

TEXTRON INC
Form 10-Q
April 26, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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)

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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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

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

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

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****TEXTRON INC.****Consolidated Statements of Operations (Unaudited)**

	Three Months Ended	
	March 31	April 2,
	2012	2011
<i>(In millions, except per share amounts)</i>		
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.

Table of Contents**TEXTRON INC.****Consolidated Statements of Comprehensive Income (Unaudited)**

<i>(In millions)</i>	Three Months Ended	
	March 31, 2012	April 2, 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.

Table of Contents**TEXTRON INC.****Consolidated Balance Sheets (Unaudited)**

<i>(Dollars in millions)</i>	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

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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
<i>See Notes to the consolidated financial statements.</i>		

Table of Contents**TEXTRON INC.****Consolidated Statements of Cash Flows (Unaudited)**

For the Three Months Ended March 31, 2012 and April 2, 2011, respectively

<i>(In millions)</i>	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

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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

Table of Contents**TEXTRON INC.****Consolidated Statements of Cash Flows (Unaudited) (Continued)**

For the Three Months Ended March 31, 2012 and April 2, 2011, respectively

<i>(In millions)</i>	Manufacturing Group		Finance Group	
	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)

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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.

Table of Contents**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	
	March 31, 2012	April 2, 2011	March 31, 2012	April 2, 2011
<i>(In millions)</i>				
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)

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Amortization of net loss	29	19	2	3
Net periodic benefit cost	\$ 38	\$ 39	\$ 7	\$ 12

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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:

<i>(In millions)</i>	Three Months Ended	
	March 31, 2012	April 2, 2011
Compensation expense	\$ 46	\$ 36
Income tax benefit	(17)	(13)