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 31, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission File Number 1-5480

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

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

As of April 14, 2012, there were 280,281,049 shares of common stock outstanding.

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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 31 2012	April 2, 2011
Revenues		
Manufacturing revenues	$ 2,795	$ 2,453
Finance revenues	61	26
Total revenues	2,856	2,479
Costs, expenses and other		
Cost of sales	2,312	2,055
Selling and administrative expense	308	304
Provision for losses on finance receivables	4	12
Interest expense	55	62
Total costs, expenses and other	2,679	2,433
Income from continuing operations before income taxes	177	46
Income tax expense	57	15
Income from continuing operations	120	31
Loss from discontinued operations, net of income taxes	(2)	(2)
Net income	$ 118	$ 29
Basic earnings per share		
Continuing operations	$ 0.43	$ 0.11
Discontinued operations	(0.01)	(0.01)
Basic earnings per share	$ 0.42	$ 0.10
Diluted earnings per share		
Continuing operations	$ 0.41	$ 0.10
Discontinued operations	(0.01)	(0.01)
Diluted earnings per share	$ 0.40	$ 0.09
Dividends per share		
Common stock	$ 0.02	$ 0.02

See Notes to the consolidated financial statements.

TEXTRON INC.
Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended	
	March 31,	April 2,
(In millions)	2012	2011
Net income	$ 118	$ 29
Other comprehensive income, net of tax:		
Recognition of prior service cost and unrealized losses on pension and postretirement benefits	21	18
Deferred gains on hedge contracts	6	6
Foreign currency translation and other	(3)	12
Other comprehensive income	24	36
Comprehensive income	$ 142	$ 65

See Notes to the consolidated financial statements.

TEXTRON INC.
Consolidated Balance Sheets (Unaudited)

(Dollars in millions)	March 31, 2012	December 31, 2011
Assets		
Manufacturing group		
Cash and equivalents	$ 628	$ 871
Accounts receivable, net	937	856
Inventories	2,593	2,402
Other current assets	1,032	1,134
Total current assets	5,190	5,263
Property, plant and equipment, less accumulated depreciation and amortization of $3,180 and $3,097	2,003	1,996
Goodwill	1,639	1,635
Other assets	1,502	1,508
Total Manufacturing group assets	10,334	10,402
Finance group		
Cash and equivalents	18	14
Finance receivables held for investment, net	2,174	2,321
Finance receivables held for sale	318	418
Other assets	436	460
Total Finance group assets	2,946	3,213
Total assets	$ 13,280	$ 13,615
Liabilities and shareholders' equity		
Liabilities		
Manufacturing group		
Current portion of long-term debt	$ 464	$ 146
Accounts payable	884	833
Accrued liabilities	1,823	1,952
Total current liabilities	3,171	2,931
Other liabilities	2,657	2,826
Long-term debt	2,013	2,313
Total Manufacturing group liabilities	7,841	8,070
Finance group		
Other liabilities	193	333
Due to Manufacturing group	494	493
Debt	1,837	1,974
Total Finance group liabilities	2,524	2,800
Total liabilities	10,365	10,870
Shareholders' equity		
Common stock	35	35
Capital surplus	1,114	1,081
Retained earnings	3,370	3,257
Accumulated other comprehensive loss	(1,601)	(1,625)
	2,918	2,748
Less cost of treasury shares	3	3
Total shareholders' equity	2,915	2,745
Total liabilities and shareholders' equity	$ 13,280	$ 13,615
Common shares outstanding *(in thousands)*	280,165	278,873

See Notes to the consolidated financial statements.

TEXTRON INC.
Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended March 31, 2012 and April 2, 2011, respectively

(In millions)	Consolidated 2012	2011
Cash flows from operating activities:		
Net income	$ 118	$ 29
Less: Loss from discontinued operations	(2)	(2)
Income from continuing operations	120	31
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Non-cash items:		
Depreciation and amortization	91	95
Provision for losses on finance receivables held for investment	4	12
Portfolio losses on finance receivables	20	23
Deferred income taxes	62	79
Other, net	2	21
Changes in assets and liabilities:		
Accounts receivable, net	(76)	(4)
Inventories	(187)	(166)
Other assets	(11)	2
Accounts payable	48	119
Accrued and other liabilities	(368)	(229)
Captive finance receivables, net	42	72
Net cash provided by (used in) operating activities of continuing operations	(253)	55
Net cash used in operating activities of discontinued operations	(1)	(1)
Net cash provided by (used in) operating activities	(254)	54
Cash flows from investing activities:		
Finance receivables originated or purchased	(18)	(76)
Finance receivables repaid	154	290
Proceeds on receivable sales	44	168
Capital expenditures	(73)	(78)
Proceeds from sale of repossessed assets and properties	18	28
Other investing activities, net	(2)	23
Net cash provided by investing activities	123	355
Cash flows from financing activities:		
Increase in short-term debt	—	203
Payments on long-term lines of credit	—	(250)
Principal payments on long-term and nonrecourse debt	(144)	(417)
Proceeds from issuance of long-term debt	27	144
Dividends paid	(5)	(5)
Other financing activities, net	10	(2)
Net cash used in financing activities	(112)	(327)
Effect of exchange rate changes on cash and equivalents	4	9
Net increase (decrease) in cash and equivalents	(239)	91
Cash and equivalents at beginning of period	885	931
Cash and equivalents at end of period	$ 646	$1,022

See Notes to the consolidated financial statements

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TEXTRON INC.
Consolidated Statements of Cash Flows (Unaudited) (Continued)
For the Three Months Ended March 31, 2012 and April 2, 2011, respectively

	Manufacturing Group		Finance Group	
(In millions)	2012	2011	2012	2011
Cash flows from operating activities:				
Net income (loss)	$ 108	$ 60	$ 10	$ (31)
Less: Loss from discontinued operations	(2)	(2)	—	—
Income (loss) from continuing operations	110	62	10	(31)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:				
Dividends received from Finance Group	240	130	—	—
Capital contribution paid to Finance Group	(240)	(63)	—	—
Non-cash items:				
Depreciation and amortization	84	87	7	8
Provision for losses on finance receivables held for investment	—	—	4	12
Portfolio losses on finance receivables	—	—	20	23
Deferred income taxes	58	66	4	13
Other, net	26	32	(24)	(11)
Changes in assets and liabilities:				
Accounts receivable, net	(76)	(4)	—	—
Inventories	(188)	(169)	—	—
Other assets	(9)	(1)	(2)	—
Accounts payable	48	119	—	—
Accrued and other liabilities	(230)	(186)	(138)	(43)
Net cash provided by (used in) operating activities of continuing operations	(177)	73	(119)	(29)
Net cash used in operating activities of discontinued operations	(1)	(1)	—	—
Net cash provided by (used in) operating activities	(178)	72	(119)	(29)
Cash flows from investing activities:				
Finance receivables originated or purchased	—	—	(84)	(125)
Finance receivables repaid	—	—	262	411
Proceeds on receivable sales	—	—	44	168
Capital expenditures	(73)	(78)	—	—
Proceeds from sale of repossessed assets and properties	—	—	18	28
Other investing activities, net	—	(43)	(1)	31
Net cash provided by (used in) investing activities	(73)	(121)	239	513
Cash flows from financing activities:				
Increase in short-term debt	—	203	—	—
Payments on long-term lines of credit	—	—	—	(250)
Intergroup financing	—	(60)	—	60
Principal payments on long-term and nonrecourse debt	—	(7)	(144)	(410)
Proceeds from issuance of long-term debt	—	—	27	144
Capital contributions paid to Finance group under Support Agreement	—	—	240	63
Other capital contributions paid to Finance group	—	—	—	40
Dividends paid	(5)	(5)	(240)	(130)
Other financing activities, net	9	(2)	1	1
Net cash provided by (used in) financing activities	4	129	(116)	(482)
Effect of exchange rate changes on cash and equivalents	4	8	—	1
Net increase (decrease) in cash and equivalents	(243)	88	4	3
Cash and equivalents at beginning of period	871	898	14	33
Cash and equivalents at end of period	$ 628	$ 986	$ 18	$ 36

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. and its majority-owned subsidiaries. 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 31, 2011. 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 Inc. consolidated with its majority-owned subsidiaries that operate in the Cessna, Bell, Textron Systems and Industrial segments. The Finance group, which also is the Finance segment, consists of Textron Financial Corporation, its consolidated subsidiaries and three other finance subsidiaries owned by Textron Inc. We designed this framework to enhance our borrowing power by separating the Finance group. Our Manufacturing group operations include the development, production and delivery of tangible goods and services, while our Finance group provides financial services. Due to the fundamental differences between each borrowing group's activities, investors, rating agencies and analysts use different measures to evaluate each group's performance. To support those evaluations, we present balance sheet and cash flow information for each borrowing group within the consolidated financial statements. 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 the first quarter 2012 and 2011, we changed our estimates of revenues and costs on certain long-term contracts that are accounted for under the percentage-of-completion method of accounting. The changes in estimates increased income from continuing operations before income taxes in the first quarter of 2012 and 2011 by $4 million and $14 million, respectively, ($2 million and $8 million after tax, or $0.01 and $0.03 per diluted share, respectively). For the first quarter of 2012 and 2011, the gross favorable program profit adjustments totaled $17 million and $21 million, respectively, and the gross unfavorable program profit adjustments totaled $13 million and $7 million, respectively.

Note 2: 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 31, 2012	April 2, 2011	March 31, 2012	April 2, 2011
Three Months Ended				
Service cost	$ 30	$ 32	$ 2	$ 2
Interest cost	76	82	6	8
Expected return on plan assets	(101)	(98)	—	—
Amortization of prior service cost (credit)	4	4	(3)	(1)
Amortization of net loss	29	19	2	3
Net periodic benefit cost	$ 38	$ 39	$ 7	$ 12

Note 3: Share-Based Compensation

Share-based compensation expense includes restricted stock, restricted stock units, stock options, stock appreciation rights, performance share units and deferred income plan stock unit awards. The compensation expense we recorded in net income for our share-based compensation plans is as follows:

	Three Months Ended	
	March 31,	April 2,
(In millions)	2012	2011
Compensation expense	$ 46	$ 36
Income tax benefit	(17)	(13)
Total net compensation cost included in net income	$ 29	$ 23

Stock Options

The stock option compensation cost calculated under the fair value approach is recognized over the vesting period of the stock options. The weighted-average fair value of options granted per share was $10 in both the first quarter of 2012 and 2011. 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. We use historical data to estimate option exercise behavior, adjusted to reflect anticipated changes in expected life. The weighted-average assumptions used in our Black-Scholes option-pricing model for awards issued during the respective periods are as follows:

	Three Months Ended	
	March 31,	April 2,
	2012	2011
Dividend yield	0.3%	0.3%
Expected volatility	40.0%	38.0%
Risk-free interest rate	0.8%	2.4%
Expected lives *(in years)*	5.5	5.5

At March 31, 2012, our outstanding and exercisable options had an aggregate intrinsic value of $33 million and $26 million, respectively. Stock option activity for the first quarter of 2012 is as follows:

	Number of Options *(In thousands)*	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life *(In years)*
Outstanding at beginning of period	8,860	$ 27.68	6
Granted	3,008	27.76	
Exercised	(594)	(18.70)	
Canceled, expired or forfeited	(396)	(27.96)	
Outstanding at end of period	10,878	$ 28.18	7
Exercisable at end of period	5,513	$ 29.36	5

Restricted Stock Units

The 2012 activity for restricted stock units payable in stock and for restricted stock units payable in cash is provided below:

	Units Payable in Stock		Units Payable in Cash	
(Shares in thousands)	Number of Shares	Weighted-Average Grant Date Fair Value	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year, nonvested	638	$ 35.53	2,927	$ 17.33
Granted	367	27.54	808	27.74
Vested	(218)	(37.89)	(801)	(15.00)
Forfeited	(13)	(33.19)	(73)	(19.24)
Outstanding at end of period, nonvested	774	$ 31.12	2,861	$ 20.88

Performance Share Units

The fair value of share-based compensation awards accounted for as liabilities includes performance share units. The fair value of these awards is based on the trading price of our common stock, less adjustments to reflect that dividends are not paid on these awards, and is remeasured at each reporting period date. The 2012 activity for our performance share units is as follows:

(Shares in thousands)	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year, nonvested	859	$ 22.98
Granted	535	27.76
Forfeited	(53)	(22.62)
Outstanding at end of period, nonvested	1,341	$ 24.90

Share-Based Compensation Awards

The value of the share-based compensation awards that vested and/or were paid during the respective periods is as follows:

	Three Months Ended	
(In millions)	March 31, 2012	April 2, 2011
Subject only to service conditions:		
Value of awards vested	$ 30	$ 34
Intrinsic value of cash awards paid	21	20
Subject to performance conditions:		
Intrinsic value of cash awards paid	51	1

Note 4: Earnings Per Share

We calculate basic and diluted earnings per share (EPS) based on net income, which approximates income available to common shareholders for each period. Basic EPS is calculated using the two-class method, which includes the weighted-average number of common shares outstanding during the period and restricted stock units to be paid in stock that are deemed participating securities as they provide nonforfeitable rights to dividends. Diluted EPS considers the dilutive effect of all potential future common stock, including stock options, restricted stock units and the shares that could be issued upon the conversion of our convertible notes and upon the exercise of the related warrants. The call options purchased in connection with the issuance of the convertible notes and the capped call transaction entered into in 2011 are excluded from the calculation of diluted EPS as their impact is always anti-dilutive.

Upon conversion of our convertible notes, as described in Note 8 of our 2011 Form 10-K, the principal amount would be settled in cash, and the excess of the conversion value, as defined, over the principal amount may be settled in cash and/or shares of our common stock. Therefore, only the shares of our common stock potentially issuable with respect to the excess of the notes' conversion value over the principal amount, if any, are considered as dilutive potential common shares for purposes of calculating diluted EPS.

The weighted-average shares outstanding for basic and diluted earnings per share are as follows:

	Three Months Ended	
(In thousands)	March 31, 2012	April 2, 2011
Basic weighted-average shares outstanding	280,022	276,358
Dilutive effect of:		
Convertible notes and warrants	13,902	41,504
Stock options and restricted stock units	708	1,257
Diluted weighted-average shares outstanding	294,632	319,119

Stock options to purchase 6 million and 4 million shares of common stock outstanding are excluded from our calculation of diluted weighted-average shares outstanding for the three months ended March 31, 2012 and April 2, 2011, respectively, as the exercise prices were greater than the average market price of our common stock for the periods. These securities could potentially dilute earnings per share in the future.

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Note 5: Accounts Receivable and Finance Receivables

Accounts Receivable

Accounts receivable is composed of the following:

(In millions)	March 31, 2012	December 31, 2011
Commercial	$ 594	$ 528
U.S. Government contracts	360	346
	954	874
Allowance for doubtful accounts	(17)	(18)
	$ 937	$ 856

We have unbillable receivables 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 $197 million at March 31, 2012 and $192 million at December 31, 2011.

Finance Receivables

Finance receivables by product line, which includes both finance receivables held for investment and finance receivables held for sale, are presented in the following table:

(In millions)	March 31, 2012	December 31, 2011
Aviation	$ 1,788	$ 1,876
Golf Equipment	61	69
Golf Mortgage	314	381
Timeshare	260	318
Structured Capital	171	208
Other liquidating	34	43
Total finance receivables	2,628	2,895
Less: Allowance for losses	136	156
Less: Finance receivables held for sale	318	418
Total finance receivables held for investment, net	$ 2,174	$ 2,321

Credit Quality Indicators and Nonaccrual Finance Receivables

We internally assess the quality of our finance receivables held for investment portfolio based on a number of key credit quality indicators and statistics such as delinquency, loan balance to estimated collateral value, the liquidity position of individual borrowers and guarantors and default rates of our notes receivable collateral in the Timeshare product line. 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 held for investment as nonaccrual if credit quality indicators suggest full collection is doubtful. In addition, we automatically classify accounts as nonaccrual once they are contractually delinquent by more than three months unless collection is not doubtful. Cash payments on nonaccrual accounts, including finance charges, generally are applied to reduce the net investment balance. We resume the accrual of interest when the loan becomes contractually current through payment according to the original terms of the loan or, if a loan has been modified, following a period of performance under the terms of the modification, provided we conclude that collection of all principal and interest is no longer doubtful. Previously suspended interest income is recognized at that time.

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 held for investment that do not meet the watchlist or nonaccrual categories are classified as performing.

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

	March 31, 2012				December 31, 2011			
(In millions)	Performing	Watchlist	Nonaccrual	Total	Performing	Watchlist	Nonaccrual	Total
Aviation	$ 1,465	$ 221	$ 102	$1,788	$ 1,537	$ 214	$ 125	$1,876
Golf Equipment	20	33	8	61	21	37	11	69
Timeshare	87	4	165	256	89	25	167	281
Structured Capital	166	5	—	171	203	5	—	208
Other liquidating	19	—	15	34	25	—	18	43
Total	$ 1,757	$ 263	$ 290	$2,310	$ 1,875	$ 281	$ 321	$2,477
% of Total	76.0%	11.4%	12.6%		75.7%	11.3%	13.0%	

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 held for investment by delinquency aging category are summarized in the table below:

	March 31, 2012					December 31, 2011				
(In millions)	Less Than 31 Days Past Due	31-60 Days Past Due	61-90 Days Past Due	Over 90 Days Past Due	Total	Less Than 31 Days Past Due	31-60 Days Past Due	61-90 Days Past Due	Over 90 Days Past Due	Total
Aviation	$1,606	$ 96	$19	$ 67	$1,788	$1,705	$66	$37	$ 68	$1,876
Golf Equipment	52	1	3	5	61	53	3	6	7	69
Timeshare	199	16	3	38	256	238	3	—	40	281
Structured Capital	171	—	—	—	171	208	—	—	—	208
Other liquidating	26	—	—	8	34	35	—	—	8	43
Total	$2,054	$113	$25	$ 118	$2,310	$2,239	$72	$43	$ 123	$2,477

We had no accrual status loans that were greater than 90 days past due at March 31, 2012 or at December 31, 2011. At March 31, 2012, the 60+ days contractual delinquency as a percentage of finance receivables held for investment was 6.19%, compared with 6.70% at December 31, 2011.

Loan Modifications

Troubled debt restructurings occur when we have either modified the contract terms of finance receivables held for investment for borrowers experiencing financial difficulties or accepted a transfer of assets in full or partial satisfaction of the loan balance. The types of modifications we typically make include extensions of the original maturity date of the contract, extensions of revolving borrowing periods, delays in the timing of required principal payments, deferrals of interest payments, advances to protect the value of our collateral and principal reductions contingent on full repayment prior to the maturity date. The changes effected by modifications made during the first quarter of 2012 to finance receivables held for investment were not material, primarily as a result of the reclassification of the Golf Mortgage finance receivables from the held for investment classification to the held for sale classification at December 31, 2011.

Impaired Loans

We evaluate individual finance receivables held for investment in non-homogeneous portfolios and larger accounts in homogeneous loan portfolios for impairment on a quarterly basis. Finance receivables classified as held for sale are reflected at the lower of cost or fair value and are excluded from these evaluations. A finance receivable is considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement based on our review of the credit quality indicators discussed above. Impaired finance receivables include both nonaccrual accounts and accounts for which full collection of principal and interest remains probable, but the account's original terms have been, or are expected to be, significantly modified. If the modification specifies an interest rate equal to or greater than a market rate for a finance receivable with comparable risk, the account is not considered impaired in years subsequent to the modification. There was no significant interest income recognized on impaired loans in the first quarter of 2012 or 2011.

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A summary of impaired finance receivables, excluding leveraged leases, is provided below:

(In millions)	Recorded Investment: Impaired Loans with No Related Allowance for Credit Losses	Recorded Investment: Impaired Loans with Related Allowance for Credit Losses	Recorded Investment: Total Impaired Loans	Unpaid Principal Balance	Allowance For Losses On Impaired Loans	Average Recorded Investment
March 31, 2012						
Aviation	$ 39	$ 70	$ 109	$ 113	$ 21	$ 124
Golf Equipment	—	2	2	2	1	2
Timeshare	122	78	200	250	42	213
Other liquidating	1	12	13	24	9	15
Total	$ 162	$ 162	$ 324	$ 389	$ 73	$ 354
December 31, 2011						
Aviation	$ 47	$ 92	$ 139	$ 142	$ 39	$ 146
Timeshare	170	57	227	288	38	315
Golf Mortgage	—	—	—	—	—	232
Other liquidating	3	12	15	59	9	30
Total	$ 220	$ 161	$ 381	$ 489	$ 86	$ 723

Allowance for Losses

We maintain the allowance for losses on finance receivables held for investment at a level considered adequate to cover inherent losses in the portfolio based on management's evaluation and analysis by product line. For larger balance accounts specifically identified as impaired, including large accounts in homogeneous portfolios, a reserve is established based on comparing the carrying value with either a) the expected future cash flows, discounted at the finance receivable's effective interest rate; or b) the fair value of the underlying collateral, if the finance receivable is collateral dependent. The expected future cash flows consider collateral value; financial performance and liquidity of our borrower; existence and financial strength of guarantors; estimated recovery costs, including legal expenses; and costs associated with the repossession/foreclosure and eventual disposal of collateral. When there is a range of potential outcomes, we perform multiple discounted cash flow analyses and weight the potential outcomes based on their relative likelihood of occurrence.

The evaluation of our portfolios 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 vary by product line and include the following:

- *Aviation* - industry valuation guides, physical condition of the aircraft, payment history, and existence and financial strength of guarantors.
- *Golf Equipment* - age and condition of the collateral.
- *Timeshare* - historical performance of consumer notes receivable collateral, real estate valuations, operating expenses of the borrower, the impact of bankruptcy court rulings on the value of the collateral, legal and other professional expenses and borrower's access to capital.

We also establish an allowance for losses by product line to cover probable but specifically unknown losses existing in the portfolio. For homogeneous portfolios, including Aviation and Golf Equipment, 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. For non-homogeneous portfolios, such as Timeshare, the allowance is established as a percentage of watchlist balances, as defined on page 11, which represents a combination of assumed default likelihood and loss severity based on historical experience, industry trends and collateral values. In estimating our allowance for losses to cover accounts not specifically identified, critical factors vary by product line and include the following:

- *Aviation* - the collateral value of the portfolio, historical default experience and delinquency trends.
- *Golf Equipment* - historical loss experience and delinquency trends.
- *Timeshare* - individual loan credit quality indicators such as borrowing base shortfalls for revolving notes receivable facilities, default rates of our notes receivable collateral, borrower's access to capital, historical progression from watchlist to nonaccrual status and estimates of loss severity based on analysis of impaired loans in the product line.

Finance receivables held for investment are written down to the fair value (less estimated costs to sell) of the related collateral when the collateral is repossessed and are charged off when the remaining balance is deemed to be uncollectible.

A rollforward of the allowances for losses on finance receivables held for investment is provided below:

(In millions)	Aviation	Golf Equipment	Golf Mortgage	Timeshare	Other Liquidating	Total
For the three months ended March 31, 2012						
Beginning balance	$ 95	$ 6	$ —	$ 40	$ 15	$156
Provision for losses	2	—	—	3	(1)	4
Net charge-offs	(23)	—	—	(1)	—	(24)
Ending balance	$ 74	$ 6	$ —	$ 42	$ 14	$136
For the three months ended April 2, 2011						
Beginning balance	$ 107	$ 16	$ 79	$ 106	$ 34	$342
Provision for losses	11	—	(1)	—	2	12
Net charge-offs and transfers	(8)	(3)	(3)	(1)	(1)	(16)
Ending balance	$ 110	$ 13	$ 75	$ 105	$ 35	$338

A summary of the allowance for losses on finance receivables that are evaluated on an individual and on a collective basis is provided below. The finance receivables reported in this table specifically exclude $171 million and $279 million of leveraged leases at March 31, 2012 and April 2, 2011, respectively, in accordance with authoritative accounting standards.

	March 31, 2012				April 2, 2011			
	Finance Receivables Evaluated		Allowance Based on Individual	Allowance Based on Collective	Finance Receivables Evaluated		Allowance Based on Individual	Allowance Based on Collective
(In millions)	Individually	Collectively	Evaluation	Evaluation	Individually	Collectively	Evaluation	Evaluation
Aviation	$ 109	$ 1,679	$ 21	$ 53	$ 164	$ 1,864	$ 50	$ 60
Golf Equipment	2	59	1	5	6	186	1	12
Timeshare	200	56	42	—	368	195	102	3
Golf Mortgage	—	—	—	—	299	341	45	30
Other liquidating	13	21	9	5	38	164	4	31
Total	$ 324	$ 1,815	$ 73	$ 63	$ 875	$ 2,750	$ 202	$ 136

Note 6: Inventories

(In millions)	March 31, 2012	December 31, 2011
Finished goods	$ 1,210	$ 1,012
Work in process	2,233	2,202
Raw materials	418	399
	3,861	3,613
Progress/milestone payments	(1,268)	(1,211)
	$ 2,593	$ 2,402

Note 7: Debt

At March 31, 2012, the principal amount of our convertible senior notes was $215 million. Our common stock price exceeded the $17.06 per share conversion threshold price set forth for these convertible notes for at least 20 trading days during the 30 consecutive trading days ended March 31, 2012. Accordingly, these notes are convertible at the holder's option through June 30, 2012. We may deliver shares of common stock, cash or a combination of cash and shares of common stock in satisfaction of our obligations upon conversion of the convertible notes. Based on a March 31, 2012 stock price of $27.83, the "if converted value" exceeds the face amount of the remaining notes by $241 million; however, after giving effect to the exercise of the related outstanding call options and warrants, the incremental cash or share settlement in excess of the face amount would result in either a 7 million net share issuance or a cash payment of $198 million, or a combination of cash and stock, at our option.

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	
	March 31,	April 2,
(In millions)	2012	2011
Accrual at the beginning of period	$ 224	$ 242
Provision	63	57
Settlements	(65)	(64)
Adjustments to prior accrual estimates	(3)	(6)
Accrual at the end of period	$ 219	$ 229

Note 9: 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; compliance with applicable laws and regulations; production partners; product liability; employment; 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 being suspended or debarred 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.

On February 7, 2012, a lawsuit was filed in the United States Bankruptcy Court, Northern District of Ohio, Eastern Division (Akron) by Brian A. Bash, Chapter 7 Trustee for Fair Finance Company against TFC, Fortress Credit Corp. and Fair Facility I, LLC. TFC provided a revolving line of credit of up to $17.5 million to Fair Finance Company from 2002 through 2007. The complaint alleges numerous counts against TFC, as Fair Finance Company's working capital lender, including receipt of fraudulent transfers and assisting in fraud perpetrated on Fair Finance investors. The Trustee seeks avoidance and recovery of alleged fraudulent transfers in the amount of $316 million as well as damages of $223 million on the other claims. The Trustee also seeks trebled damages on all claims under Ohio law. We are in the process of reviewing the complaint and assessing these claims. We intend to vigorously defend this lawsuit. An estimate of a range of possible loss cannot be made at this time due to the early stage of the litigation.

Note 10. 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, and 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

The assets and liabilities that are recorded at fair value on a recurring basis consist primarily of our derivative financial instruments, which are categorized as Level 2 in the fair value hierarchy. The fair value amounts of these instruments that are designated as hedging instruments are provided below:

			Asset (Liability)	
			March 31,	December 31,
(In millions)	Borrowing Group	Balance Sheet Location	2012	2011
Assets				
Interest rate exchange contracts*	Finance	Other assets	$ 19	$ 22
Foreign currency exchange contracts	Manufacturing	Other current assets	13	9
Total			$ 32	$ 31
Liabilities				
Interest rate exchange contracts*	Finance	Other liabilities	$ (7)	$ (7)
Foreign currency exchange contracts	Manufacturing	Accrued liabilities	(4)	(5)
Total			$ (11)	$ (12)

** Interest rate exchange contracts represent fair value hedges.*

The Finance group's 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 and foreign exchange rate data, which is based on readily observable market data published by third-party leading financial news and data providers. Credit risk is factored into the fair value of these assets and liabilities based on the differential between both our credit default swap spread for liabilities and the counterparty's credit default swap spread for assets as compared with a standard AA-rated counterparty; however, this had no significant impact on the valuation at March 31, 2012. At March 31, 2012 and December 31, 2011, we had interest rate exchange contracts with notional amounts upon which the contracts were based of $805 million and $848 million, respectively.

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 31, 2012 and December 31, 2011, we had foreign currency exchange contracts with notional amounts upon which the contracts were based of $663 million and $645 million, respectively.

Fair Value Hedges

Our Finance group enters 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. By using these contracts, we are able to convert our fixed-rate cash flows to floating-rate cash flows. The amount of ineffectiveness on our fair value hedges and the gain (loss) recorded in the Consolidated Statements of Operations were both insignificant in the first quarter of 2012 and 2011.

Cash Flow Hedges

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. The primary purpose of our foreign currency hedging activities is to manage the volatility associated with foreign currency purchases of materials, foreign currency sales of products, and other assets and liabilities in the normal course of business. We primarily utilize forward exchange contracts and purchased options with maturities of no more than three years that 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 31, 2012, we had a net deferred gain of $7 million in Accumulated other comprehensive loss related to these cash flow hedges. Net gains and losses recognized in earnings and Accumulated other comprehensive loss on these cash flow hedges, including gains and losses related to hedge ineffectiveness, were not material in the three-month periods ended March 31, 2012 and April 2, 2011. We do not expect the amount of gains and losses in Accumulated other comprehensive loss that will be reclassified to earnings in the next twelve months to be material.

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 net investments. We also may utilize currency forwards as hedges of our related foreign net investments. We record changes in the fair value of these contracts in other comprehensive income to the extent they are effective as cash flow hedges. If a contract does not qualify for hedge accounting or is designated as a fair value hedge, changes in the fair value of the contract are recorded in earnings. Currency effects on the effective portion of these hedges, which are reflected in the foreign currency translation adjustment account within OCI, produced a $12 million after-tax loss for the first quarter of 2012, resulting in an accumulated net gain balance of $6 million at March 31, 2012. The ineffective portion of these hedges was insignificant.

Assets Recorded at Fair Value on a Nonrecurring Basis

The assets that were measured at fair value on a nonrecurring basis that had fair value measurement adjustments during the first quarter of 2012 and 2011 are presented below. These assets are in the Finance group and were measured using significant unobservable inputs (Level 3).

	Balance at		Gain (Loss) Three Months Ended	
(In millions)	March 31, 2012	April 2, 2011	March 31, 2012	April 2, 2011
Finance receivables held for sale	$ 318	$ 237	$ 24	$ (11)
Impaired finance receivables	92	508	(6)	(33)
Repossessed assets and properties	74	54	(16)	(6)

Finance Receivables Held for Sale — Finance receivables held for sale are recorded at fair value on a nonrecurring basis during periods in which the fair value is lower than the cost value. There are no active, quoted market prices for these finance receivables. At March 31, 2012, our finance receivables held for sale primarily include the Golf Mortgage portfolio. Fair value of this portfolio was determined based on the use of discounted cash flow models to estimate the price we expect to receive in the principal market for each loan, or pool of similar loans, in an orderly transaction. The discount rates utilized in these models are derived from prevailing interest rate indices and are based on the nature of the assets, discussions with market participants and our experience in the actual disposition of similar assets. The cash flow models also include the use of qualitative assumptions regarding the borrower's ability to pay and the period of time that will likely be required to restructure and/or exit the account through acquisition of the underlying collateral. We utilize revenue multiples to determine the expected value of the loan collateral. The range of multiples used is based on bids from prospective buyers, inputs from market participants and prices at which sales have been transacted for similar properties.

Based on our qualitative assumptions, we separate the loans into three categories for the cash flow models. In the first category, we include loans that we assume will be paid in accordance with the contractual terms of the loan. In the second category, we include loans where we perceive that the borrower has less of an ability to pay, and we assume that the loan will be restructured and resolved typically over a period of one to four years. For the third category, we assume that the borrower will default on the loan and that it will be resolved within an average of 24 months. The fair values of these finance receivables are sensitive to variability in both the quantitative and qualitative assumptions. Changes in the borrower's ability to pay or the period of time required to restructure and/or exit accounts may significantly increase or decrease the fair value of these finance receivables, and, to a lesser extent, fluctuations in discount rates and/or revenue multiples could also change the fair value of these finance receivables.

Impaired Finance Receivables — 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 our Aviation impaired nonaccrual finance receivables, fair values of collateral are determined based on the use of industry pricing guides. Our Timeshare impaired nonaccrual finance receivables largely consist of notes receivable loans to developers of resort properties which are collateralized by pools of consumer notes receivable. Fair values of collateral are estimated using cash flow models incorporating estimates of credit losses in the consumer notes pools and the developer's ability to mitigate losses through the repurchase or replacement of defaulted notes. Fair value measurements recorded on impaired finance receivables resulted in charges to provision for loan losses and primarily related to initial fair value adjustments.

Repossessed assets and properties — Repossessed assets and properties in the table above primarily include both golf properties and aviation assets at March 31, 2012. The fair value of our golf properties is determined based on the use of discounted cash flow models, bids from prospective buyers or inputs from market participants. The fair value of our aviation assets is largely determined based on the use of industry pricing guides. If the carrying amount of these assets is higher than their estimated fair value, we record a corresponding charge to income for the difference.

Assets and Liabilities Not Recorded at Fair Value

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

	March 31, 2012		December 31, 2011	
(In millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Manufacturing group				
Long-term debt, excluding leases	$(2,348)	$ (2,757)	$(2,328)	$ (2,561)
Finance group				
Finance receivables held for investment, excluding leases	1,890	1,819	1,997	1,848
Debt	(1,837)	(1,778)	(1,974)	(1,854)

Fair value for the Manufacturing group debt is determined using market observable data for similar transactions or Level 2 inputs. At March 31, 2012 and December 31, 2011, approximately 42% and 53%, respectively, of the fair value of term debt for the Finance group was determined based on observable market transactions (Level 1). The remaining Finance group debt was determined based on discounted cash flow analyses using observable market inputs from debt with similar duration, subordination and credit default expectations (Level 2). Fair value estimates for finance receivables held for investment were determined based on internally developed discounted cash flow models primarily utilizing significant unobservable inputs (Level 3), which include estimates of the rate of return, financing cost, capital structure and/or discount rate expectations of current market participants combined with estimated loan cash flows based on credit losses, payment rates and expectations of borrowers' ability to make payments on a timely basis.

Note 11: Segment Information

We operate in, and report financial information for, the following five business segments: Cessna, Bell, Textron Systems, Industrial and Finance. Segment profit is an important measure used for evaluating performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense, certain corporate expenses and special charges. The measurement for the Finance segment excludes special charges and includes interest income and expense along with intercompany interest expense. Provisions for losses on finance receivables involving the sale or lease of our products are recorded by the selling manufacturing division when our Finance group has recourse to the Manufacturing group.

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 31, 2012	April 2, 2011
REVENUES		
Manufacturing group		
Cessna	$ 669	$ 556
Bell	994	749
Textron Systems	377	445
Industrial	755	703
	2,795	2,453
Finance group	61	26
Total revenues	$ 2,856	$2,479
SEGMENT OPERATING PROFIT		
Manufacturing group		
Cessna	$ (6)	$ (38)
Bell	145	91
Textron Systems	35	53
Industrial	73	61
	247	167
Finance group	12	(44)
Segment profit	259	123
Corporate expenses and other, net	(47)	(39)
Interest expense, net for Manufacturing group	(35)	(38)
Income from continuing operations before income taxes	$ 177	$ 46

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

Consolidated Results of Operations

Revenues

	Three Months Ended	
(Dollars in millions)	March 31, 2012	April 2, 2011
Revenues	$ 2,856	$2,479
% change compared with prior period	15%	

Revenues increased $377 million, 15%, in the first quarter of 2012, compared with the corresponding period of 2011. This increase was due to revenue increases in the Bell, Cessna, Industrial and Finance segments that were partially offset by lower revenues in the Textron Systems segment. The net revenue increase included the following factors:

- Higher Bell revenues of $245 million, largely due to higher commercial aircraft volume and higher volume in our military programs, which included more deliveries of V-22 and H-1 aircraft.
- Higher Cessna revenues of $113 million, primarily due to higher Citation jet volume.
- Increased Industrial segment revenues of $52 million, primarily due to higher volume, mostly reflecting higher market demand in the Fuel Systems and Functional Components and Golf and Turf Care product lines.
- Higher Finance revenues of $35 million as favorable adjustments, largely related to the non-captive business, offset a decline in revenues attributable to lower average finance receivables of $1.4 billion.
- Lower Textron Systems revenues of $68 million, primarily due to $86 million in lower volume in the Unmanned Aircraft Systems (UAS), Mission Support and Other, and Land & Marine product lines, partially offset by higher volume in the Weapons and Sensors product line, largely due to higher international Sensor Fuzed Weapon volume.

Cost of Sales and Selling and Administrative Expense

	Three Months Ended	
(Dollars in millions)	March 31, 2012	April 2, 2011
Operating expenses	$ 2,620	$2,359
% change compared with prior period	11%	
Cost of sales	$ 2,312	$2,055
% change compared with prior period	13%	
Gross margin percentage of Manufacturing revenues	17.3%	16.2%
Selling and administrative expenses	$ 308	$ 304
% change compared with prior period	1%	

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

Consolidated manufacturing cost of sales as a percentage of Manufacturing revenues was 82.7% and 83.8% in the first quarter of 2012 and 2011, respectively. On a dollar basis, consolidated manufacturing cost of sales increased $257 million, 13%, in the first quarter of 2012, compared with the first quarter of 2011, principally due to higher sales volume in the Bell, Cessna and Industrial segments. In the first quarter of 2012, gross margin increased as a percentage of Manufacturing revenues primarily due to favorable product mix at Bell and improved leverage on higher volume at the Bell, Cessna and Industrial segments.

On a consolidated basis, selling and administrative expense increased $4 million, 1%, to $308 million in the first quarter of 2012, compared with the first quarter of 2011. Share-based compensation expense increased $10 million in the first quarter of 2012 over the corresponding period of 2011, reflecting changes in our stock price. This increase was offset by a $10 million reduction in operating expense at the Finance segment, largely reflecting liquidations within the non-captive commercial finance portfolio.

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Backlog

(In millions)	Three Months Ended March 31, 2012	December 31, 2011
Bell	$ 7,133	$ 7,346
Cessna	1,722	1,889
Textron Systems	1,440	1,337

Segment Analysis

We operate in, and report financial information for, the following five business segments: Cessna, Bell, Textron Systems, Industrial and Finance. Segment profit is an important measure used for evaluating performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense, certain corporate expenses and special charges. The measurement for the Finance segment excludes special charges and includes interest income and expense along with intercompany interest expense.

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

Approximately 31% of our 2011 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 refer to changes in operating margin due to a change in the relative volume of contracts with higher or lower fee rates such that the overall average margin rate for the segment changes.

Cessna

(Dollars in millions)	Three Months Ended March 31, 2012	April 2, 2011
Revenues	$ 669	$ 556
Operating expenses	675	594
Segment loss	(6)	(38)
Profit margin	(1)%	(7)%

Cessna Revenues and Operating Expenses

The following factors contributed to the change in Cessna’s revenues from the prior year quarter:

(In millions)	2012 versus 2011
Volume	$ 111
Other	2
Total change	$ 113

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In the first quarter of 2012, Cessna's revenues increased $113 million, 20%, compared with the corresponding period of 2011, primarily due to higher Citation business jet volume, which had a $75 million impact, and higher aftermarket volume of $24 million primarily due to higher part sales. We delivered 38 Citation jets in the first quarter of 2012, compared with 31 jets in the corresponding period of 2011. During the first quarter of 2012, the portion of Cessna's revenues derived from aftermarket sales and services represented 30% of Cessna's revenues, compared with 31% in the first quarter of 2011.

Cessna's operating expenses increased by $81 million, 14%, in the first quarter of 2012, compared with the corresponding period of 2011, primarily due to higher sales volume, which resulted in a $61 million increase in direct material costs and a $22 million increase in manufacturing overhead.

Cessna Segment Profit

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

(In millions)	2012 versus 2011
Volume	$ 26
Other	6
Total change	$ 32

Cessna's segment profit increased $32 million in the first quarter of 2012, compared with the corresponding period of 2011, primarily due to higher volume of $26 million as described above.

Bell

	Three Months Ended	
(Dollars in millions)	March 31, 2012	April 2, 2011
Revenues:		
V-22 program	$ 396	$ 358
Other military	249	170
Commercial	349	221
Total revenues	994	749
Operating expenses	849	658
Segment profit	145	91
Profit margin	15%	12%

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)	2012 versus 2011
Volume	$ 241
Other	4
Total change	$ 245

Bell's revenues increased $245 million, 33%, in the first quarter of 2012, compared with the corresponding period of 2011, primarily due to higher volume, which included the following factors:

- $124 million increase in commercial volume, largely related to higher deliveries. Bell delivered 30 commercial aircraft in the first quarter of 2012, compared with 15 aircraft in the first quarter of 2011.
- $79 million increase in other military volume, primarily reflecting higher H-1 deliveries. We delivered 7 H-1 aircraft in the first quarter of 2012, compared with 4 aircraft in the first quarter of 2011.
- $38 million increase in volume related to the V-22 program, primarily reflecting higher aircraft deliveries. Bell delivered 10 V-22 aircraft in the first quarter of 2012, compared with 9 deliveries in the first quarter of 2011.

Bell's operating expenses increased $191 million, 29%, in the first quarter of 2012, compared with the corresponding period of 2011, primarily due to higher 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)	2012 versus 2011
Volume and mix	$ 57
Other	(3)
Total change	$ 54

Bell's segment profit increased $54 million, 59%, in the first quarter of 2012, compared with the first quarter of 2011, primarily due to higher volume, as described above, and favorable mix in our commercial aircraft business.

Textron Systems

	Three Months Ended	
(Dollars in millions)	March 31, 2012	April 2, 2011
Revenues	$ 377	$ 445
Operating expenses	342	392
Segment profit	35	53
Profit margin	9%	12%

Textron Systems Revenues and Operating Expenses

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

(In millions)	2012 versus 2011
Volume	$ (69)
Other	1
Total change	$ (68)

Revenues at Textron Systems decreased $68 million, 15%, in the first quarter of 2012, compared with the first quarter of 2011, primarily due to lower volume reflecting the following changes:

- Lower UAS volume of $47 million, largely due to lower system deliveries.
- Lower Mission Support and Other product line volume of $22 million, primarily due to the completion of certain intelligence and communications contracts in the first quarter of 2011.
- Lower Land & Marine volume of $17 million, primarily related to lower Armored Security Vehicle deliveries.
- Higher Weapons and Sensors revenues of $19 million, largely due to higher international Sensor Fuzed Weapon volume.

Textron Systems' operating expenses decreased $50 million, 13%, in the first quarter of 2012, compared with the first quarter of 2011, primarily due to the lower volume.

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Textron Systems Segment Profit

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

(In millions)	2012 versus 2011
Volume and mix	$ (24)
Other	6
Total change	$ (18)

Segment profit at Textron Systems decreased $18 million, 34%, in the first quarter of 2012, compared with the corresponding period of 2011, primarily due to the impact of lower volume described above and the mix of contracts delivered in the period. Unfavorable mix relates to lower margin ASV vehicle contracts delivered in the current period compared with the prior year, as well as a shift to lower margin UAS contracts.

Industrial

	Three Months Ended	
(Dollars in millions)	March 31, 2012	April 2, 2011
Revenues:		
Fuel Systems and Functional Components	$ 492	$ 471
Other Industrial	263	232
Total revenues	755	703
Operating expenses	682	642
Segment profit	73	61
Profit margin	10%	9%

Industrial Revenues and Operating Expenses

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

(In millions)	2012 versus 2011
Volume	$ 58
Foreign exchange	(12)
Other	6
Total change	$ 52

Industrial segment revenues increased $52 million, 7%, in the first quarter of 2012, compared with the corresponding period of 2011. Volume increased largely due to a $36 million increase in the Fuel Systems and Functional Components product line, reflecting higher automotive industry demand, and $22 million in the Other Industrial product lines, largely related to the Golf and Turf Care product line reflecting higher market demand. The unfavorable foreign exchange impact was primarily related to the weakening of the euro, which primarily impacted the Fuel Systems and Functional Components product line.

Operating expenses for the Industrial segment increased $40 million, 6%, in the first quarter of 2012, compared with the corresponding period of 2011, largely due to $48 million in higher direct material costs due to higher sales volume. Operating expenses were also impacted by cost inflation of $12 million primarily due to higher commodity and material component costs, which were partially offset by a favorable foreign exchange impact of $10 million, largely due to the weakening of the euro.

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Industrial Segment Profit

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

(In millions)	2012 versus 2011
Volume	$ 11
Other	1
Total change	$ 12

Segment profit for the Industrial segment increased $12 million, 20%, in the first quarter of 2012, compared with the corresponding period of 2011, primarily due to an $11 million impact from higher volume as described above.

Finance

	Three Months Ended	
(Dollars in millions)	March 31, 2012	April 2, 2011
Revenues	$ 61	$ 26
Segment profit (loss)	12	(44)

Our plan to exit the non-captive commercial finance business of our Finance segment is being effected through a combination of orderly liquidation and selected sales. Depending on market conditions, we expect continued progress in liquidating the remaining $779 million in the non-captive portfolio over the next several years.

Finance segment revenues increased $35 million in the first quarter of 2012, compared with the first quarter of 2011, primarily attributable to the following factors:

- $26 million due to $11 million in net favorable valuation adjustments in the first quarter of 2012 related to the Golf Mortgage finance receivables held for sale and owned assets, compared with $15 million in unfavorable valuation adjustments in the first quarter of 2011.
- $14 million of lower portfolio losses, primarily associated with the Aviation and Timeshare portfolios.
- $7 million increase due to the resolution of one significant Timeshare account that returned to accrual status in the first quarter of 2012.
- These increases were partially offset by a $15 million decrease attributable to lower average finance receivables of $1.4 billion.

Finance segment profit increased $56 million in the first quarter of 2012, compared with the corresponding period of 2011, primarily due to the following factors:

- $26 million attributable to changes in valuation adjustments as discussed above.
- $14 million in lower portfolio losses as discussed above.
- $10 million in lower administrative expense primarily associated with the exit of the non-captive business.
- $8 million in lower provision for loan losses mostly related to specific reserving actions taken on several Aviation accounts during the first quarter of 2011.
- $7 million increase due to the resolution of one significant Timeshare account as discussed above.
- These increases were partially offset by a $7 million reduction in net interest margin attributable to lower average finance receivables.

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Finance Portfolio Quality

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

(Dollars in millions)	March 31, 2012	December 31, 2011
Finance receivables	$ 2,310	$ 2,477
Nonaccrual finance receivables	290	321
Allowance for losses	136	156
Ratio of nonaccrual finance receivables to finance receivables	12.55%	12.96%
Ratio of allowance for losses on impaired nonaccrual finance receivables to impaired nonaccrual finance receivables	26.58%	28.52%
Ratio of allowance for losses on finance receivables to nonaccrual finance receivables	46.90%	48.60%
Ratio of allowance for losses on finance receivables to finance receivables	5.89%	6.30%
60+ days contractual delinquency as a percentage of finance receivables	6.19%	6.70%
60+ days contractual delinquency	143	166
Repossessed assets and properties	201	199

Finance receivables held for sale are reflected at the lower of cost or fair value on the Consolidated Balance Sheets and are not included in the credit performance statistics above. Finance receivables held for sale in the non-captive portfolio totaled $318 million at March 31, 2012, compared with $418 million at the end of 2011.

Nonaccrual finance receivables decreased $31 million, 10%, from the year-end balance, primarily due to the resolution of several Aviation accounts through repossession of collateral and cash collections, partially offset by new accounts identified as nonaccrual in 2012.

We believe that the percentage of nonaccrual finance receivables generally will remain high as we execute our liquidation plan. The liquidation plan is also likely to result in a slower rate of liquidation for nonaccrual finance receivables. See Note 5 to the Consolidated Financial Statements for more detailed information on the nonaccrual finance receivables by product line, along with a summary of finance receivables held for investment based on our internally assigned credit quality indicators.

Liquidity and Capital Resources

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

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

(Dollars in millions)	March 31, 2012	December 31, 2011
Manufacturing group		
Cash and equivalents	$ 628	$ 871
Debt	2,477	2,459
Shareholders' equity	2,915	2,745
Capital (debt plus shareholders' equity)	5,392	5,204
Net debt (net of cash and equivalents) to capital	38.8%	36.6%
Debt to capital	45.9%	47.3%
Finance group		
Cash and equivalents	$ 18	$ 14
Debt	1,837	1,974

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

In 2011, Textron Inc. entered into a senior unsecured revolving credit facility that expires in March 2015 for an aggregate principal amount of $1.0 billion, up to $200 million of which is available for the issuance of letters of credit. At March 31, 2012, there were no amounts borrowed against the facility. We also maintain an effective shelf registration statement filed with the Securities and Exchange Commission that allows us to issue an unlimited amount of public debt and other securities.

Manufacturing Group Cash Flows

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

	Three Months Ended	
(In millions)	March 31, 2012	April 2, 2011
Operating activities	$ (177)	$ 73
Investing activities	(73)	(121)
Financing activities	4	129

Cash flow from operating activities used more cash in the first quarter of 2012, compared with the corresponding period of 2011, primarily due to $128 million in higher pension contributions in the first quarter of 2012 and a $67 million impact due to the excess of dividends received from the Finance group, net of capital contributions in the first quarter of 2011. In addition, more cash was used for working capital requirements, largely due to lower receipts at Bell for the H-1 program primarily due to the timing of payments and $27 million received in the first quarter of 2011 related to the settlement of a request for equitable adjustment, and a decrease in accounts payable related to the timing of payments.

Investing cash flows in the first quarter of 2012 and 2011 primarily included capital expenditures of $73 million and $78 million, respectively. We generated less cash from financing activities in the first quarter of 2012, primarily due to the issuance of $203 million in commercial paper in the first quarter of 2011.

Capital Contributions Paid To and Dividends Received From TFC

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

	Three Months Ended	
(In millions)	March 31, 2012	April 2, 2011
Dividends paid by TFC to Textron Inc.	$ 240	$ 130
Capital contributions paid to TFC under Support Agreement	(240)	(63)

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

Finance Group Cash Flows

In the first quarter of 2012, we liquidated $267 million of the Finance group's finance receivables, net of originations. These finance receivable reductions occurred in both the non-captive and captive finance portfolios, but were primarily driven by the non-captive portfolio in connection with our exit plan, including $67 million and $58 million in the Golf Mortgage and Timeshare product lines, respectively. Depending on market conditions, we expect continued progress in liquidating the remaining $779 million in the non-captive portfolio over the next several years.

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

(In millions)	Three Months Ended March 31, 2012	April 2, 2011
Operating activities	$ (119)	$ (29)
Investing activities	239	513
Financing activities	(116)	(482)

The Finance group used more cash for operating activities largely due to $111 million in taxes paid in the first quarter of 2012, compared with less than $1 million paid in the corresponding period of 2011. The 2012 tax payment was primarily attributable to a 2008 settlement with the Internal Revenue Service related to the challenge of tax deductions we took in prior years for certain leveraged lease transactions.

Cash receipts from the collection of finance receivables continued to outpace finance receivable originations, which resulted in net cash inflow from investing activities in both quarters. Finance receivables repaid and proceeds from sales totaled $306 million and $579 million in the first quarter of 2012 and 2011, respectively, while cash outflows for originations declined to $84 million in the first quarter of 2012 from $125 million in the first quarter of 2011. These decreases were largely driven by the wind down of the non-captive finance receivable portfolio.

Cash used for financing activities in the first quarter of 2012 largely related to $144 million in long-term and nonrecourse debt payments, compared with $410 million in the first quarter of 2011. In the first quarter of 2011, the Finance group made a discretionary payment of $250 million on its bank line of credit and borrowed $60 million from Textron Inc. with interest to pay down its maturing debt. As of March 31, 2012 and December 31, 2011, the outstanding balance due to Textron Inc. for these borrowings was $490 million.

The Finance group received $27 million in proceeds from the issuance of long-term debt in the first quarter of 2012, compared with $144 million in the first quarter of 2011.

Consolidated Cash Flows

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

(In millions)	Three Months Ended March 31, 2012	April 2, 2011
Operating activities	$ (253)	$ 55
Investing activities	123	355
Financing activities	(112)	(327)

Cash flow from operating activities used more cash in the first quarter of 2012, compared with the corresponding period of 2011, primarily due to $128 million in higher pension contributions and an increase in cash used for working capital requirements, largely due to lower receipts at Bell for the H-1 program primarily due to the timing of payments and $27 million received in the first quarter of 2011 related to the settlement of a request for equitable adjustment, and a decrease in accounts payable related to the timing of payments. Working capital also decreased due to lower cash receipts, net of originations, in the captive financing business.

Cash receipts from the collection of finance receivables continued to outpace finance receivable originations, which resulted in net cash inflow from investing activities in both quarters. Finance receivables repaid and proceeds from sales totaled $198 million and $458 million in the first quarter of 2012 and 2011, respectively, while cash outflows for originations declined to $18 million in the first quarter of 2012 from $76 million in the first quarter of 2011. These decreases were largely driven by the wind down of the non-captive finance receivable portfolio.

Total cash used for financing activities was lower in 2012 primarily due to lower repayments of long-term debt of $144 million in the first quarter of 2012, compared with $417 million in the first quarter of 2011. In addition, TFC made a $250 million discretionary payment against the outstanding balance on its bank line of credit during the first quarter of 2011. These payments were partially offset by the issuance of $203 million in commercial paper and $144 million in long-term debt in the first quarter of 2011.

Captive Financing and Other Intercompany Transactions

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

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

(In millions)	Three Months Ended March 31, 2012	April 2, 2011
Reclassifications from investing activities:		
Finance receivable originations for Manufacturing group inventory sales	$ (66)	$ (49)
Cash received from customers and sale of receivables	108	121
Other capital contributions made to Finance group	1	(40)
Other	—	5
Total reclassifications from investing activities	43	37
Reclassifications from financing activities:		
Capital contribution paid by Manufacturing group to Finance group under Support Agreement	240	63
Dividends received by Manufacturing group from Finance group	(240)	(130)
Other capital contributions made to Finance group	—	40
Other	—	1
Total reclassifications from financing activities	—	(26)
Total reclassifications and adjustments to cash flow from operating activities	$ 43	$ 11

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 36 through 40 in our 2011 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, 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.

At the outset of each contract, we estimate the initial profit booking rate. The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements (for example, a newly-developed product versus a mature product), schedule (for example, the number and type of milestone events), and costs by contract requirements in the initial estimated costs at completion. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule, and costs aspects of the contract. Likewise, the profit booking rate may decrease if we are not successful in retiring the risks; and, as a result, our estimated costs at completion increase. All of the estimates are subject to change during the performance of the contract and, therefore, may affect the profit booking rate. When adjustments are required, any changes from prior estimates are recognized using the cumulative catch-up method with the impact of the change from inception-to-date recorded in the current period. The following table sets forth the aggregate gross amount of all program profit adjustments that are included within segment profit for the first quarter of 2012 and 2011:

(In millions)	2012	2011
Gross favorable	$ 17	$21
Gross unfavorable	(13)	(7)
Net adjustments	$ 4	$14

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 31, 2012. For discussion of our exposure to market risk, refer to Item 7A. Quantitative and Qualitative Disclosures about Market Risk contained in Textron’s 2011 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 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.

There were no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 5. OTHER INFORMATION

(a) The Annual Meeting of Shareholders of Textron Inc. was held on April 25, 2012 in Providence, Rhode Island. Of the 279,811,899 shares outstanding as of the record date, 254,726,347 shares (approximately 91%) were present or represented by proxy at the meeting.

The results of the voting on the matters submitted to the shareholders are as follows:

1. The following persons were elected to serve as directors until the next annual shareholders' meeting and received the votes listed:

	For	Against	Abstain	Broker Non-Vote
Scott C. Donnelly	223,680,515	5,603,225	3,082,476	22,360,131
James T. Conway	223,760,667	5,497,372	3,108,177	22,360,131
Lawrence K. Fish	222,094,905	7,086,686	3,184,625	22,360,131
Paul E. Gagné	205,575,473	23,596,200	3,194,543	22,360,131
Dain M. Hancock	219,234,538	9,957,554	3,174,124	22,360,131
Lloyd G. Trotter	220,071,941	9,095,334	3,198,941	22,360,131

The following directors have terms of office which continued after the meeting: Class II expiring in 2013: Kathleen M. Bader, R. Kerry Clark, Ivor J. Evans, Lord Powell of Bayswater KCMG and James L. Ziemer.

2. The advisory (non-binding) resolution to approve the compensation of our named executive officers, as disclosed in our proxy statement, was approved by the following vote:

For	Against	Abstain	Broker Non-Vote
211,743,037	15,683,111	4,940,068	22,360,131

3. The material terms of the performance goals under the Textron Inc. Short-Term Incentive Plan was approved by the following vote:

For	Against	Abstain	Broker Non-Vote
218,507,701	10,791,716	3,066,799	22,360,131

4. The material terms of the performance goals under the Textron Inc. 2007 Long-Term Incentive Plan was approved by the following vote:

For	Against	Abstain	Broker Non-Vote
217,825,020	11,437,960	3,103,236	22,360,131

5. The appointment of Ernst & Young LLP by the Audit Committee as Textron's independent registered public accounting firm for 2012 was ratified by the following vote:

For	Against	Abstain	Broker Non-Vote
248,730,063	3,753,414	2,242,870	0

Item 6. **EXHIBITS**

10.1	Textron Inc. 2007 Long-Term Incentive Plan (Amended and Restated as of April 28, 2010)
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 31, 2012, 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) 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: April 26, 2012

/s/ Richard L. Yates
Richard L. Yates
Senior Vice President and Corporate Controller
(principal accounting officer)

LIST OF EXHIBITS

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Exhibit 10.1

TEXTRON INC.
2007 LONG-TERM INCENTIVE PLAN

(AMENDED AND RESTATED AS OF APRIL 28, 2010)

(Share numbers adjusted to reflect stock splits)

1. Purposes of the Plan

The purposes of the Plan are to (a) promote the long-term success of the Company and its Subsidiaries and to increase shareholder value by providing Eligible Individuals with incentives to contribute to the long-term growth and profitability of the Company and (b) assist the Company in attracting, retaining and motivating highly qualified individuals who are in a position to make significant contributions to the Company and its Subsidiaries.

Upon the Effective Date, no further Awards will be granted under the Prior Plan.

2. Definitions and Rules of Construction

(a) *Definitions.* For purposes of the Plan, the following capitalized words shall have the meanings set forth below:

" ***Affiliate*** " means any Parent or Subsidiary and any person that directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the Company.

" ***Award*** " means an Option, Restricted Stock, Restricted Stock Unit, Stock Appreciation Right, Performance Stock, Performance Share Unit or Other Award granted by the Committee pursuant to the terms of the Plan.

" ***Award Document*** " means an agreement, certificate or other type or form of document or documentation approved by the Committee that sets forth the terms and conditions of an Award. An Award Document may be in paper, electronic or other media, may be limited to a notation on the books and records of the Company and, unless the Committee requires otherwise, need not be signed by a representative of the Company or a Participant.

" ***Beneficial Owner*** " and " ***Beneficially Owned*** " have the meaning set forth in Rule 13d-3 under the Exchange Act.

" ***Board*** " means the Board of Directors of the Company, as constituted from time to time.

" ***Change of Control*** " means:

(i) Any "person" or "group" (within the meaning of Sections 13 (d) and 14 (d)(2) of the Exchange Act other than the Company, any "person" who on the Effective Date was a director or officer of the Company, any trustee or other fiduciary holding Common Stock under an employee benefit plan of the Company or a Subsidiary, or any corporation which is owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of Common Stock, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Act) of more than thirty percent (30%) of the then outstanding voting stock of the Company, or

(ii) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board and any new director whose election by the Board or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period (or whose election or nomination was previously so approved) cease for any reason to constitute a majority of the Board, or

(iii) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or

(iv) the shareholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

If an Award is subject to Section 409A of the Code, the payment or settlement of the Award shall accelerate upon a Change of Control only if the event also constitutes a "change in ownership," "change in effective control," or "change in the ownership of a substantial portion of the Company's assets" as defined under Section 409A of the Code. Any adjustment to the Award that does not affect the Award's status under Section 409A (including, but not limited to, accelerated vesting or adjustment of the amount of the Award) may occur upon a Change in Control as defined in the Plan, regardless of whether the event also constitutes a change in control under Section 409A. Notwithstanding the foregoing, with respect to any Award granted after April 28, 2010, for purposes of clause (iii) and (iv) above a "Change of Control" shall be deemed to occur only upon consummation (and not upon approval) of a transaction described in such clauses.

" ***Code*** " means the Internal Revenue Code of 1986, as amended, and the applicable rulings and regulations promulgated thereunder.

" ***Committee*** " means the Organization and Compensation Committee of the Board, any successor committee thereto or any other committee appointed from time to time by the Board to administer the Plan, which committee shall meet the requirements of Section 162(m) of the Code, Section 16(b) of the Exchange Act and the applicable rules of the NYSE; *provided* , *however* , that, if any Committee member is found not to have met the qualification requirements of Section 162(m) of the Code and Section 16(b) of the Exchange Act, any actions taken or Awards granted by the Committee shall not be invalidated by such failure to so qualify.

" ***Common Stock*** " means the common stock of the Company, par value $0.125 per share, or such other class of share or other securities as may be applicable under Section 13 of the Plan.

" ***Company*** " means Textron Inc., a Delaware corporation, or any successor to all or substantially all of the Company's business that adopts the Plan.

" ***Early Retirement*** " means the attainment of age 60, or age 55 with 10 years of service, or 20 years of service.

" ***Effective Date*** " means April 25, 2007, the date on which the Plan was approved by the shareholders of the Company.

" ***Eligible Individuals*** " means the individuals described in Section 4(a) of the Plan who are eligible for Awards under the Plan.

" ***Exchange Act*** " means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

" ***Fair Market Value*** " means, with respect to a share of Common Stock, the closing selling price of a share of Common Stock on the relevant date of determination as reported on the composite tape for securities listed on the NYSE, or such national securities exchange as may be designated by the Committee. If there were no sales on the relevant date, the fair market value shall equal the closing share price on the most recent day preceding the relevant date during which a sale occurred.

"Family Member" means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, and any person sharing the Participant's household (other than a tenant or employee).

" ***Incentive Stock Option*** " means an Option that is intended to comply with the requirements of Section 422 of the Code or any successor provision thereto.

“ ***Non-Employee Director*** ” means any member of the Board who is not an officer or employee of the Company or any Subsidiary.

“ ***Nonqualified Stock Option*** ” means an Option that is not intended to comply with the requirements of Section 422 of the Code or any successor provision thereto.

“ ***NYSE*** ” means the New York Stock Exchange.

“ ***Option*** ” means an Incentive Stock Option or Nonqualified Stock Option granted pursuant to Section 7 of the Plan.

“ ***Other Award*** ” means any form of Award other than an Option, Restricted Stock, Restricted Stock Unit, Performance Stock, Performance Share Unit, or Stock Appreciation Right granted pursuant to Section 11 of the Plan.

“ ***Parent*** ” means a corporation which owns or beneficially owns a majority of the outstanding voting stock or voting power of the Company. Notwithstanding the above, with respect to an Incentive Stock Option, Parent shall have the same meaning as “parent corporation” set forth in Section 424(e) of the Code.

“ ***Participant*** ” means an Eligible Individual who has been granted an Award under the Plan.

“ ***Performance Period*** ” means the period established by the Committee and set forth in the applicable Award Document over which Performance Targets are measured.

“ ***Performance Stock*** ” means a Target Number of Shares granted pursuant to Section 10(b) of the Plan.

“ ***Performance Target*** ” means the performance measures established by the Committee, from among the performance criteria provided in Section 6(g), and set forth in the applicable Award Document.

“ ***Performance Share Unit*** ” means a right to receive a Target Number of Shares or cash in the future granted pursuant to Section 10(c) of the Plan.

“ ***Permitted Transferees*** ” means (i) a Participant’s Family Member, (ii) one or more trusts in which Family Members have more than fifty percent of the beneficial interest, (iii) a foundation in which the Participant or Family Members control the management of assets; or (iv) any other entity in which the Participants or Family Members own more than fifty percent of the voting interests.

“ ***Plan*** ” means this Textron Inc. 2007 Long-Term Incentive Plan, as amended or restated from time to time.

“ ***Plan Limit*** ” means the maximum aggregate number of Shares that may be issued for all purposes under the Plan as set forth in Section 5(a) of the Plan.

“ ***Prior Plan*** ” means the 1999 Long-Term Incentive Plan, as amended and restated from time to time.

“ ***Restricted Stock*** ” means one or more Shares granted pursuant to Section 8(b) of the Plan.

“ ***Restricted Stock Unit*** ” means a right to receive one or more Shares (or cash, if applicable) in the future granted pursuant to Section 8(c) of the Plan.

“ ***Shares*** ” means shares of Common Stock, as may be adjusted pursuant to Section 13(b).

“ ***Stock Appreciation Right*** ” means a right to receive all or some portion of the appreciation on Shares granted pursuant to Section 9 of the Plan.

“ ***Subsidiary*** ” means (i) a corporation or other entity with respect to which the Company, directly or indirectly, has the power, whether through the ownership of voting securities, by contract or otherwise, to elect at least a majority of the members of such corporation’s board of directors or analogous governing body, or (ii) any other corporation or other entity in which the Company, directly or indirectly, has an equity or similar interest greater than 50% and which the Committee designates as a Subsidiary for purposes of the Plan. For purposes of determining eligibility for the grant of

Incentive Stock Options under the Plan, the term "Subsidiary" shall be defined in the manner required by Section 424(f) of the Code.

"***Substitute Award***" means any Award granted upon assumption of, or in substitution or exchange for, outstanding employee equity awards previously granted by a company or other entity acquired by the Company or with which the Company combines pursuant to the terms of an equity compensation plan that was approved by the shareholders of such company or other entity.

"***Target Number***" means, if applicable, the target number of Shares or cash value established by the Committee and set forth in the applicable Award Document.

(b) *Rules of Construction.* The masculine pronoun shall be deemed to include the feminine pronoun, and the singular form of a word shall be deemed to include the plural form, unless the context requires otherwise. Unless the text indicates otherwise, references to sections are to sections of the Plan.

3. Administration

(a) Committee. The Plan shall be administered by the Committee, which shall have full power and authority, subject to the express provisions hereof, to:

(i) select the Participants from the Eligible Individuals;

(ii) grant Awards in accordance with the Plan;

(iii) determine the number of Shares subject to each Award or the cash amount payable in connection with an Award;

(iv) determine the terms and conditions of each Award, including, without limitation, those related to term, permissible methods of exercise, vesting, cancellation, payment, settlement, exercisability, Performance Periods, Performance Targets, and the effect, if any, of a Participant's termination of employment with the Company or any of its Subsidiaries or, subject to Section 6(d), a Change of Control of the Company;

(v) subject to Sections 6(g), 16 and 17(e) of the Plan, amend the terms and conditions of an Award after the granting thereof;

(vi) specify and approve the provisions of the Award Documents delivered to Participants in connection with their Awards;

(vii) construe and interpret any Award Document delivered under the Plan;

(viii) make factual determinations in connection with the administration or interpretation of the Plan;

(ix) adopt, prescribe, amend, waive and rescind administrative regulations, rules and procedures relating to the Plan;

(x) employ such legal counsel, independent auditors and consultants as it deems desirable for the administration of the Plan and to rely upon any advice, opinion or computation received therefrom;

(xi) vary the terms of Awards to Participants in non-US jurisdictions to take account of local tax and securities law and other regulatory requirements or to procure favorable tax treatment for Participants;

(xii) correct any defects, supply any omission or reconcile any inconsistency in any Award Document or the Plan; and

(xiii) make all other determinations and take any other action desirable or necessary to interpret, construe or implement properly the provisions of the Plan or any Award Document.

(b) *Plan Construction and Interpretation*. The Committee shall have full power and authority, subject to the express provisions hereof, to construe and interpret the Plan.

(c) *Determinations of Committee Final and Binding*. All determinations by the Committee in carrying out and administering the Plan and in construing and interpreting the Plan shall be made in the

Committee’s sole discretion and shall be final, binding and conclusive for all purposes and upon all persons interested herein.

(d) *Delegation of Authority.* To the extent not prohibited by applicable laws, rules and regulations, the Committee may, from time to time, delegate some or all of its authority under the Plan to a subcommittee or subcommittees thereof or other persons or groups of persons as it deems necessary, appropriate or advisable under such conditions or limitations as it may set at the time of such delegation or thereafter; *provided* , *however* , that the Committee may not delegate its authority (i) to make Awards to employees (A) who are subject on the date of the Award to the reporting rules under Section 16(a) of the Exchange Act, (B) who are executive officers whose compensation may be subject to the limit on deductible compensation pursuant to Section 162(m) of the Code, or (C) who are officers of the Company who are delegated authority by the Committee hereunder, or (ii) pursuant to Section 16 of the Plan. For purposes of the Plan, reference to the Committee shall be deemed to refer to any subcommittee, subcommittees, or other persons or groups of persons to whom the Committee delegates authority pursuant to this Section 3(d). In addition, notwithstanding the foregoing, an independent Committee of the Board is required to approve any grants under this plan to non-employee directors.

(e) *Liability of Committee.* Subject to applicable laws, rules and regulations: (i) no member of the Board or Committee (or its delegates) shall be liable for any good faith action or determination made in connection with the operation, administration or interpretation of the Plan and (ii) the members of the Board or the Committee (and its delegates) shall be entitled to indemnification and reimbursement in the manner provided in the Company’s Certificate of Incorporation as it may be amended from time to time. In the performance of its responsibilities with respect to the Plan, the Committee shall be entitled to rely upon information and/or advice furnished by the Company’s officers or employees, the Company’s accountants, the Company’s counsel and any other party the Committee deems necessary, and no member of the Committee shall be liable for any action taken or not taken in reliance upon any such information and/or advice.

(f) *Action by the Board.* Anything in the Plan to the contrary notwithstanding, subject to applicable laws, rules and regulations, any authority or responsibility that, under the terms of the Plan, may be exercised by the Committee may alternatively be exercised by the Board.

4. Eligibility

(a) *Eligible Individuals.* Awards may be granted to employees and Non-Employee Directors of the Company or any of its Subsidiaries; *provided* , *however* , that only employees of the Company or a Parent or Subsidiary may be granted Incentive Stock Options. The Committee shall have the authority to select the persons to whom Awards may be granted and to determine the type, number and terms of Awards to be granted to each such Participant. Under the Plan, references to “employment” or “employed” include service of Participants who are Non-Employee Directors, except for purposes of determining eligibility to be granted Incentive Stock Options.

(b) *Grants to Participants.* The Committee shall have no obligation to grant any Eligible Individual an Award or to designate an Eligible Individual as a Participant solely by reason of such Eligible Individual having received a prior Award or having been previously designated as a Participant. The Committee may grant more than one Award to a Participant and may designate an Eligible Individual as a Participant for overlapping periods of time.

5. Shares Subject to the Plan

(a) *Plan Limit.* Subject to adjustment in accordance with Section 13 of the Plan, the maximum aggregate number of Shares that may be issued for all purposes under the Plan shall be 12,000,000 plus any Shares that become available for issuance upon cancellation, forfeiture, or expiration of awards granted under the Prior Plan without having been exercised or settled. Shares to be issued under the Plan may be authorized and unissued shares, issued shares that have been reacquired by the Company (in the open-market or in private transactions) and that are being held in treasury, or a combination thereof. No more than 12,000,000 Shares may be issued pursuant to Incentive Stock Options.

(b) *Rules Applicable to Determining Shares Available for Issuance.* The number of Shares remaining available for issuance will be reduced by the number of Shares subject to outstanding Awards that are both denominated and intended to be settled in Shares and, for all other awards, by the number of Shares actually delivered upon settlement or payment of the Award. For purposes of determining the number of Shares that remain available for issuance under the Plan, (i) the number of Shares that are tendered by a Participant or withheld by the Company to pay the exercise price of an Award or to satisfy the Participant's tax withholding obligations in connection with the exercise or settlement of an Award and (ii) all of the Shares covered by a stock-settled Stock Appreciation Right to the extent exercised, will not be added back to the Plan Limit. In addition, for purposes of determining the number of Shares that remain available for issuance under the Plan, the number of Shares corresponding to Awards that are both denominated and intended to be settled in Shares under the Plan that are forfeited or cancelled or otherwise expire for any reason without having been exercised or settled or that is settled through issuance of consideration other than Shares (including, without limitation, cash) shall be added back to the Plan Limit and again be available for the grant of Awards; *provided* , *however* , that this provision shall not be applicable with respect to (i) the cancellation of a Stock Appreciation Right granted in tandem with an Option upon the exercise of the Option or (ii) the cancellation of an Option granted in tandem with a Stock Appreciation Right upon the exercise of the Stock Appreciation Right.

(c) *Special Limits.* Anything to the contrary in Section 5(a) above notwithstanding, but subject to adjustment under Sections 5(b) and 13 of the Plan, the following special limits shall apply to Shares available for Awards under the Plan:

(i) the maximum number of Shares that may be issued pursuant to awards of Restricted Stock, Restricted Stock Units, Performance Stock, Performance Share Units and Other Awards that are payable in Shares granted under the Plan shall equal 3,000,000 Shares in the aggregate.

(ii) the maximum number of Shares that may be made subject to Options and Stock Appreciation Rights granted to any Eligible Individual in any calendar year shall equal 400,000 Shares, and if any Option or Stock Appreciation Right is forfeited, cancelled or otherwise expires for any reason without having been exercised, the Shares subject to such Option or Stock Appreciation Right shall be included in the determination of the aggregate number of Shares issued to such employee under the Plan.

(iii) the maximum amount of Awards (other than those Awards set forth in Section 5(c)(ii)) that may be (1) awarded to any Eligible Individual in any calendar year (with respect to Awards settled in Shares) is 400,000 Shares measured as of the date of grant, or (2) paid to any Eligible Individual in any calendar year (with respect to Awards settled in cash) is $15 million; and

(iv) A maximum of five percent (5%) of the aggregate number of Shares available for issuance under the Plan may be issued as Restricted Stock, Restricted Stock Units, Performance Stock, or Performance Share Units, having no minimum vesting period as specified in Sections 8(a) and 10(a).

(d) Any Shares underlying Substitute Awards shall not be counted against the number of Shares remaining for issuance and shall not be subject to Section 5(c).

6. Awards in General

(a) *Types of Awards* . Awards under the Plan may consist of Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Stock, Performance Share Units and Other Awards. Any Award described in Sections 7 through 11 of the Plan may be granted singly or in combination or tandem with any other Award, as the Committee may determine. Awards under the Plan may be made in combination with, in replacement of, or as alternatives to awards or rights under any other compensation or benefit plan of the Company, including the plan of any acquired entity.

(b) *Terms Set Forth in Award Document* . The terms and conditions of each Award shall be set forth in an Award Document in a form approved by the Committee for such Award, which Award Document shall contain terms and conditions not inconsistent with the Plan. Notwithstanding the foregoing, and subject to applicable laws, the Committee may accelerate (i) the vesting or payment of any Award, (ii) the lapse of restrictions on any Award or (iii) the date on which any Award first becomes exercisable. The Committee shall exercise this discretion only in the event of death, disability, Change of Control, retirement, or termination without cause. If an Award is subject to Section 409A of the Code, or if an Award is intended to qualify as "performance-based compensation" for purposes of Section 409A or Section 162(m) of the Code, the Committee shall have discretion to alter the terms of the Award only to the extent that the alteration would not cause the Award to fail to satisfy the requirements of Section 409A or the "performance-based compensation" exemption under Section 162(m), respectively. The terms of Awards may vary among Participants, and the Plan does not impose upon the Committee any requirement to make Awards subject to uniform terms. Accordingly, the terms of individual Award Documents may vary.

(c) *Termination of Employment* . The Committee shall specify at or after the time of grant of an Award the provisions governing the disposition of an Award in the event of a Participant's termination of employment with the Company or any of its Subsidiaries. Subject to applicable laws, rules and regulations, in connection with a Participant's termination of employment, the Committee shall have the discretion to accelerate the vesting, exercisability or settlement of, eliminate the restrictions and conditions applicable to, alter the form of payment, or extend the post-termination exercise period of an outstanding Award. Such provisions may be specified in the applicable Award Document or determined at a subsequent time. If an Award is subject to Section 409A of the Code, or if an Award is intended to qualify as "performance-based compensation" for purposes of Section 409A or Section 162(m) of the Code, the Committee shall have discretion to alter the terms of the Award only to the extent that the alteration would not cause the Award to fail to satisfy the requirements of Section 409A or the "performance-based compensation" exemption under Section 162(m), respectively.

(d) *Change of Control* . (i) The Committee shall have full authority to determine the effect, if any, of a Change of Control of the Company or any Subsidiary on the vesting, exercisability, settlement, payment or lapse of restrictions applicable to an Award, which effect may be specified in the applicable Award Document or determined at a subsequent time. Subject to applicable laws, rules and regulations, the Board or the Committee shall, at any time prior to, coincident with or after the effective time of a Change of Control, take such actions as it may consider appropriate, including, without limitation: (A) providing for the acceleration of any vesting conditions relating to the exercise or settlement of an Award or that an Award shall terminate or expire unless exercised or settled in full on or before a date fixed by the Committee; (B) making such adjustments to the Awards then outstanding as the Committee deems appropriate to reflect such Change of Control; (C) causing the Awards then outstanding to be assumed, or new rights substituted therefor, by the surviving corporation in such Change of Control; or (D) permitting or requiring Participants to surrender outstanding Options and Stock Appreciation Rights in exchange for a cash payment equal to the difference, if any, between the highest price paid for a Share in the Change of Control transaction and the Exercise Price of the Award. If an Award is subject to Section 409A of the Code, the Committee shall have discretion to alter the terms of the Award only to the extent that the alteration would not cause the Award to fail to satisfy the requirements of Section 409A. In addition, except as otherwise specified in an Award Document (or a Participant's written employment agreement with the Company or any Subsidiary):

(1) any and all Options and Stock Appreciation Rights outstanding as of the effective date of the Change of Control shall become immediately exercisable;

(2) any restrictions imposed on Restricted Stock and Restricted Stock Units outstanding as of the effective date of the Change of Control shall lapse;

(3) the Performance Targets with respect to all Performance Share Units, Performance Stock and other performance-based Awards granted pursuant to Sections 6(g) or 10 outstanding as of the effective date of the Change of Control shall be deemed to have been attained at the specified target level of performance;

(4) the vesting of all Awards denominated in Shares outstanding as of the effective date of the Change of Control shall be accelerated; and

(5) any Award that became earned or vested as a result of the Change in Control shall be paid in full within 30 days after the vesting date (unless the payment would constitute an impermissible acceleration of a distribution that is subject to Section 409A of the Code, in which case the payment shall be made on the original distribution date).

(ii) Subject to applicable laws, rules and regulations, the Committee may provide, in an Award Document or subsequent to the grant of an Award for the accelerated vesting, exercisability and/or the deemed attainment of a Performance Target with respect to an Award upon specified events similar to a Change of Control.

(iii) Notwithstanding any other provision of the Plan or any Award Document, the provisions of this Section 6(d) may not be terminated, amended, or modified upon or after a Change of Control in a manner that would adversely affect a Participant's rights with respect to an outstanding Award without the prior written consent of the Participant. Subject to Section 16, the Board, upon recommendation of the Committee, may terminate, amend or modify this Section 6(d) at any time and from time to time prior to a Change of Control.

(e) *Dividends and Dividend Equivalents* . The Committee may provide Participants with the right to receive dividends or payments equivalent to dividends or interest with respect to an outstanding Award, which payments can either be paid currently or deemed to have been reinvested in Shares, and can be made in Shares, cash or a combination thereof, as the Committee shall determine; *provided* , *however* , that the terms of any payment or reinvestment of dividends (including the time and form in which reinvested dividends will be paid to the Participant) must be specified in the Award Document when the Award is granted and must comply with all applicable laws, rules and regulations, including, without limitation, Section 409A of the Code. Dividends or dividend equivalents that are paid currently with respect to any non-vested Award generally shall be paid at the same time as dividends are paid to the Company's shareholders, and in no event later than 2 $^{1}/_{2}$ months after the end of the year in which the dividend record date falls. Dividends or dividend equivalents that are reinvested with respect to any non-vested Award shall vest and be paid out at the same time and under the same conditions as the underlying Award. Notwithstanding the foregoing, no dividends or dividend equivalents shall be paid with respect to Options or Stock Appreciation Rights.

(f) *Rights of a Shareholder* . A Participant shall have no rights as a shareholder with respect to Shares covered by an Award (including voting rights) until the date the Participant or his or her nominee becomes the holder of record of such Shares. No adjustment shall be made for dividends or other rights for which the record date is prior to such date, except as provided in Section 13.

(g) *Performance-Based Awards* . (i) The Committee may determine whether any Award (or portion of an Award) under the Plan is intended to be "performance-based compensation" as that term is used in Section 162(m) of the Code. Any such Awards (or portions of Awards) designated to be "performance-based compensation" shall be conditioned on the achievement of one or more Performance Targets to the extent required by Section 162(m) of the Code and will be subject to all other conditions and requirements of Section 162(m). The Performance Targets will consist of specified levels of one or more of the following performance criteria as the Committee deems appropriate: operating cash flows from continuing operations, operating working capital, free cash flow, revenues, segment profit, corporate expenses, special charges, gain (loss) on sale of business, income from continuing operations, net income, EBITDA—earnings before interest, taxes, depreciation and amortization, EBIT—earnings before interest and taxes, EPS—earnings per share, as adjusted EPS, ROA—return on assets, ROS—return on sales, ROE—return on equity, ROIC—return on invested capital, WACC—weighted average cost of capital, total shareholder return, stock price appreciation, growth in managed assets, organic growth, cost performance, net cost reductions, inventory turns, selling and administrative expense as a percentage of sales, days sales outstanding, ratio of income to fixed charges, segment profit margins, total profit margin, EVA—economic value added, intrinsic value and effective income tax rate, in each case determined in accordance with generally accepted accounting principles (subject to modifications approved by the Committee) consistently applied on a business unit, divisional, subsidiary or consolidated basis or any combination thereof. The Performance Targets may be described in terms of objectives that are related to the individual Participant or objectives that are Company-wide or related to a Subsidiary, division, department, region, function or business unit and may be measured on an absolute or cumulative basis or on the basis of percentage of improvement over time, and may be measured in terms of Company performance (or performance of the applicable Subsidiary, division, department, region, function or business unit) or measured relative to selected peer companies or a market index. In addition, for Awards or portions of Awards not intended to qualify as "performance-based compensation" under Section 162(m) of the Code, the Committee may establish Performance Targets based on other criteria as it deems appropriate.

(ii) The Participants will be designated, and the applicable Performance Targets will be established, by the Committee within ninety (90) days following the commencement of the applicable Performance Period (or such earlier or later date permitted or required by Section 162(m) of the Code). Each Participant will be assigned a Target Number payable if Performance Targets are achieved. Any payment of an Award granted with Performance Targets shall be conditioned on the written certification of the Committee in each case that the Performance Targets and any other material conditions were satisfied. The Committee may determine, at the time of Award grant and to the extent permitted by Code Section 162(m) and the regulations and interpretive rulings thereunder, that if performance exceeds the specified Performance Targets, the Award may be settled with payment greater than the Target Number, but in no event may such payment exceed the limits set forth in Section 5(c). Similarly, the Committee may establish a payment that is below the Target Number but above a threshold level of payment if performance is below established Performance Targets. The Committee retains the right to reduce any Award notwithstanding the attainment of the Performance Targets. Notwithstanding the above, for any Award or portion of an Award designated to be "performance-based compensation" under Section 162(m) of the Code, the Committee does not retain any right to increase any amount otherwise determined under the provisions of the Plan and the Award.

(h) *Deferrals* . All Awards that are subject to a substantial risk of forfeiture when granted shall be paid to the Participant in a lump sum (in cash, Shares, or a combination of the two) no later than the end of the year in which the Award vests (or, if later, by the 15th day of the third calendar month after the Award vests), unless the Participant has made a valid election under a deferred compensation plan sponsored by the Company to defer all or part of the Award. No deferral opportunity shall exist with respect to an Award unless explicitly permitted by the Committee at the time of grant. No Option or Stock Appreciation Right shall include a right to defer gain upon exercise or any other deferral feature.

(i) *Repricing of Options and Stock Appreciation Rights* . Notwithstanding anything in the Plan to the contrary, except as may be specifically authorized by the Company's shareholders, at any time when the exercise price of a Option or Stock Appreciation Right is above the Fair Market Value of a Share, the Company shall not reduce the exercise price of such Option or Stock Appreciation Right and shall not exchange such Option or Stock Appreciation Right for a new Award with a lower (or no) exercise price or for cash The foregoing shall not (i) prevent adjustments pursuant to Section 13 or (ii) apply to grants of Substitute Awards.

(j) *One-Time Option Exchange* . Notwithstanding any other provision of the Plan to the contrary, upon approval of the Company's shareholders, the Committee may provide for, and the Company may implement, a one-time-only option exchange offer, pursuant to which certain outstanding Options could, at the election of the person holding such Options, be tendered to the Company in exchange for the issuance of a lesser amount of Options with a lower exercise price, provided that such one-time-only option exchange offer is commenced within six months of the date of such shareholder approval.

7. Terms and Conditions of Options

(a) *General* . The Committee, in its discretion, may grant Options to Eligible Individuals and shall determine whether such Options shall be Incentive Stock Options or Nonqualified Stock Options. Each Option shall be evidenced by an Award Document that shall expressly identify the Option as an Incentive Stock Option or Nonqualified Stock Option, and be in such form and contain such provisions as the Committee shall from time to time deem appropriate.

(b) *Exercise Price* . The exercise price of an Option shall be fixed by the Committee at the time of grant or shall be determined by a method specified by the Committee at the time of grant. In no event shall the exercise price of an Option be less than one hundred percent (100%) of the Fair Market Value of a Share on the date of grant; *provided* , *however* that the exercise price of a Substitute Award granted as an Option shall be determined in accordance with Section 409A of the Code and, with respect to Incentive Stock Options, Section 424 of the Code and may be less than one hundred percent (100%) of the Fair Market Value.

(c) *Term* . An Option shall be effective for such term as shall be determined by the Committee and as set forth in the Award Document relating to such Option, and the Committee may extend the term of an Option after the time of grant; *provided* , *however* , that the term of an Option may in no event extend beyond the tenth (10 th) anniversary of the date of grant of such Option.

(d) *Exercise; Payment of Exercise Price* . Options shall be exercised by delivery of a notice of exercise in a form approved by the Company. Subject to the provisions of the applicable Award Document, the exercise price of an Option may be paid (i) in cash or cash equivalents, (ii) by actual delivery or attestation to ownership of freely transferable Shares already owned by the person exercising the Option, (iii) by a combination of cash and Shares equal in value to the exercise price, (iv) through net share settlement or similar procedure involving the withholding of Shares subject to the Option with a value equal to the exercise price or (v) by such other means as the Committee may authorize. In accordance with the rules and procedures authorized by the Committee for this purpose, the Option may also be exercised through a "cashless exercise" procedure authorized by the Committee from time to time that permits Participants to exercise Options by delivering irrevocable instructions to a broker to deliver promptly to the Company the amount necessary to pay the exercise price and the amount of any required tax or other withholding obligations or such other procedures determined by the Company from time to time.

(e) *Incentive Stock Options* . The exercise price per Share of an Incentive Stock Option shall be fixed by the Committee at the time of grant or shall be determined by a method specified by the Committee at the time of grant, but in no event shall the exercise price of an Incentive Stock Option be less than one hundred percent (100%) of the Fair Market Value of a Share on the date of grant. No Incentive Stock Option may be issued pursuant to the Plan to any individual who, at the time the Incentive Stock Option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any of its Subsidiaries, unless (i) the exercise price determined as of the date of grant is at least one hundred ten percent (110%) of the Fair Market Value on the date of grant of the Shares subject to such Incentive Stock Option and (ii) the Incentive Stock Option is not exercisable more than five (5) years from the date of grant thereof. No Participant shall be granted any Incentive Stock Option which would result in such Participant receiving a grant of Incentive Stock Options that would have an aggregate Fair Market Value in excess of one hundred thousand dollars ($100,000), determined as of the time of grant, that would be exercisable for the first time by such Participant during any calendar year. No Incentive Stock Option may be granted under the Plan after February 28, 2017, the tenth (10 th) anniversary of the date on which the Plan was adopted by the Board. The terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code, or any successor provision thereto, as amended from time to time.

8. Terms and Conditions of Restricted Stock and Restricted Stock Units

(a) *Minimum Vesting Provisions* . Restricted Stock or Restricted Stock Units settled in Shares that are granted without any other performance-based qualification criteria other than the Participant's continued service shall have a minimum period of restriction of three (3) years. Performance-based grants shall feature a minimum period of restriction of one (1) year. Awards of Restricted Stock or Restricted Stock Units shall not be deemed to lack a minimum period of restriction solely because they vest before the end of the period in the event of the Participant's death, disability or retirement, including Early Retirement, or in the event of a Change of Control.

(b) *Restricted Stock* . The Committee, in its discretion, may grant Restricted Stock to Eligible Individuals. An Award of Restricted Stock shall consist of one or more Shares granted to an Eligible Individual, and shall be subject to the terms, conditions and restrictions set forth in the Plan and established by the Committee in connection with the Award and specified in the applicable Award Document. Restricted Stock may, among other things, be subject to restrictions on transferability, vesting requirements or other specified circumstances under which it may be canceled.

(c) *Restricted Stock Units.* The Committee, in its discretion, may grant Restricted Stock Units to Eligible Individuals. A Restricted Stock Unit shall entitle a Participant to receive, subject to the terms, conditions and restrictions set forth in the Plan and the applicable Award Document, one or more Shares. Restricted Stock Units may, among other things, be subject to restrictions on transferability, vesting requirements or other specified circumstances under which they may be canceled. If and when the cancellation provisions lapse, the Restricted Stock Units shall become Shares owned by the applicable Participant or, at the sole discretion of the Committee, cash, or a combination of cash and Shares, with a value equal to the Fair Market Value of the Shares at the time of payment.

9. Stock Appreciation Rights

(a) *General.* The Committee, in its discretion, may grant Stock Appreciation Rights to Eligible Individuals. A Stock Appreciation Right shall entitle a Participant to receive, upon satisfaction of the conditions to payment specified in the applicable Award Document, an amount equal to the excess, if any, of the Fair Market Value on the exercise date of the number of Shares for which the Stock Appreciation Right is exercised over the grant price for such Stock Appreciation Right specified in the applicable Award Document. The grant price per share of Shares covered by a Stock Appreciation Right shall be fixed by the Committee at the time of grant or, alternatively, shall be determined by a method specified by the Committee at the time of grant, but in no event shall the grant price of a Stock Appreciation Right be less than one hundred percent (100%) of the Fair Market Value of a Share on the date of grant; *provided* , *however* , that the grant price of a Substitute Award granted as a Stock Appreciation Rights shall be in accordance with Section 409A of the Code and may be less than one hundred percent (100%) of the Fair Market Value. Payments to a Participant upon exercise of a Stock Appreciation Right may be made in cash or Shares, or a combination of cash and Shares having an aggregate Fair Market Value as of the date of exercise equal to the excess, if any, of the Fair Market Value on the exercise date of the number of Shares for which the Stock Appreciation Right is exercised over the grant price for such Stock Appreciation Right. The term of a Stock Appreciation Right settled in Shares shall not exceed ten (10) years.

(b) *Stock Appreciation Rights in Tandem with Options.* A Stock Appreciation Right granted in tandem with an Option may be granted either at the same time as such Option or subsequent thereto. If granted in tandem with an Option, a Stock Appreciation Right shall cover the same number of Shares as covered by the Option (or such lesser number of Shares as the Committee may determine) and shall be exercisable only at such time or times and to the extent the related Option shall be exercisable, and shall have the same term as the related Option. The grant price of a Stock Appreciation Right granted in tandem with an Option shall equal the per-share exercise price of the Option to which it relates. Upon exercise of a Stock Appreciation Right granted in tandem with an Option, the related Option shall be canceled automatically to the extent of the number of Shares covered by such exercise; conversely, if the related Option is exercised as to some or all of the Shares covered by the tandem grant, the tandem Stock Appreciation Right shall be canceled automatically to the extent of the number of Shares covered by the Option exercise.

10. Terms and Conditions of Performance Stock and Performance Share Units

(a) *Minimum Vesting Provisions* . Performance Stock or Performance Share Units shall feature a minimum period of restriction of one (1) year. Awards of Performance Stock or Performance Share Units shall not be deemed to lack a minimum period of restriction solely because they vest before the end of the period in the event of the Participant's death, disability or retirement, including Early Retirement, or in the event of a Change of Control.

(b) *Performance Stock.* The Committee may grant Performance Stock to Eligible Individuals. An Award of Performance Stock shall consist of a Target Number of Shares granted to an Eligible Individual based on the achievement of Performance Targets over the applicable Performance Period, and shall be subject to the terms, conditions and restrictions set forth in the Plan and established by the Committee in connection with the Award and specified in the applicable Award Document.

(c) *Performance Share Units.* The Committee, in its discretion, may grant Performance Share Units to Eligible Individuals. A Performance Share Unit shall entitle a Participant to receive, subject to the terms, conditions and restrictions set forth in the Plan and established by the Committee in connection with the Award and specified in the applicable Award Document, a Target Number of Shares or cash based upon the achievement of Performance Targets over the applicable Performance Period. At the sole discretion of the Committee, Performance Share Units shall be settled through the delivery of Shares or cash, or a combination of Shares and cash.

11. Other Awards

The Committee shall have the authority to specify the terms and provisions of other forms of equity- or cash-based Awards not described above that the Committee determines to be consistent with the purpose of the Plan and the interests of the Company, which Awards may provide for cash payments or settlement in Shares. To the extent that any such Awards which constitute “full value” awards are to be settled in Shares and are performance-based, the minimum period of restriction shall be one (1) year. Awards which constitute “full value” awards and are to be settled in Shares that have no performance-based criteria other than the Participant’s continued service shall have a minimum period of restriction of three (3) years.

12. Certain Restrictions

(a) *Transfers.* No Award shall be transferable other than pursuant to a beneficiary designation under Section 12(c), by last will and testament or by the laws of descent and distribution or, except in the case of an Incentive Stock Option, pursuant to a domestic relations order, as the case may be; *provided* , *however* , that the Committee may, subject to applicable laws, rules and regulations and such terms and conditions as it shall specify, permit the transfer of an Award, other than an Incentive Stock Option, for no consideration to a Permitted Transferee. Any Award transferred to a Permitted Transferee shall be further transferable only by last will and testament or the laws of descent and distribution or, for no consideration, to another Permitted Transferee of the Participant.

(b) *Award Exercisable Only by Participant.* During the lifetime of a Participant, an Award shall be exercisable only by the Participant or by a Permitted Transferee to whom such Award has been transferred in accordance with Section 12(a) above. The grant of an Award shall impose no obligation on a Participant to exercise or settle the Award.

(c) *Beneficiary Designation.* The beneficiary or beneficiaries of the Participant to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit shall be determined under the Company’s Group Life Insurance Plan. A Participant may, from time to time, name any beneficiary or beneficiaries to receive any benefit in case of his or her death before he or she receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, including the beneficiary designated under the Company’s Group Life Insurance Plan, and will be effective only when filed by the Participant in writing (in such form or manner as may be prescribed by the Committee) with the Company during the Participant’s lifetime. In the absence of a valid designation under the Company’s Group Life Insurance Plan or otherwise, if no validly designated beneficiary survives the Participant or if each surviving validly designated beneficiary is legally impaired or prohibited from receiving the benefits under an Award, the Participant’s beneficiary shall be the Participant’s estate.

13. Recapitalization or Reorganization

(a) *Authority of the Company and Shareholders.* The existence of the Plan, the Award Documents and the Awards granted hereunder shall not affect or restrict in any way the right or power of the Company or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company’s capital structure or business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Shares or the rights thereof or which are convertible into or exchangeable for Shares, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(b) *Change in Capitalization.* Notwithstanding any provision of the Plan or any Award Document, the number and kind of Shares authorized for issuance under Section 5 of the Plan, including the maximum number of Shares available under the special limits provided for in Section 5(c), shall be equitably adjusted in the sole discretion of the Committee in the event of a stock split, reverse stock split, stock dividend, recapitalization, reorganization, partial or complete liquidation, reclassification, merger, consolidation, separation, extraordinary cash dividend, split-up, spin-off, combination, exchange of Shares, warrants or rights offering to purchase Shares at a price substantially below Fair Market Value, or any other corporate event or distribution of stock or property of the Company affecting the Shares in order to preserve, but not increase, the benefits or potential benefits intended to be made available under the Plan. In addition, upon the occurrence of any of the foregoing events, the number and kind of Shares subject to any outstanding

Award and the exercise price per Share (or the grant price per Share, as the case may be), if any, under any outstanding Award shall be equitably adjusted (including by payment of cash to a Participant) in the sole discretion of the Committee in order to preserve the benefits or potential benefits intended to be made available to Participants. Such adjustments shall be made by the Committee. Unless otherwise determined by the Committee, such adjusted Awards shall be subject to the same restrictions and vesting or settlement schedule to which the underlying Award is subject.

14. Term of the Plan

Unless earlier terminated pursuant to Section 16, the Plan shall terminate on the tenth (10 th) anniversary of the Effective Date, except with respect to Awards then outstanding. No Awards may be granted under the Plan after the tenth (10 th) anniversary of the Effective Date. No Incentive Stock Option may be granted under the Plan after February 28, 2017, the tenth (10 th) anniversary of the date on which the Plan was adopted by the Board. To the extent (but only to the extent) required by Section 162(m) of the Code, no Award that is intended to be "performance-based compensation" under Section 162(m) shall be granted after the first shareholder meeting in 2012 unless the material terms of the performance goal for the Award have been disclosed to and reapproved by shareholders before that date.

15. Effective Date

The Plan shall become effective on the Effective Date.

16. Amendment and Termination

Subject to applicable laws, rules and regulations, the Board may at any time terminate or, from time to time, amend, modify or suspend the Plan; *provided* , *however* , that no termination, amendment, modification or suspension (i) will be effective without the approval of the shareholders of the Company if such approval is required under applicable laws, rules and regulations, including the rules of NYSE and (ii) shall materially and adversely alter or impair the rights of a Participant in any Award previously made under the Plan without the consent of the holder thereof. Notwithstanding the foregoing, the Board shall have broad authority to amend the Plan or any Award under the Plan without the consent of a Participant to the extent it deems necessary or desirable (a) to comply with, take into account changes in, or interpretations of, applicable tax laws, securities laws, employment laws, accounting rules and other applicable laws, rules and regulations, (b) to take into account unusual or nonrecurring events or market conditions (including, without limitation, the events described in Section 13(b)), or (c) to take into account significant acquisitions or dispositions of assets or other property by the Company. For the avoidance of doubt, except for adjustments pursuant to Section 13, no amendment or modification to the Plan will be effective without the approval of the shareholders of the Company if such amendment or modification would (i) increase benefits to Participants, (ii) increase the number of Shares reserved for issuance under the Plan or (iii) modify the requirements for participation in the Plan. The Board may, to the extent permitted by applicable law, make a non-exclusive written delegation of its authority to amend the Plan to the Committee or to one or more officers of the Company. The Board may, to the extent permitted by applicable law, authorize the Committee to make a further delegation of its authority to amend the Plan.

17. Miscellaneous

(a) *Tax Withholding.* The Company or a Subsidiary, as appropriate, may require any individual entitled to receive a payment of an Award to remit to the Company, prior to payment, an amount sufficient to satisfy any applicable tax withholding requirements. In the case of an Award payable in Shares, the Company or a Subsidiary, as appropriate, may permit or require a Participant to satisfy, in whole or in part, such obligation to remit taxes by the Company withholding Shares that would otherwise be received by such individual or repurchasing Shares that were issued to the Participant to satisfy the (i) minimum statutory withholding rates within the United States, or (ii) in accordance with local tax jurisdictions outside the United States, as applicable, for any applicable tax withholding purposes, in accordance with all applicable laws and pursuant to such rules as the Committee may establish from time to time. The Company or a Subsidiary, as appropriate, shall also have the right to deduct from all cash payments made to a Participant (whether or not such payment is made in connection with an Award) any applicable taxes required to be withheld with respect to such payments.

(b) *No Right to Awards or Employment.* No person shall have any claim or right to receive Awards under the Plan. Neither the Plan, the grant of Awards under the Plan nor any action taken or omitted to be taken under the Plan shall be deemed to create or confer on any Eligible Individual any right to be retained in the employ of the Company or any Subsidiary or other affiliate thereof, or to interfere with or to limit in any way the right of the Company or any Subsidiary or other affiliate thereof to terminate the employment of such Eligible Individual at any time. No Award shall constitute salary or contractual compensation for the year of grant, any later year or any other period of time. Payments received by a Participant under any Award made pursuant to the Plan shall not be included in, nor have any effect on, the determination of employment-related rights or benefits under any other employee benefit plan or similar arrangement provided by the Company and the Subsidiaries, unless otherwise specifically provided for under the terms of such plan or arrangement or by the Committee.

(c) *Securities Law Restrictions* . An Award may not be exercised or settled, and no Shares may be issued in connection with an Award, unless the issuance of such Shares (i) has been registered under the Securities Act of 1933, as amended, (ii) has qualified under applicable state "blue sky" laws (or the Company has determined that an exemption from registration and from qualification under such state "blue sky" laws is available) and (iii) complies with all applicable foreign securities laws. All certificates for Shares delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any exchange upon which the Shares are then listed, and any applicable securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(d) *Section 162(m) of the Code* . The Plan is intended to comply in all respects with Section 162(m) of the Code; *provided* , *however* , that in the event the Committee determines that compliance with Section 162(m) of the Code is not desired with respect to a particular Award (or portion of an Award), compliance with Section 162(m) of the Code will not be required. In addition, if any provision of this Plan would cause Awards or portions of Awards that are intended to constitute "qualified performance-based compensation" under Section 162(m) of the Code, to fail to so qualify, that provision shall be severed from, and shall be deemed not to be a part of, the Plan, but the other provisions hereof shall remain in full force and effect.

(e) *Section 409A of the Code* . Notwithstanding any contrary provision in the Plan or an Award Document, if any provision of the Plan or an Award Document contravenes any regulations or guidance promulgated under Section 409A of the Code or would cause an Award to be subject to additional taxes, accelerated taxation, interest and/or penalties under Section 409A of the Code, such provision of the Plan or Award Document may be modified by the Committee without the consent of the Participant in any manner the Committee deems reasonable or necessary. In making such modifications the Committee shall attempt, but shall not be obligated, to maintain, to the maximum extent practicable, the original intent of the applicable provision without contravening the provisions of Section 409A of the Code. Moreover, any discretionary authority that the Committee may have pursuant to the Plan shall not be applicable to an Award that is subject to Section 409A of the Code to the extent such discretionary authority would contravene Section 409A of the Code or the guidance promulgated thereunder.

(f) *Awards to Individuals Subject to Laws of a Jurisdiction Outside of the United States* . To the extent that Awards under the Plan are awarded to Eligible Individuals who are domiciled or reside outside of the United States or to persons who are domiciled or reside in the United States but who are subject to the tax laws of a jurisdiction outside of the United States, the Committee may adjust the terms of the Awards granted hereunder to such person (i) to comply with the laws, rules and regulations of such jurisdiction and (ii) to permit the grant of the Award not to be a taxable event to the Participant. The authority granted under the previous sentence shall include the discretion for the Committee to adopt, on behalf of the Company, one or more sub-plans applicable to separate classes of Eligible Individuals who are subject to the laws of jurisdictions outside of the United States.

(g) *Satisfaction of Obligations* . Subject to applicable law, the Company may apply any cash, Shares, securities or other consideration received upon exercise or settlement of an Award to any obligations a Participant owes to the Company and the Subsidiaries in connection with the Plan or otherwise, including, without limitation, any tax obligations or obligations under a currency facility established in connection with the Plan.

(h) *No Limitation on Corporate Actions* . Nothing contained in the Plan shall be construed to prevent the Company or any Subsidiary from taking any corporate action, whether or not such action would have an adverse effect on any Awards made under the Plan. No Participant, beneficiary or other person shall have any claim against the Company or any Subsidiary as a result of any such action.

(i) *Unfunded Plan* . The Plan is intended to constitute an unfunded plan for incentive compensation. Prior to the issuance of Shares, cash or other form of payment in connection with an Award, nothing contained herein shall give any Participant any rights that are greater than those of a general unsecured creditor of the Company. The Committee may, but is not obligated to, authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Shares with respect to awards hereunder.

(j) *Successors* . All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

(k) *Application of Funds* . The proceeds received by the Company from the sale of Shares pursuant to Awards will be used for general corporate purposes.

(l) *Award Document* . In the event of any conflict or inconsistency between the Plan and any Award Document, the Plan shall govern and the Award Document shall be interpreted to minimize or eliminate any such conflict or inconsistency.

(m) *Headings* . The headings of Sections herein are included solely for convenience of reference and shall not affect the meaning of any of the provisions of the Plan.

(n) *Severability* . If any provision of this Plan is held unenforceable, the remainder of the Plan shall continue in full force and effect without regard to such unenforceable provision and shall be applied as though the unenforceable provision were not contained in the Plan.

(o) *Expenses* . The costs and expenses of administering the Plan shall be borne by the Company.

(p) *Jurisdiction, Venue and Governing Law* . Except as to matters of federal law, the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Rhode Island. Any dispute, controversy or claim arising out of or relating to the Plan or any award under the Plan shall be brought only in a court of competent jurisdiction in the State of Rhode Island, and no other court, agency or tribunal shall have jurisdiction to resolve any such dispute, controversy or claim.

(q) *Compliance with Individual Tax Requirements.* The Plan is intended, and shall be interpreted, to provide compensation that is exempt from Section 409A , or that complies with the applicable requirements of Section 409A. The Company does not warrant that the Plan will comply with Section 409A of the Code with respect to any Participant or with respect to any payment, however. In no event shall the Company; any Subsidiary; any director, officer, or employee of the Company or a Subsidiary; or any member of the Committee be liable for any additional tax, interest, or penalty incurred by a Participant as a result of the Plan’s failure to satisfy the requirements of Section 409A of the Code, or as a result of the Plan’s failure to satisfy any other requirements of applicable tax laws.

EXHIBIT 12.1

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

	Three Months Ended March 31, 2012
Fixed charges:	
Interest expense*	$ 40
Estimated interest portion of rents	7
Total fixed charges	$ 47
Income:	
Income from continuing operations before income taxes	$ 177
Fixed charges	47
Dividends received from TFC	240
Capital contributions paid to TFC under Support Agreement	(240)
Eliminate pretax income of Finance group	(12)
Adjusted income	$ 212
Ratio of income to fixed charges	4.51

* 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 31, 2012
Fixed charges:	
Interest expense*	$ 55
Estimated interest portion of rents	8
Total fixed charges	$ 63
Income:	
Income from continuing operations before income taxes	$ 177
Fixed charges	63
Adjusted income	$ 240
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 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: April 26, 2012

/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: April 26, 2012

/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 31, 2012 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: April 26, 2012

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

Exhibit 32.2

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 31, 2012 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: April 26, 2012

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