goals, outlook or other non-historical matters, or project revenues, income, returns or other financial measures, often include words such as "believe," "expect," "anticipate," "intend," "plan," "estimate," "guidance," "project," "target," "potential," "will," "should," "could," "likely" or "may" and similar expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results to differ materially from those expressed or implied by such forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update or revise any forward-looking statements. In addition to those factors described herein under "RISK FACTORS," among the factors that could cause actual results to differ materially from past and projected future results are the following:

- Interruptions in the U.S. Government's ability to fund its activities and/or pay its obligations;
- Changing priorities or reductions in the U.S. Government defense budget, including those related to military operations in foreign countries;
- Our ability to perform as anticipated and to control costs under contracts with the U.S. Government;
- The U.S. Government's ability to unilaterally modify or terminate its contracts with us for the U.S. Government's convenience or for our failure to perform, to change applicable procurement and accounting policies, or, under certain circumstances, to withhold payment or suspend or debar us as a contractor eligible to receive future contract awards;

- Changes in foreign military funding priorities or budget constraints and determinations, or changes in government regulations or policies on the export and import of military and commercial products;
- Volatility in the global economy or changes in worldwide political conditions that adversely impact demand for our products;
- Volatility in interest rates or foreign exchange rates;
- Risks related to our international business, including establishing and maintaining facilities in locations around the world and relying on joint venture partners, subcontractors, suppliers, representatives, consultants and other business partners in connection with international business, including in emerging market countries;
- Our Finance segment's ability to maintain portfolio credit quality or to realize full value of receivables;
- Performance issues with key suppliers or subcontractors;
- Legislative or regulatory actions, both domestic and foreign, impacting our operations or demand for our products;
- Our ability to control costs and successfully implement various cost-reduction activities;
- The efficacy of research and development investments to develop new products or unanticipated expenses in connection with the launching of significant new products or programs;
- The timing of our new product launches or certifications of our new aircraft products;
- Our ability to keep pace with our competitors in the introduction of new products and upgrades with features and technologies desired by our customers;
- Increases in pension expense or employee and retiree medical benefits;
- Continued demand softness or volatility in the markets in which we do business;
- Difficulty or unanticipated expenses in connection with integrating acquired businesses; and
- The risk that anticipated synergies and opportunities as a result of acquisitions will not be realized or the risk that acquisitions do not perform as planned, including, for example, the risk that acquired businesses will not achieve revenue projections.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change in our exposure to market risk during the fiscal quarter ended March 29, 2014. For discussion of our exposure to market risk, refer to Item 7A. Quantitative and Qualitative Disclosures about Market Risk contained in Textron's 2013 Annual Report on Form 10-K.

Item 4. 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 Rule 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 quarter 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.

On March 14, 2014, we completed the acquisition of Beech Holdings, LLC, which included Beechcraft Corporation and other subsidiaries. This business will be integrated into our system of internal control over financial reporting during the fiscal year. There were no other changes in our internal control over financial reporting during the fiscal quarter ended March 29, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 6. EXHIBITS

10.1	Form of Non-Qualified Stock Option Agreement
10.2	Form of Stock-Settled Restricted Stock Unit Grant Agreement with Dividend Equivalents
10.3	Form of Performance Share Unit Grant Agreement
10.4	Second Amendment to the Deferred Income Plan for Textron Executives, dated March 24, 2014
10.5	Second Amendment to the Severance Plan for Textron Key Executives, dated March 24, 2014
12.1	Computation of ratio of income to fixed charges of Textron Inc. Manufacturing Group
12.2	Computation of ratio of income to fixed charges of Textron Inc. including all majority-owned subsidiaries
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 Quarterly Report on Form 10-Q for the quarterly period ended March 29, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TEXTRON INC.

Date: May 1, 2014

/s/ Mark S. Bamford
Mark S. Bamford
Vice President and Corporate Controller
(principal accounting officer)

LIST OF EXHIBITS

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TEXTRON

NOTICE OF GRANT OF STOCK OPTION AND OPTION AGREEMENT

NON-QUALIFIED STOCK OPTION

Pursuant to the 2007 Long-Term Incentive Plan (the "Plan"), you (the "optionee") have been granted a Non-Qualified Stock Option ("Option"), which constitutes the option to buy a specified number of shares of Textron Inc. Common Stock (a "Share") at a specified fixed price equal to the closing share price of a Share on the grant date. This grant is governed by the current Non-Qualified Stock Option Terms and Conditions ("Terms and Conditions") attached hereto and the Plan (available on the Administrator's website), and is subject to the current Stock Option Non-Competition Agreement attached hereto.

The Option granted will become exercisable at the time(s), and subject to the conditions, set forth in the Terms and Conditions. The Option will expire on the tenth anniversary of the grant date, subject to earlier expiration or termination as provided in the Terms and Conditions.

You must log into your account on the Administrator's website to view the number of Shares for which the Option was granted, the grant date, and the exercise price, as well as to accept your grant. <u>If you do not accept your grant prior to the first date any portion of the Option becomes exercisable (or prior to the date your employment terminates for any reason, if earlier), your grant will be forfeited</u> . Although Textron has completed the steps necessary to grant you this Option, you cannot exercise the Option unless you accept the grant before the deadline.

By your acceptance of this grant, you agree that this Option is governed by the current Terms and Conditions attached hereto and the Plan, which is available on the Administrator's website. In addition, you agree that this grant is subject to the current version of the Stock Option Non-Competition Agreement attached hereto, the terms of which are fully incorporated herein. You acknowledge that you have read and understand these documents as they apply to your grant.

Please be sure to log into your account and accept your grant as soon as possible to avoid the risk that your grant will be forfeited for non-acceptance.

TEXTRON INC.

TEXTRON INC.
TEXTRON 2007 LONG-TERM INCENTIVE PLAN
NON-QUALIFIED STOCK OPTION TERMS AND CONDITIONS
(3/2014)

1. *Grant of Option* . Pursuant to instructions of the Organization and Compensation Committee (the "Committee") of the Board and pursuant to the 2007 Long- Term Incentive Plan (the "Plan"), Textron has granted to the optionee the right and option (the "Option") to purchase a specified number of shares of Common Stock (the "Option Shares") subject to the Terms and Conditions set forth herein. The number of Option Shares and grant date are recorded on the Administrator's website for the Plan.

2. *Purchase Price* . The purchase price (also called the "exercise price") of the Option Shares shall be the closing price of a share of Common Stock on the grant date, as recorded on the Administrator's website for the Plan.

3. *Term of Option and Period of Exercise* . The Option shall expire ten years from the grant date, subject to earlier expiration or termination as hereinafter provided. Except as provided in Section 6(c) or (e) (relating to Disability or death) or Section 9 (Change of Control) hereof, the Option may not be exercised before the first anniversary of the grant date. After the first anniversary of the grant date, the Option will become exercisable in thirds on the following dates (subject to the Terms and Conditions set forth herein):

- The first third of the Option Shares, on the first anniversary of the grant date;
- The second third of the Option Shares, on the second anniversary of the grant date; and
- The last third of the Option Shares, on the third anniversary of the grant date.

The Option shall not be exercisable for less than 50 Option Shares (or the remaining number of Option Shares if that number is less than 50) or after it has expired or terminated. The "Expiration Date" for the Option is the earlier of (a) the tenth anniversary of the grant date or (b) the date as of which the Option ceases to be exercisable pursuant to Section 6 (Termination of Employment) hereof.

4. *Exercise of Option* .

(a) Subject to the Terms and Conditions set forth herein and the Stock Option Non-Competition Agreement entered into in consideration of this Option, the Option may be exercised by contacting the Administrator directly via telephone or via the Administrator's website. During the life of the optionee, an Option shall be exercisable only by the optionee. If the Option is being exercised pursuant to Section 6(c) or (e) by any person or persons other than the optionee, appropriate proof of the right of such person or persons to exercise the Option must be provided.

(b) The purchase price of the Option Shares shall be paid in full at the time of exercise (1) in cash, (2) by tendering shares of Common Stock then owned by the optionee, (3) by withholding Option Shares (“net share settlement”), or (4) by any other method authorized by Textron at the time of exercise. Except as provided in Section 6 (Termination of Employment), the Option may not be exercised unless the optionee was an employee of either Textron or a Subsidiary at all times from the grant date through the date exercised. The optionee shall have no rights as a shareholder of Textron unless and until a certificate for shares of Common Stock has been issued to the optionee.

(c) *Automatic Exercise* . To the extent that the Option is exercisable and has not yet been exercised, the Option shall be automatically exercised as of the Expiration Date if the following conditions are satisfied: (1) the optionee’s employment with Textron or a Subsidiary has not been terminated for Cause; (2) the Option has not terminated by reason of a breach of the optionee’s obligations under the Stock Option Non-Competition Agreement, and (3) the Fair Market Value of an Option Share as of the Expiration Date exceeds the exercise price thereof by at least US$1.00. If the conditions in the immediately preceding sentence are satisfied, the optionee shall be deemed to have delivered notice of exercise on the Expiration Date, and the exercise price shall be paid through net share settlement, except as otherwise determined by Textron at the time of exercise.

5. *Non-Assignability of Option* . The Option shall not be assignable or transferable by the optionee except by will or the laws of descent and distribution, or as otherwise expressly permitted by the Plan. Tax withholding with respect to any Option that is transferred or assigned shall be determined by Textron in accordance with applicable law (which may require the optionee to pay taxes with respect to a transferred Option).

6. *Termination of Employment* . Following the optionee’s termination of employment with Textron and its Subsidiaries, the Option shall be exercisable only as follows:

(a) If the optionee’s employment terminates for Cause, all Option(s) held by the optionee shall be terminated and forfeited immediately, without any opportunity to exercise or consideration therefor.

(b) If the optionee’s employment terminates (other than for Cause) after the optionee has become eligible for Retirement, the optionee shall have the right to exercise the Option within 48 months after the termination of employment, to the extent the Option is exercisable (and has not expired) under Section 3 at the time of exercise. For purposes of the Option, the optionee is eligible for Retirement if the optionee has attained age 55 and has 10 years of service, as recorded in Textron’s Human Resources Information System of record.

(c) If the optionee’s employment terminates by reason of the optionee’s total disability or death, the optionee (or, in the case of death, the executor or administrator of the optionee’s estate or the person or persons to whom the optionee shall have transferred such right by will or by the laws of descent and distribution) shall have the right to exercise the Option as to all unexercised Option Shares (whether or not the Option was fully exercisable at the time of termination of employment) within 60 months after the termination of employment, but not after the Expiration Date. For purposes of the foregoing sentence, “total disability” shall mean the inability of the optionee to engage in any substantial gainful activity due to injury, illness, disease, bodily or mental infirmity which can be expected to result in death or is expected to be permanent. An individual shall not be considered disabled unless the optionee furnishes proof of the existence thereof. Textron may require the existence or non-existence of a disability to be determined by a physician whose selection is mutually agreed upon by the optionee (or his or her representatives) and Textron.

(d) If the optionee's employment terminates under circumstances not described in Section 6(a), (b), or (c), the optionee shall have the right to exercise the Option within three months after the optionee's termination of employment (or within such longer period, up to 48 months after the optionee's termination of employment, as the Committee may determine) but not after the Expiration Date and, unless otherwise determined by the Committee, only to the extent the Option is exercisable when the optionee's employment terminates.

(e) If the optionee dies while the Option is still exercisable under Section 6(b), (c) or (d), the Option may be exercised as to all unexercised Option Shares that are exercisable as of the optionee's death or that could have become exercisable under Section 6(b), (c), or (d), as applicable, if the optionee had not died. The Option shall not be exercised after the Expiration Date prescribed by Section 6(b), (c), or (d), as applicable.

(f) In no event shall the Option be exercisable after the Expiration Date.

7. *No Right to Employment* . Nothing in this document shall confer upon the optionee the right to continue in the employment of Textron or a Subsidiary or affect any right which Textron or a Subsidiary may have to terminate the employment of the optionee.

8. *Corporate Changes* . The number of Option Shares and/or the purchase price thereof shall be equitably adjusted in the event of a stock split, stock dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, or any other corporate event affecting the Common Stock, as provided in the Plan, in order to preserve the benefits or potential benefits intended to be made available to the optionee.

9. *Change of Control* .

(a) If a Change of Control occurs before the Expiration Date, a successor to Textron shall either assume the Option or replace the Option with either (i) an immediate cash payment for each unexercised Option Share (whether then exercisable or not exercisable), equal to the excess (if any) of the fair market value of such Option Share over the exercise price for such Option Share, or (ii) a replacement award that materially preserves the value of the Option and has a vesting schedule (including acceleration events) that is at least as favorable as the schedule in effect as of the Change of Control. If the Option is not assumed or replaced in accordance with the immediately foregoing sentence, the optionee shall be entitled to exercise the Option (with respect to all unexpired Option Shares, whether then exercisable or not exercisable) immediately before the Change of Control.

(b) If, within two years after a Change of Control (and before the Expiration Date), the optionee's employment with Textron and its Subsidiaries ends due to involuntary termination without Cause or resignation for Good Reason, the Option shall immediately become exercisable as to all unexercised Option Shares. If the Option becomes exercisable under this Section 9(b), it shall remain exercisable until the Expiration Date.

10. *Definition of Certain Terms* . Terms used but not defined herein shall have the meanings set forth in the Plan.

11. *Option Subject to Plan* . The Option is in all respects subject to the terms and conditions of the Plan as in effect from time to time; provided, however, that termination or amendment of the Plan (except amendments as required by technical corrections of the Internal Revenue Code) shall not, without the consent of the optionee, adversely affect the optionee's rights under the Option.

12. *Non-Qualified Option* . The Option is a "Non-Qualified Option" as defined in the Plan and not an "incentive stock option" under Section 422 of the Internal Revenue Code. The terms of the Option and this agreement shall be interpreted in a manner consistent with the intent that the Option be exempt from the requirements of Section 409A of the Internal Revenue Code.

13. *Administration* . Pursuant to Section 3(d) of the Plan, the Board at any time may designate one or more officers or committees of Textron to act in place of the Committee in making certain determinations under the Plan.

14. *Withholding Taxes* : Whenever Textron proposes or is required to issue or transfer Option Shares, Textron shall have the right to withhold or to require the optionee to remit to Textron an amount that Textron determines is sufficient to satisfy any Federal, state and local withholding tax requirements. Whenever payments by Textron are to be made in cash, such payments shall be net of an amount that Textron determines is sufficient to satisfy any Federal, state and local withholding tax requirements.

15. *Cause* : "Cause" shall mean: (i) an act or acts of willful misrepresentation, fraud or willful dishonesty (other than good faith expense account disputes) by the optionee which in any case is intended to result in his or another person or entity's substantial personal enrichment at the expense of Textron; (ii) any willful misconduct by the optionee with regard to Textron, its business, assets or employees that has, or was intended to have, a material adverse impact (economic or otherwise) on Textron; (iii) any material, willful and knowing violation by the optionee of (x) Textron's Business Conduct Guidelines, or (y) any of his or her fiduciary duties to Textron which in either case has, or was intended to have, a material adverse impact (economic or otherwise) on Textron; (iv) the willful or reckless behavior of the optionee with regard to a matter of a material nature which has a material adverse impact (economic or otherwise) on Textron; (v) the optionee's willful failure to attempt to perform his or her duties or his or her willful failure to attempt to follow the legal written direction of the Board, which in either case is not remedied within ten (10) days after receipt by the optionee of a written notice from Textron specifying the details thereof; or (vi) the optionee's conviction of, or pleading nolo contendere or guilty to, a felony (other than (x) a traffic infraction or (y) vicarious liability solely as a result of his position provided the optionee did not have actual knowledge of the actions or in actions creating the violation of the law or the optionee relied in good faith on the advice of counsel with regard to the legality of such action or inaction (or the advice of other specifically qualified professionals as to the appropriate or proper action or inaction to take with regard to matters which are not matters of legal interpretation)). No action or inaction should be deemed willful if not demonstrably willful and if taken or not taken by the optionee in good faith as not being adverse to the best interests of Textron. Reference in this

paragraph to Textron shall also include direct and indirect subsidiaries of Textron, and materiality and material adverse impact shall be measured based on the action or inaction and the impact upon, and not the size of, Textron taken as a whole, provided that after a Change of Control, the size of Textron, taken as a whole, shall be a relevant factor in determining materiality and material adverse impact.

16. *Good Reason* : "Good Reason" shall mean the existence of one of the following conditions:

(a) a material diminution in the optionee's base salary;

(b) a material diminution in the optionee's authority, duties, responsibilities, or status (including offices, titles, and reporting requirements);

(c) a material diminution in the authority, duties, responsibilities, or status of the supervisor to whom the optionee is required to report, including a requirement that the optionee report to a corporate officer or employee instead of reporting directly to the Board;

(d) a material diminution in the budget over which the optionee has authority;

(e) a material change in the geographic location at which the optionee must perform services;

(f) a material change in the aggregate level of participation in any of Textron's short and/or long-term incentive compensation plans, or employee benefit or retirement plans, policies, practices, or arrangements;

(g) failure, after a Change of Control, of a successor company to satisfy its obligations under Section 9 (a) (assumption or replacement after a Change of Control);

(h) failure, after a Change of Control, of a successor company to assume the employer's obligations under any agreement or letter pursuant to which the optionee provides services (the "Employment Agreement"); or

(i) any other action or inaction that constitutes a material breach by Textron (including its successor) or the optionee's employer of the optionee's Employment Agreement.

A resignation for Good Reason shall occur only if (x) the optionee provides notice of the existence of a condition described in the preceding sentence within 90 days after the initial existence of the condition, (y) after receipt of the notice, Textron (or its successor) has a period of 30 days during which it may remedy the condition, and (z) the optionee's resignation is effective as soon as practicable after the end of the cure period described in the preceding clause (and no later than two years after the Change of Control).

TEXTRON INC.
STOCK OPTION NON-COMPETITION AGREEMENT
(3/2011)

You have been granted a stock option (“Option”) pursuant to the Textron 2007 Long-Term Incentive Plan (“the Plan”). Textron grants stock options to attract, retain and reward employees, to increase stock ownership and identification with Textron’s interests, and to provide incentive for remaining with and enhancing the value of Textron over the long-term. In consideration for granting this Option to you, please acknowledge that you have read and agree to this Stock Option Non-Competition Agreement.

Agreement regarding Your Stock Option Grant

1. <u>Forfeiture of unexercised options and required repayment if you engage in certain competitive activities</u>
If at any time during the term of this Option while you are a Company employee, or within two years after the termination of your employment, you do any of the following activities:

(a) engage in any business which competes with the Company’s business (as defined in Paragraph 2) within the Restricted Territory (as defined in Paragraph 3); or

(b) solicit customers, business or orders or sell any products and services (i) in competition with the Company’s business within the Restricted Territory or (ii) for any business, wherever located, that competes with the Company’s business within the Restricted Territory; or

(c) divert, entice or otherwise take away customers, business or orders of the Company within the Restricted Territory, or attempt to do so; or

(d) promote or assist, financially or otherwise, any firm, corporation or other entity engaged in any business which competes with the Company’s business within the Restricted Territory;

then (i) this Option shall terminate effective the date you enter into such activity, unless terminated sooner by operation of another term or condition of this Option or the Plan and (ii) provided this Option has been held by you for less than 5 years at the time of exercise, you are required to repay Textron an amount equal to any gains realized in any option exercise which occurs on the date beginning 180 days prior to the earlier of (a) your termination of employment or (b) the termination of this Option, or at any time after such date. For purposes of this Agreement, the gain realized shall be equal to the difference between the fair market value of the stock on the date of the exercise and the Option strike price. You will be in violation of Paragraph 1 if you engage in any or all of the activities discussed in this Paragraph directly as an individual or indirectly as an employee, representative, consultant or in any other capacity on behalf of any firm, corporation or other entity.

2. **Company's business** – Defined for the purpose of this Agreement:

(a) the Company shall include Textron and all subsidiary, affiliated or related companies or operations of Textron, and

(b) the Company's business shall include the products manufactured, marketed and sold and/or the services provided by any operation of the Company for which you have worked or to which you were assigned or had responsibility (either direct or supervisory), at the time of the termination of your employment and any time during the two-year period prior to such termination.

3. **Restricted Territory** – Defined for the purpose of Paragraph 1, the Restricted Territory shall be defined as and limited to:

(a) the geographic area(s) within a one hundred (100) mile radius of any and all Company location(s) in or for which you have worked or to which you were assigned or had responsibility (either direct or supervisory), at the time of the termination of your employment and at any time during the two-year period prior to such termination; and

(b) all of the specific customer accounts, whether within or outside of the geographic area described in (a) above, with which you have had any contact or for which you have had any responsibility (either direct or supervisory), at the time of termination of your employment and at any time during the two-year period prior to such termination.

4. **Forfeiture of unexercised options and required repayment if you engage in certain solicitation activities**
If either during or any time after your employment with the Company, you directly or indirectly solicit or induce or attempt to solicit or induce any employee(s), sales representative(s), agent(s) or consultant(s) of the Company to terminate their employment, representation or other association with the Company, then (i) this Option shall terminate effective the date you enter into such activity, unless terminated sooner by operation of another term or condition of this Option or the Plan and (ii) provided this Option has been held by you for less than 5 years at the time of exercise, you are required to repay Textron an amount equal to any gains realized in any Option exercise which occurs on the date beginning 180 days prior to the earlier of (a) your termination of employment or (b) the termination of this Option, or at any time after such date. For purposes of this Agreement, the gain realized shall be equal to the difference between the fair market value of the stock on the date of the exercise and the Option exercise price.

5. **Forfeiture of unexercised options and required repayment if you disclose confidential information**
You specifically acknowledge that any trade secrets or confidential business and technical information of the Company or its suppliers or customers, whether reduced to writing, maintained on any form of electronic media, or maintained in your mind or memory and whether compiled by you or the Company, derives independent economic value from not being readily known to or ascertainable by proper means by others who can obtain economic value from its disclosure or use; that reasonable efforts have been made by the Company to maintain the secrecy of such information; that such information is the sole property of the Company or its suppliers or customers and that any retention, use or disclosure of such

information by you during your employment (except in the course of performing your duties and obligations of employment with the Company) or after termination thereof, shall constitute a misappropriation of the trade secrets of the Company or its suppliers or customers. If,either during or any time after your employment with the Company, you directly or indirectly misappropriate any such trade secrets, then (i) this Option shall terminate effective the date you enter into such activity, unless terminated sooner by operation of another term or condition of this Option or the Plan and (ii) provided this Option has been held by you for less than 5 years at the time of exercise, you are required to repay Textron an amount equal to any gains realized in any Option exercise which occurs on the date beginning 180 days prior to the earlier of (a) your termination of employment or (b) the termination of this Option, or at any time after such date. For purposes of this Agreement, the gain realized shall be equal to the difference between the fair market value of the stock on the date of the exercise and the Option exercise price.

6. <u>Organization and Compensation Committee Discretion</u>

You may be released from your obligations under Paragraph 1, 4 and 5 above only if the Organization and Compensation Committee of the Board of Directors (or its duly appointed agent) determines in its sole discretion that such action is in the best interests of Textron.

7. <u>Severability</u>

The parties agree that each provision contained in this Agreement shall be treated as a separate and independent clause, and the unenforceability of any one clause shall in no way impair the enforceability of any of the other clauses herein. Moreover, if one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to scope, activity or subject, then such provisions shall be construed by the appropriate judicial body by limiting and reducing it or them, so as to be enforceable to the extent compatible with the applicable law.

Exhibit 10.2

TEXTRON

NOTICE OF AWARD OF
STOCK SETTLED RESTRICTED STOCK UNITS
(WITH DIVIDEND EQUIVALENTS)
AND RESTRICTED STOCK UNIT AGREEMENT

Pursuant to the 2007 Long-Term Incentive Plan (the "Plan"), you (the "executive") have been awarded a specified number of Restricted Stock Units ("RSUs"), each of which constitutes the right to receive a share of Common Stock of Textron Inc. (the "Shares"). This award is governed by the current Terms and Conditions attached hereto and the Plan (available on the Administrator's website), and is subject to the current Restricted Stock Unit Non-Competition Agreement (the "Non-Competition Agreement") attached hereto.

The RSUs awarded include dividend equivalents. The RSUs will vest at the time, and subject to the conditions, set forth in the Terms and Conditions.

As detailed in the Terms and Conditions, the Shares will generally become issuable to you after each Period of Restriction ends, at the times set forth in the Terms and Conditions, subject to expiration or termination without issuance of Shares as provided in the Terms and Conditions and Non-Competition Agreement.

You must log into your account on the Administrator's website to view the number of units awarded and the award date, as well as to accept your award. <u>If you do not accept your award prior to the first scheduled vesting date (or prior to the date your employment terminates for any reason, if earlier), your award will be forfeited</u>. Although Textron has completed the steps necessary to grant you this award, you cannot receive any payment under the award unless you accept the award before the deadline.

By your acceptance of this award, you agree that this award is governed by the current Terms and Conditions attached hereto and the Plan, which is available on the Administrator's website. In addition, you agree that this award is subject to the Non-Competition Agreement attached hereto, the terms of which are fully incorporated herein. You acknowledge that you have read and understand these documents as they apply to your awards.

Please be sure to log into your account and accept your award as soon as possible to avoid the risk that your award will be forfeited for non-acceptance.

TEXTRON INC

TEXTRON INC.
TEXTRON 2007 LONG-TERM INCENTIVE PLAN
RESTRICTED STOCK UNIT
TERMS AND CONDITIONS
(3/2014)

1. *Award of RSUs* . Pursuant to the 2007 Long-Term Incentive Plan (the "Plan"), Textron has awarded to the executive Restricted Stock Units ("RSUs"), subject to the terms and conditions set forth herein. The number of RSUs granted and the award date are recorded on the Administrator's website for the Plan.

2. *Vesting Schedule* . Subject to the Terms and Conditions set forth herein, the RSUs will vest in thirds, and the Period of Restriction for each third will end as follows:

- For the first third, on the third anniversary of the award date;
- For the second third, on the fourth anniversary of the award date; and
- For the last third, on the fifth anniversary of the award date.

3. *Settlement* .

(a) If the RSUs were designated as cash-settled RSUs when they were awarded, each RSU constitutes the right to receive cash equal to the fair market value of one share (a "Share") of Common Stock. For this purpose, the fair market value of a Share equals the per-share closing price of Textron's Common Stock, as reported on the New York Stock Exchange, when the Period of Restriction ends. As the Period of Restriction for each RSU ends, Textron will pay to the executive the cash amount for such RSU, subject to required tax withholding. Except as otherwise provided in Section 4 (Termination of Employment), such cash payment shall be made within thirty (30) days after the Period of Restriction ends.

(b) If the RSUs were not designated as cash-settled RSUs when they were awarded, Textron will issue to the executive the number of Shares for which the applicable Period of Restriction has ended, less the number of Shares needed to satisfy required tax withholding. Except as otherwise provided in Section 4 (Termination of Employment), such Shares shall be delivered within thirty (30) days after the Period of Restriction ends. Shares may be issued in the form of a certificate or a notification to the executive that the Shares are held in a book-entry account on the executive's behalf. Fractional Shares may be paid in cash.

4. *Termination of Employment* . If the executive's employment with Textron and its Subsidiaries ends for any reason before the end of an applicable Period of Restriction, the executive shall forfeit all RSUs for which the Period of Restriction has not yet ended (and, as a result, shall forfeit all Shares and cash that may otherwise have been delivered or paid pursuant to such RSUs), subject to the following:

(a) If the executive's employment with Textron terminates for "Cause," the executive shall forfeit all RSUs for which the Period of Restriction has not yet ended (and, as a result, shall forfeit all Shares and cash that may otherwise have been delivered or paid pursuant to such RSUs).

(b) If the executive's employment terminates (other than for Cause) after the executive has become eligible for Retirement, the executive will remain eligible to receive cash or Shares (as applicable) after each applicable Period of Restriction, as if the executive's employment had not terminated (but subject to forfeiture in accordance with the Non-Competition Agreement); provided, however, that if the executive's employment terminates within two years after a Change of Control, the payment schedule set forth in subsection (d), below, shall apply.

(c) If the executive becomes Disabled or dies, the Period of Restriction for all outstanding RSUs shall end immediately. In such instance, Textron shall issue Shares or make a cash payment, as applicable, to the executive (or, in the case of death, to the executive's estate) within 30 days after the executive's Disability or death or as soon as administratively feasible (*i.e.* , after Textron is notified of the Disability or death). The amount of the cash payment for a cash-settled RSU shall be determined based on the closing price of Textron's Common Stock, as reported on the New York Stock Exchange, on the first business day after the executive's Disability or death. The amount payable (or Shares deliverable) for RSUs shall not be adjusted for any delay caused by time needed to validate the executive's status as Disabled or dead, or to authenticate a beneficiary.

(d) If, within two years after a Change of Control, the executive's employment ends due to involuntary termination without Cause or resignation for Good Reason, the Period of Restriction for all outstanding RSUs shall end immediately. In such instance, Textron shall deliver Shares or make a cash payment, as applicable, to the executive (or, in the case of death, to the executive's estate) on the Six-Month Pay Date. If the RSUs are settled in cash, the amount of cash payable on the Six-Month Pay Date shall be determined based on the closing price of Textron's Common Stock (or the successor thereto) on the last business day of the last calendar month that ends before the Six-Month Pay Date; provided, however, that if it is not feasible to calculate the closing price as of the last business day of such month, the amount of cash shall be determined based on the last price available.

Note: Sale of a business unit usually does not constitute a Change of Control as defined in the Plan .

5. *Change of Control* . If a Change of Control occurs, a successor to Textron shall either assume the RSUs or replace them with a cash or equity-based award that materially preserves the value of the RSUs and has vesting and payment schedules (including acceleration events) that are no less favorable to the executive than the schedules in effect immediately before the Change of Control. If the RSUs are not assumed or replaced in accordance with the immediately preceding sentence, the RSUs shall be fully vested, non-forfeitable, and payable; provided that payment shall not be accelerated if accelerating payment would violate a requirement of Section 409A of the Internal Revenue Code.

6. *Corporate Changes* . The number of RSUs awarded to the executive hereunder shall be equitably adjusted in the event of a stock split, stock dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, or any other corporate event affecting the Common Stock, as provided in the Plan, in order to preserve the benefits or potential benefits intended to be made available to the executive.

7. *No Right to Employment* . Nothing in these Terms and Conditions shall confer upon the executive the right to continue in the employment of Textron or any Subsidiary or affect any right that Textron or any Subsidiary may have to terminate the employment of the executive.

8. *Non-Assignability of RSUs* . The RSUs shall not be assignable or transferable by the executive, except to the extent expressly permitted by the Plan. Tax withholding with respect to any RSU that is transferred or assigned shall be determined by Textron in accordance with applicable law (which may require the executive to pay taxes with respect to a transferred RSU). Any Shares issued under an RSU, once issued to the executive, shall be freely transferable.

9. *Voting* . The executive shall not have voting rights with respect to the Shares underlying RSUs before the Shares are issued (if applicable) to the executive.

10. *Dividend Equivalents* . If (and only if) the executive's award of RSUs includes dividend equivalents, the award shall entitle the executive to receive an amount equal to any cash dividend declared with respect to the number of Shares represented by those RSUs, but only to the extent that the RSUs have not been issued as Shares, converted to a cash payment amount, or terminated or forfeited before the record date for such dividend. Dividend equivalents shall be paid at the same rate and same time that dividends on shares of Common Stock are paid to Textron shareholders. The dividend equivalents shall be reduced by the amount of any required tax withholding, and the net amount shall be paid in cash to the executive.

11. *Administration* . In accordance with the Plan, the Board at any time may designate one or more officers or committees of Textron to act in place of the Committee in making certain determinations under the Plan.

12. *Withholding Taxes* : All payments and delivery of Shares with respect to RSUs shall be subject to tax withholding. Textron shall have the right to withhold cash or Shares (as applicable) from any payment or delivery to the extent that Textron determines is necessary to satisfy any Federal, state and local withholding tax requirements.

13. *Section 409A* . The terms and conditions of the RSUs shall be interpreted in a manner consistent with the intent to be exempt from or comply with the requirements of Section 409A of the Internal Revenue Code. For example, the phrase "as soon as practicable" and similar phrases with respect to payment dates shall be interpreted and administered consistent with the intent that, subject to the executive (or beneficiary) providing all required information, payment shall not be delayed beyond the latest date permitted by Section 409A. For purposes of Section 409A, each installment in any series of installment payments (or deliveries of Shares) shall be treated as a separate payment.

14. *RSUs Subject to Plan* . The RSUs shall be subject to the terms and conditions of the Plan in all respects. In the case of RSUs awarded under a long-term incentive plan other than the 2007 Long-Term Incentive Plan, the term "Plan" as used in these Terms and Conditions shall refer to the plan under which the RSUs were awarded. Each term that is used but not defined herein shall have the meaning set forth in the Plan.

DEFINITIONS

"Cause"

"Cause" shall mean: (i) an act or acts of willful misrepresentation, fraud or willful dishonesty (other than good faith expense account disputes) by the executive which in any case is intended to result in his or another person or entity's substantial personal enrichment at the expense of Textron; (ii) any willful misconduct by the executive with regard to Textron, its business, assets or employees that has, or was intended to have, a material adverse impact (economic or otherwise) on Textron; (iii) any material, willful and knowing violation by the executive of (x) Textron's Business Conduct Guidelines, or (y) any of his or her fiduciary duties to Textron which in either case has, or was intended to have, a material adverse impact (economic or otherwise) on Textron; (iv) the willful or reckless behavior of the executive with regard to a matter of a material nature which has a material adverse impact (economic or otherwise) on Textron; (v) the executive's willful failure to attempt to perform his or her duties or his or her willful failure to attempt to follow the legal written direction of the Board, which in either case is not remedied within ten (10) days after receipt by the executive of a written notice from Textron specifying the details thereof; or (vi) the executive's conviction of, or pleading nolo contendere or guilty to, a felony (other than (x) a traffic infraction or (y) vicarious liability solely as a result of his position provided the executive did not have actual knowledge of the actions or in actions creating the violation of the law or the executive relied in good faith on the advice of counsel with regard to the legality of such action or inaction (or the advice of other specifically qualified professionals as to the appropriate or proper action or inaction to take with regard to matters which are not matters of legal interpretation)). No action or inaction should be deemed willful if not demonstrably willful and if taken or not taken by the executive in good faith as not being adverse to the best interests of Textron. Reference in this paragraph to Textron shall also include direct and indirect subsidiaries of Textron, and materiality and material adverse impact shall be measured based on the action or inaction and the impact upon, and not the size of, Textron taken as a whole, provided that after a Change of Control, the size of Textron, taken as a whole, shall be a relevant factor in determining materiality and material adverse impact.

"Period of Restriction"

The Period of Restriction means, for any RSU, the period prior to the date on which such RSU vests and the holder becomes entitled to a Share or a cash payment in respect thereof. The Period of Restriction shall not be deemed to have ended solely because the executive becomes eligible for Retirement.

"Retirement"

The executive is eligible for "Retirement" if the executive has attained age 55 and has 10 years of service, as recorded in Textron's Human Resources Information System of record.

"Disability"

"Disability" shall mean the inability of the executive to engage in any substantial gainful activity due to injury, illness, disease, or bodily or mental infirmity which can be expected to result in death or is expected to be permanent, and which results in the executive's being "disabled" within the meaning of Section 409A(a)(2)(C) of the Internal Revenue Code. An individual shall not be considered disabled unless executive furnishes proof of the existence thereof. Textron may require the existence or non-existence of a disability to be determined by a physician whose selection is mutually agreed upon by the executive (or his or her representatives) and Textron.

"Good Reason"

"Good Reason" shall mean the existence of one of the following conditions:

(a) a material diminution in the executive's base salary;

(b) a material diminution in the executive's authority, duties, responsibilities, or status (including offices, titles, and reporting requirements);

(c) a material diminution in the authority, duties, responsibilities, or status of the supervisor to whom the executive is required to report, including a requirement that the executive report to a corporate officer or employee instead of reporting directly to the Board;

(d) a material diminution in the budget over which the executive has authority;

(e) a material change in the geographic location at which the executive must perform services;

(f) a material change in the aggregate level of participation in any of Textron's short and/or long-term incentive compensation plans, or employee benefit or retirement plans, policies, practices, or arrangements;

(g) failure, after a Change of Control, of a successor company to satisfy its obligations under Section 5 (Change of Control);

(h) failure, after a Change of Control, of a successor company to assume the employer's obligations under any agreement or letter pursuant to which the executive provides services (the "Employment Agreement"); or

(i) any other action or inaction that constitutes a material breach by Textron (including its successor) or the executive's employer of the executive's Employment Agreement.

A resignation for Good Reason shall occur only if (x) the executive provides notice of the existence of a condition described in the preceding sentence within 90 days after the initial existence of the condition, (y) after receipt of the notice, Textron (or its successor) has a period of 30 days during which it may remedy the condition, and (z) the executive's resignation is effective as soon as practicable after the end of the cure period described in the preceding clause (and no later than two years after the Change of Control).

"Six-Month Pay Date"

The Six-Month Pay Date is the earlier of (i) the first business day of the seventh month that starts after the executive's termination of employment or (ii) a date determined by Textron that is within 90 days after the executive's death or as soon as administratively feasible (*i.e.* , after Textron is notified of the death).

"Termination of Employment"

"Termination of employment" shall mean "separation from service" within the meaning of Section 409A of the Internal Revenue Code.

TEXTRON INC.
RESTRICTED STOCK UNIT NON-COMPETITION AGREEMENT
(3/2011)

You have been awarded Restricted Stock Units ("RSUs") pursuant to the Textron 2007 Long-Term Incentive Plan (the "Plan"). Textron awards RSUs to attract, retain and reward employees, to increase identification with Textron's interests, and to provide incentive for remaining with and enhancing the value of Textron over the long-term. In consideration for awarding RSUs to you, please acknowledge that you have read and agree to this Restricted Stock Unit Non-Competition Agreement.

Agreement regarding Your Restricted Stock Units

1. **Forfeiture of RSUs and required repayment if you engage in certain competitive activities**
If at any time during the Period of Restriction (as defined in the Notice of Award) while you are a Company employee, or within two years after the termination of your employment, you do any of the following activities:

(a) engage in any business which competes with the Company's business (as defined in Paragraph 2) within the Restricted Territory (as defined in Paragraph 3); or

(b) solicit customers, business or orders or sell any products and services (i) in competition with the Company's business within the Restricted Territory or (ii) for any business, wherever located, that competes with the Company's business within the Restricted Territory; or

(c) divert, entice or otherwise take away customers, business or orders of the Company within the Restricted Territory, or attempt to do so; or

(d) promote or assist, financially or otherwise, any firm, corporation or other entity engaged in any business which competes with the Company's business within the Restricted Territory;

then your right to receive any Shares or cash payment in respect of the RSUs shall be forfeited effective the date you enter into such activity, and you will be required to repay Textron an amount equal to any amount that was included in your gross income for federal income tax purposes in respect of the RSUs on the date beginning 180 days prior to the earlier of (a) your termination of employment or (b) the date you engage in such activity, or at any time after such date. You shall make the repayment described in the preceding sentence in cash unless the Organization and Compensation Committee of the Board of Directors or its delegate requires, in its discretion, that you deliver Shares with a fair market value (based on the closing price on the last business day before repayment date) equal to the repayment amount. You will be in violation of Paragraph 1 if you engage in any or all of the activities discussed in this Paragraph directly as an individual or indirectly as an employee, representative, consultant or in any other capacity on behalf of any firm, corporation or other entity.

2. **<u>Company's business</u>** – For the purpose of this Agreement:

(a) the Company shall include Textron and all subsidiary, affiliated or related companies or operations of Textron, and

(b) the Company's business shall include the products manufactured, marketed and sold and/or the services provided by any operation of the Company for which you have worked or to which you were assigned or had responsibility (either direct or supervisory), at the time of the termination of your employment and any time during the two-year period prior to such termination.

3. **<u>Restricted Territory</u>** – For the purpose of this Agreement, the Restricted Territory shall be defined as and limited to:

(a) the geographic area(s) within a one hundred (100) mile radius of any and all Company location(s) in or for which you have worked or to which you were assigned or had responsibility (either direct or supervisory), at the time of the termination of your employment and at any time during the two-year period prior to such termination; and

(b) all of the specific customer accounts, whether within or outside of the geographic area described in (a) above, with which you have had any contact or for which you have had any responsibility (either direct or supervisory), at the time of termination of your employment and at any time during the two-year period prior to such termination.

4. **<u>Forfeiture of RSUs and required repayment if you engage in certain solicitation activities</u>**

If you directly or indirectly solicit or induce or attempt to solicit or induce any employee(s), sales representative(s), agent(s) or consultant(s) of the Company to terminate their employment, representation or other association with the Company, then your right to receive any Shares or cash payment in respect of the RSUs shall be forfeited effective as of the date you enter into such activity, and you will be required to repay Textron an amount equal to any amount that was included in your gross income for federal income tax purposes in respect of the RSUs on the date beginning 180 days prior to the earlier of (a) your termination of employment or (b) the date you engage in such activity, or at any time after such date. You shall make the repayment described in the preceding sentence in cash unless the Organization and Compensation Committee of the Board of Directors or its delegate requires, in its discretion, that you deliver Shares with a fair market value (based on the closing price on the last business day before repayment date) equal to the repayment amount.

5. **<u>Forfeiture of RSUs and required repayment if you disclose confidential information</u>**

You specifically acknowledge that any trade secrets or confidential business and technical information of the Company or its suppliers or customers, whether reduced to writing, maintained on any form of electronic media, or maintained in your mind or memory and whether compiled by you or the Company, derives independent economic value from not being readily known to or ascertainable by proper means by others who can obtain economic value from its disclosure or use; that reasonable efforts have been made by the Company to maintain the secrecy of such information; that such information is the sole property of the Company or its suppliers or customers and that any retention, use or disclosure of such information by you during your employment (except in the course of performing your duties and obligations of employment with the Company) or after termination thereof, shall constitute a misappropriation of the trade secrets of the Company or its suppliers or customers. If you directly or indirectly misappropriate any such trade secrets, then your right to receive any Shares or cash payment in respect of the RSUs shall be forfeited effective the date you enter into such activity, and you will be required to repay Textron an amount equal to any amount that was included in your gross income for federal income tax purposes in respect of the RSUs on the date beginning 180 days prior to the earlier of (a) your termination of employment or (b) the date you engage in such activity, or at any time after such date. You shall make the repayment described in the preceding sentence in cash unless the Organization and Compensation Committee of the Board of Directors or its delegate requires, in its discretion, that you deliver Shares with a fair market value (based on the closing price on the last business day before repayment date) equal to the repayment amount.

6. Organization and Compensation Committee Discretion

You may be released from your obligations under Paragraph 1, 4 and 5 above only if the Organization and Compensation Committee of the Board of Directors (or its delegate) determines in its sole discretion that such action is in the best interests of Textron.

7. Severability

The parties agree that each provision contained in this Agreement shall be treated as a separate and independent clause, and the unenforceability of any one clause shall in no way impair the enforceability of any of the other clauses herein. Moreover, if one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to scope, activity or subject, then such provisions shall be construed by the appropriate judicial body by limiting and reducing it or them, so as to be enforceable to the extent compatible with the applicable law.

Exhibit 10.3

TEXTRON

NOTICE OF AWARD OF PERFORMANCE SHARE UNITS AND PERFORMANCE SHARE UNIT AGREEMENT

Pursuant to the 2007 Long-Term Incentive Plan (the "Plan"), you (the "executive") have been awarded Performance Share Units ("PSUs"), which constitute the right to receive, if earned pursuant to the terms, the cash equivalent of a specified number of shares of Common Stock of Textron Inc. determined by a formula and valued as provided in the current Performance Share Unit Terms and Conditions (the "Terms and Conditions") attached hereto. This award is governed by the Terms and Conditions and the Plan (available on the Administrator's website), and is subject to the current Performance Share Unit Non-Competition Agreement (the "Non-Competition Agreement") attached hereto.

The Performance Period is the three (3) year period beginning on the first day of the fiscal year in which the PSUs are awarded. Separate performance measures will be established for each fiscal year within the Performance Period, and the performance measures for each fiscal year will apply to one third of the PSUs awarded for the Performance Period. The Committee has discretion to reduce the number of units earned relative to each fiscal year or for all three fiscal years in the Performance Period.

Performance measures for each fiscal year in the Performance Period will be established and communicated to you separately from this notice.

Except as otherwise provided in the Terms and Conditions, the cash value of all PSUs will be paid (to the extent earned) during the month of March following the end of the Performance Period. All PSUs, including PSUs earned based on annual performance in the first or second fiscal year of the Performance Period, remain subject to forfeiture until the end of the Performance Period as provided in the Terms and Conditions.

You must log into your account on the Administrator's website to view the number of units awarded, as well as to accept your award. <u>If you do not accept your award prior to the end of the Performance Period (or prior to the date your employment terminates for any reason, if earlier), your award will be forfeited</u>. Although Textron has completed the steps necessary to grant you this award, you cannot receive any payment under the award unless you accept the award before the deadline.

By your acceptance of this award, you agree that this award is governed by the current Terms and Conditions attached hereto and the Plan, which is available on the Administrator's website. In addition, you agree that this award is subject to the Non-Competition Agreement, attached hereto, the terms of which are fully incorporated herein. You acknowledge that you have read and understand these documents as they apply to your awards.

Please be sure to log into your account and accept your award as soon as possible to avoid the risk that your award will be forfeited for non-acceptance.

TEXTRON INC.

TEXTRON INC.
TEXTRON 2007 LONG-TERM INCENTIVE PLAN
PERFORMANCE SHARE UNIT
TERMS AND CONDITIONS
(3/2014)

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1. *Award of Performance Share Units* . Pursuant to the 2007 Long-Term Incentive Plan (the "Plan"), Textron has awarded to the executive Performance Share Units, subject to the Terms and Conditions set forth herein. The number of Performance Share Units payable under this award will be determined by Textron based on achievement of predefined performance measures or targets over each fiscal year in the Performance Period.

2. *Settlement* . Each Performance Share Unit earned by the executive constitutes the right to receive cash equal to the fair market value of one share (a "Share") of Common Stock of Textron Inc. Except as otherwise provided in Sections 3 (Termination of Employment) or 4 (Change of Control):

(a) The fair market value of a Share equals the average of the per-share closing prices of Textron's Common Stock, as reported on the New York Stock Exchange, on the first ten trading days immediately following the end of the Performance Period; and

(b) Textron will pay the executive (or the executive's estate in the event of the executive's death prior to payment) the cash amount for the Performance Share Units earned by the executive during the month of March following the end of the Performance Period.

3. *Termination of Employment* . If the executive's employment with Textron and its Subsidiaries ends for any reason before the end of the Performance Period, the executive shall forfeit all outstanding Performance Share Units (including, but not limited to, Performance Share Units that have already been earned based on performance during a prior fiscal year), subject to the following:

(a) If the executive's employment with Textron terminates for "Cause," the executive shall forfeit all Performance Share Units (including, but not limited to, Performance Share Units that have already been earned based on annual performance during a fiscal year in the Performance Period).

(b) If the executive's employment terminates (other than for Cause) after the executive has become eligible for Retirement, the executive will remain eligible to earn Performance Share Units (and receive payment for such Performance Share Units) as if the executive's employment had not terminated (but subject to forfeiture in accordance with the Non-Competition Agreement); provided, however, that if the executive's employment terminates within two years after a Change of Control, the payment schedule set forth in subsection (d), below, shall apply.

(c) If the executive becomes Disabled or dies before the end of the Performance Period (and while executive is eligible to earn Performance Share Units), Textron will make a cash payment to the executive (or, in the case of death, to the executive's estate) within 30 days after the executive's Disability or death or as soon as administratively feasible (*i.e.* , after Textron is notified of the Disability or death). Such cash payment shall equal the closing price for a Share, as reported on the New York Stock Exchange, on the first business day after the executive's Disability or death, times the sum of (1) the Performance Share Units (if any) actually earned for any fiscal year that is completed before the executive's Disability or death, and (2) a Pro-Rata Portion of the Performance Share Units that the executive would have earned for target performance for the fiscal year of the executive's Disability or death (unless the Disability or death occurs on the last day of the fiscal year, in which case the number of Performance Share Units awarded would be the number actually earned). The amount payable shall not be adjusted for any delay caused by time needed to validate the executive's status as Disabled or dead, or to authenticate a beneficiary.

(d) If, within two years after a Change of Control, the executive's employment ends due to involuntary termination without Cause or resignation for Good Reason, the applicable Performance Period for the Performance Share Units shall end immediately. In such instance, Textron shall make a cash payment to the executive (or, in the case of death, to the executive's estate) on the Six-Month Pay Date. Such cash payment shall equal the fair market value of the maximum number of Performance Share Units that can be earned based on actual performance for any fiscal year in the Performance Period that has ended and target performance for the rest of the Performance Period. For this purpose, fair market value of a Performance Share Unit shall equal the per-share closing price of Textron's Common Stock (or the successor thereto) on the last business day of the last calendar month that ends before the Six-Month Pay Date; provided, however, that if it is not feasible to calculate the closing price as of the last business day of such month, the amount of cash shall be determined based on the last price available.

Note: Sale of a business unit usually does not constitute a Change of Control as defined in the Plan.

4. *Change of Control* . If a Change of Control occurs, a successor to Textron shall either assume Textron's obligations with respect to the Performance Share Units or replace this Performance Share Unit award with a cash or equity-based award that materially preserves the Performance Share Unit award's value and incentive opportunity, and has vesting and payment schedules (including acceleration events) that are no less favorable to the executive than the schedules in effect immediately before the Change of Control. If this Performance Share Unit award is not assumed or replaced in accordance with the immediately preceding sentence, the Performance Share Units shall be fully vested, non-forfeitable, and payable at the level prescribed by Section 3(d), above (*i.e.* , based on actual performance for any fiscal year that has ended and actual performance for the rest of the Performance Period), based on the Share value as of the Change of Control; provided that payment shall not be accelerated if accelerating payment would violate a requirement of Section 409A of the Internal Revenue Code.

5. *Corporate Changes* . The number of Performance Share Units awarded to the executive hereunder shall be equitably adjusted in the event of a stock split, stock dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, or any other corporate event affecting the Common Stock, as provided in the Plan, in order to preserve the benefits or potential benefits intended to be made available to the executive.

6. *No Right to Employment* . Nothing in these Terms and Conditions shall confer upon the executive the right to continue in the employment of Textron or any Subsidiary or affect any right that Textron or any Subsidiary may have to terminate the employment of the executive.

7. *Non-Assignability of Performance Share Units* . The Performance Share Units shall not be assignable or transferable by the executive, except to the extent expressly permitted by the Plan. Tax withholding with respect to any Performance Share Unit that is transferred or assigned shall be determined by Textron in accordance with applicable law (which may require the executive to pay taxes with respect to a transferred Performance Share Units).

8. *Voting and Dividends* . The executive shall not have voting rights or the right to any dividends with respect to the Performance Share Units.

9. *Administration* . In accordance with the Plan, the Board at any time may designate one or more officers or committees of Textron to act in place of the Committee in making certain determinations under the Plan.

10. *Withholding Taxes* : All payments with respect to Performance Share Units shall be subject to tax withholding. Textron shall have the right to withhold cash from any payment to the extent that Textron determines is necessary to satisfy any Federal, state and local withholding tax requirements.

11. *Section 409A* . The terms and conditions of the Performance Share Units shall be interpreted in a manner consistent with the intent to be exempt from or comply with the requirements of Section 409A of the Internal Revenue Code. For example, the phrase "as soon as practicable" and similar phrases with respect to payment dates shall be interpreted and administered consistent with the intent that, subject to the executive (or beneficiary) providing all required information, payment shall not be delayed beyond the latest date permitted by Section 409A. For purposes of Section 409A, each installment in any series of installment payments shall be treated as a separate payment.

12. *Performance Share Units Subject to Plan* . The Performance Share Units shall be subject to the terms and conditions of the Plan in all respects. In the case of Performance Share Units awarded under a long-term incentive plan other than the 2007 Long-Term Incentive Plan, the term "Plan" as used in these Terms and Conditions shall refer to the plan under which the Performance Share Units were awarded. Each term that is used but not defined herein shall have the meaning set forth in the Plan.

DEFINITIONS

"Cause"

"Cause" shall mean: (i) an act or acts of willful misrepresentation, fraud or willful dishonesty (other than good faith expense account disputes) by the executive which in any case is intended to result in his or another person or entity's substantial personal enrichment at the expense of Textron; (ii) any willful misconduct by the executive with regard to Textron, its business, assets or employees that has, or was intended to have, a material adverse impact (economic or otherwise) on Textron; (iii) any material, willful and knowing violation by the executive of (x) Textron's Business Conduct Guidelines, or (y) any of his or her fiduciary duties to Textron which in either case has, or was intended to have, a material adverse impact (economic or otherwise) on Textron; (iv) the willful or reckless behavior of the executive with regard to a matter of a material nature which has a material adverse impact (economic or otherwise) on Textron; (v) the executive's willful failure to attempt to perform his or her duties or his or her willful failure to attempt to follow the legal written direction of the Board, which in either case is not remedied within ten (10) days after receipt by the executive of a written notice from Textron specifying the details thereof; or (vi) the executive's conviction of, or pleading nolo contendere or guilty to, a felony (other than (x) a traffic infraction or (y) vicarious liability solely as a result of his position provided the executive did not have actual knowledge of the actions or in actions creating the violation of the law or the executive relied in good faith on the advice of counsel with regard to the legality of such action or inaction (or the advice of other specifically qualified professionals as to the appropriate or proper action or inaction to take with regard to matters which are not matters of legal interpretation)). No action or inaction should be deemed willful if not demonstrably willful and if taken or not taken by the executive in good faith as not being adverse to the best interests of Textron. Reference in this paragraph to Textron shall also include direct and indirect subsidiaries of Textron, and materiality and material adverse impact shall be measured based on the action or inaction and the impact upon, and not the size of, Textron taken as a whole, provided that after a Change of Control, the size of Textron, taken as a whole, shall be a relevant factor in determining materiality and material adverse impact.

" Performance Period "

For the purposes of this award, the Performance Period means the period of three fiscal years identified in the Notice of Award.

" Retirement "

The executive is eligible for "Retirement" if the executive has attained age 55 and has 10 years of service, as recorded in Textron's Human Resources Information System of record.

" Disability "

"Disability" shall mean the inability of the executive to engage in any substantial gainful activity due to injury, illness, disease, or bodily or mental infirmity which can be expected to result in death or is expected to be permanent, and which results in the executive's being "disabled" within the meaning of Section 409A(a)(2)(C) of the Internal Revenue Code. An individual shall not be considered disabled unless executive furnishes proof of the existence thereof. Textron may require the existence or non-existence of a disability to be determined by a physician whose selection is mutually agreed upon by the executive (or his or her representatives) and Textron.

“Pro-Rata Portion”

“Pro-Rata Portion” shall mean the number of complete or partial months of the executive’s active service to Textron during the fiscal year divided by 12.

“Good Reason”

“Good Reason” shall mean the existence of one of the following conditions:

(a) a material diminution in the executive’s base salary;

(b) a material diminution in the executive’s authority, duties, responsibilities, or status (including offices, titles, and reporting requirements);

(c) a material diminution in the authority, duties, responsibilities, or status of the supervisor to whom the executive is required to report, including a requirement that the executive report to a corporate officer or employee instead of reporting directly to the Board;

(d) a material diminution in the budget over which the executive has authority;

(e) a material change in the geographic location at which the executive must perform services;

(f) a material change in the aggregate level of participation in any of Textron’s short and/or long-term incentive compensation plans, or employee benefit or retirement plans, policies, practices, or arrangements;

(g) failure, after a Change of Control, of a successor company to satisfy its obligations under Section 4 (Change of Control);

(h) failure, after a Change of Control, of a successor company to assume the employer’s obligations under any agreement or letter pursuant to which the executive provides services (the “Employment Agreement”); or

(i) any other action or inaction that constitutes a material breach by Textron (including its successor) or the executive’s employer of the executive’s Employment Agreement.

A resignation for Good Reason shall occur only if (x) the executive provides notice of the existence of a condition described in the preceding sentence within 90 days after the initial existence of the condition, (y) after receipt of the notice, Textron (or its successor) has a period of 30 days during which it may remedy the condition, and (z) the executive’s resignation is effective as soon as practicable after the end of the cure period described in the preceding clause (and no later than two years after the Change of Control).

“Six-Month Pay Date”

The Six-Month Pay Date is the earlier of (i) the first business day of the seventh month that starts after the executive’s termination of employment or (ii) a date determined by Textron that is within

90 days after the executive's death or as soon as administratively feasible (*i.e.* , after Textron is notified of the death).

"Termination of Employment"

"Termination of employment" shall mean "separation from service" within the meaning of Section 409A of the Internal Revenue Code.

TEXTRON INC.
PERFORMANCE SHARE UNIT NON-COMPETITION AGREEMENT
(3/2011)

You have been awarded Performance Share Units ("PSUs") pursuant to the Textron 2007 Long-Term Incentive Plan (the "Plan"). Textron awards Performance Share Units to attract, retain and reward employees, to increase identification with Textron's interests and the interests of Textron's shareholders, and to provide incentive for remaining with and enhancing the value of Textron over the long-term. In consideration for awarding Performance Share Units to you, please acknowledge that you have read and agree to this Performance Share Unit Non-Competition Agreement.

Agreement regarding Your Performance Share Units

1. **Forfeiture of PSUs and required repayment if you engage in certain competitive activities**
If at any time during the Performance Period (as defined in the Notice of Award of Performance Share Unit and Performance Share Unit Agreement) while you are a Company employee, or within two years after the termination of your employment, you do any of the following activities:

(a) engage in any business which competes with the Company's business (as defined in Paragraph 2) within the Restricted Territory (as defined in Paragraph 3); or

(b) solicit customers, business or orders or sell any products and services (i) in competition with the Company's business within the Restricted Territory or (ii) for any business, wherever located, that competes with the Company's business within the Restricted Territory; or

(c) divert, entice or otherwise take away customers, business or orders of the Company within the Restricted Territory, or attempt to do so; or

(d) promote or assist, financially or otherwise, any firm, corporation or other entity engaged in any business which competes with the Company's business within the Restricted Territory;

then your right to receive any payment in respect of Performance Share Units shall be forfeited effective the date you enter into such activity, and you will be required to repay Textron an amount equal to the value of any PSU paid to you from and after the date beginning 180 days prior to the earlier of (a) your termination of employment or (b) the date you engage in such activity, or at any time after such date. You will be in violation of Paragraph 1 if you engage in any or all of the activities discussed in this Paragraph directly as an individual or indirectly as an employee, representative, consultant or in any other capacity on behalf of any firm, corporation or other entity.

2. **<u>Company's business</u>** – For the purpose of this Agreement:

(a) the Company shall include Textron and all subsidiary, affiliated or related companies or operations of Textron, and

(b) the Company's business shall include the products manufactured, marketed and sold and/or the services provided by any operation of the Company for which you have worked or to which you were assigned or had responsibility (either direct or supervisory), at the time of the termination of your employment and any time during the two-year period prior to such termination.

3. **<u>Restricted Territory</u>** – For the purpose of this Agreement, the Restricted Territory shall be defined as and limited to:

(a) the geographic area(s) within a one hundred (100) mile radius of any and all Company location(s) in or for which you have worked or to which you were assigned or had responsibility (either direct or supervisory), at the time of the termination of your employment and at any time during the two-year period prior to such termination; and

(b) all of the specific customer accounts, whether within or outside of the geographic area described in (a) above, with which you have had any contact or for which you have had any responsibility (either direct or supervisory), at the time of termination of your employment and at any time during the two-year period prior to such termination.

4. **<u>Forfeiture of PSUs and required repayment if you engage in certain solicitation activities</u>**
If you directly or indirectly solicit or induce or attempt to solicit or induce any employee(s), sales representative(s), agent(s) or consultant(s) of the Company to terminate their employment, representation or other association with the Company, then your right to receive any payment in respect of PSUs shall be forfeited effective the date you enter into such activity and you will be required to repay Textron an amount equal to the value of any PSU paid to you from and after the date beginning 180 days prior to the earlier of (a) your termination of employment or (b) the date you engage in such activity, or at any time after such date.

5. **<u>Forfeiture of PSUs and required repayment if you disclose confidential information</u>**
You specifically acknowledge that any trade secrets or confidential business and technical information of the Company or its suppliers or customers, whether reduced to writing, maintained on any form of electronic media, or maintained in your mind or memory and whether compiled by you or the Company, derives independent economic value from not being readily known to or ascertainable by proper means by others who can obtain economic value from its disclosure or use; that reasonable efforts have been made by the Company to maintain the secrecy of such information; that such information is the sole property of the Company or its suppliers or customers and that any retention, use or disclosure of such information by you during your employment (except in the course of performing your duties and obligations of employment with the Company) or after termination thereof, shall constitute a misappropriation of the trade secrets of the Company or its suppliers or customers. If you directly or indirectly misappropriate any such trade secrets, then your right to receive any payment in respect of PSUs shall be forfeited effective the date you enter into such

activity and you will be required to repay Textron an amount equal to the value of any PSU paid to you from and after the date beginning 180 days prior to the earlier of (a) your termination of employment or (b) the date you engage in such activity, or at any time after such date.

6. Organization and Compensation Committee Discretion

You may be released from your obligations under Paragraph 1, 4 and 5 above only if the Organization and Compensation Committee of the Board of Directors (or its delegate) determines in its sole discretion that such action is in the best interests of Textron.

7. Severability

The parties agree that each provision contained in this Agreement shall be treated as a separate and independent clause, and the unenforceability of any one clause shall in no way impair the enforceability of any of the other clauses herein. Moreover, if one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to scope, activity or subject, then such provisions shall be construed by the appropriate judicial body by limiting and reducing it or them, so as to be enforceable to the extent compatible with the applicable law.

Exhibit 10.4

SECOND AMENDMENT TO THE
DEFERRED INCOME PLAN FOR TEXTRON EXECUTIVES

(Restatement effective January 3, 2010)

By resolutions adopted on February 25, 2014, the Organization and Compensation Committee of the Board of Directors of Textron Inc. (the "Committee") directed Textron's Executive Vice President, Human Resources to amend the Deferred Income Plan for Textron Executives (the "Plan") to eliminate the Textron matching contribution credit. Pursuant to this instruction, Section 2.04(b) of the Plan ("Textron Company Contributions") is hereby amended to read in its entirety as follows, effective for deferral elections made on or after January 1, 2014:

(b) <u>Textron Company Contribution</u>. A Schedule A Participant shall receive a matching contribution credit in his Stock Unit Account equal to 10% of any Elective Deferred Income that the Participant allocates initially to his Stock Unit Account, excluding (1) any deferral of compensation for services performed, or a performance period that begins, after December 31, 2014, and (2) any deferral of base salary or other compensation that Textron has not irrevocably designated in writing as eligible. No matching contribution credit shall be made for any deferral with respect to which the services giving rise to the compensation are performed, or the performance period begins, after December 31, 2014.

* * * * *

IN WITNESS WHEREOF, Textron Inc. has caused this amendment to be executed by its duly authorized officer.

TEXTRON INC.

Dated: March <u>24</u>, 2014

By <u>/s/ Cheryl H. Johnson</u>
Cheryl H. Johnson
Executive Vice President, Human Resources

Exhibit 10.5

SECOND AMENDMENT
TO THE
SEVERANCE PLAN FOR
TEXTRON KEY EXECUTIVES
(2010 Restatement)

By resolutions adopted on February 25, 2014, the Organization and Compensation Committee of the Board of Directors of Textron Inc. (the "Committee") delegated to Textron's Executive Vice President, Human Resources, authority to amend the Severance Plan for Textron Key Executives (the "Plan") to align the Plan's definition of "good reason" with the definition set forth in the Committee's resolutions. Pursuant to this delegation of authority, Section 1.04 of the Plan (definition of "Good Reason Termination") is hereby amended to read in its entirety as follows, effective immediately:

1.04 "Good Reason Termination" means, for any Key Executive who was hired or rehired by a Textron Company after December 31, 2007, a Severance with respect to which the requirements of subsections (a) through (d), below, are satisfied:

(a) The Key Executive's Severance occurs no more than two years after the initial existence of one or more of the following conditions arising without the consent of the Key Executive, and as soon as practicable after the cure period described in subsection (c):

(1) A material diminution in the Key Executive's base salary;

(2) A material diminution in the Key Executive's authority, duties, responsibilities, or status (including offices, titles, and reporting requirements);

(3) A material diminution in the authority, duties, responsibilities, or status of the supervisor to whom the Key Executive is required to report, including a requirement that the Key Executive report to a corporate officer or employee instead of reporting directly to the Board;

(4) A material diminution in the budget over which the Key Executive has authority;

(5) A material change in the geographic location at which the Key Executive must perform services;

(6) A material change in the aggregate level of the Key Executive's participation in any of Textron's short and/or long-term incentive compensation plans, or employee benefit or retirement plans, policies, practices, or arrangements;

(7) Failure, after a Change of Control, of a successor company to satisfy its obligation to assume or replace equity awards held by the Key Executive;

(8) Failure, after a Change of Control, of a successor company to assume the employer's obligations under the agreement or letter, if any, pursuant to which the Key Executive provides services; or

(9) Any other action or inaction that constitutes a material breach by a Textron Company of the agreement or letter, if any, pursuant to which the Key Executive provides services.

(b) The amount, time, and form of payment upon the Severance must be substantially identical with the amount, time, and form of payment payable as a result of an actual involuntary Severance, to the extent such a right exists.

(c) The Key Executive must provide notice of the existence of a condition described in subsection (a), above, within 90 days after the initial existence of the condition. Upon receiving the notice, the Textron Company (or its successor) shall have a period of 30 days during which it may remedy the condition and not be required to pay any Severance Pay or Severance Benefit that otherwise would be due upon a Good Reason Termination. The Key Executive's resignation must be effective as soon as practicable after the end of the cure period described in the preceding sentence.

(d) The applicable condition(s) that cause(s) the Key Executive to leave employment result in a material negative change in the employment relationship, such that his termination effectively constitutes an "involuntary separation from service" within the meaning of Treasury Regulation Section 1.409A-1(n).

For any Key Executive who was last hired or rehired before January 1, 2008, the definition set forth in Appendix B shall be used to determine whether the Key Executive's Severance is a "Good Reason Termination."

* * * * *

IN WITNESS WHEREOF, Textron Inc. has caused this amendment to be executed by its duly authorized officers.

TEXTRON INC.

Dated: March 24, 2014 By: /s/ Cheryl Johnson
Cheryl Johnson
Executive Vice President, Human Resources

EXHIBIT 12.1

TEXTRON INC.
MANUFACTURING GROUP
COMPUTATION OF RATIO OF INCOME TO FIXED CHARGES
(unaudited)
(In millions, except ratio)

	Three Months Ended March 29, 2014
Fixed charges:	
Interest expense*	$ 35
Estimated interest portion of rents	8
Total fixed charges	$ 43
Income:	
Income from continuing operations before income taxes	$ 125
Fixed charges	43
Eliminate pretax income of Finance group	(4)
Adjusted income	$ 164
Ratio of income to fixed charges	3.81

* Includes interest expense on all third-party indebtedness, except for interest related to unrecognized tax benefits, which is included in income tax expense.

EXHIBIT 12.2

TEXTRON INC.
INCLUDING ALL MAJORITY-OWNED SUBSIDIARIES
COMPUTATION OF RATIO OF INCOME TO FIXED CHARGES
(unaudited)
(In millions, except ratio)

	Three Months Ended March 29, 2014
Fixed charges:	
Interest expense*	$ 47
Estimated interest portion of rents	8
Total fixed charges	$ 55
Income:	
Income from continuing operations before income taxes	$ 125
Fixed charges	55
Adjusted income	$ 180
Ratio of income to fixed charges	3.27

* Includes interest expense on all third-party indebtedness, except for interest related to unrecognized tax benefits, which is included in income tax expense.

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Scott C. Donnelly, Chairman, President and Chief Executive Officer of Textron Inc. certify that:

1. I have reviewed this quarterly report on Form 10-Q of Textron Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

/s/ Scott C. Donnelly
Scott C. Donnelly
Chairman, President and Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Frank T. Connor, Executive Vice President and Chief Financial Officer of Textron Inc. certify that:

1. I have reviewed this quarterly report on Form 10-Q of Textron Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 1, 2014

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

Exhibit 32.1

TEXTRON INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Textron Inc. (the “Company”) on Form 10-Q for the period ended March 29, 2014 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Scott C. Donnelly, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 1, 2014

/s/ Scott C. Donnelly
Scott C. Donnelly
Chairman, President and Chief Executive Officer

TEXTRON INC.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Textron Inc. (the "Company") on Form 10-Q for the period ended March 29, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frank T. Connor, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	May 1, 2014	/s/ Frank T. Connor Frank T. Connor Executive Vice President and Chief Financial Officer