

TEXTRON INC

FORM 8-K (Current report filing)

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): January 25, 2008

TEXTRON INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State of
Incorporation)

I-5480
(Commission File Number)

05-0315468
(IRS Employer
Identification Number)

40 Westminster Street, Providence, Rhode Island 02903
(Address of principal executive offices)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instructions A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

On January 25, 2008, Textron’s Board of Directors approved the overall design of the Company’s annual and long-term incentive compensation program, including terms and conditions of the annual cash incentive arrangement under the Textron Inc. Short-Term Incentive Plan (As amended and restated effective July 25, 2007) (the “Incentive Plan”) and the grant types and the terms and conditions of stock options, restricted stock units and performance share units to be granted under the Textron Inc. 2007 Long-Term Incentive Plan (amended and restated as of May 1, 2007) (the “2007 Plan”). These arrangements operate on substantially the same terms as those that were maintained by Textron under the predecessors to the Incentive Plan and the 2007 Plan.

Following such approval, the Organization and Compensation Committee of the Board of Directors approved the overall design of the Company’s annual and long-term incentive compensation program with respect to Textron’s executive officers, approved grant levels under these arrangements with respect to such executive officers and established related performance goals for such executive officers for 2008 and for the 2008-2010 performance share unit cycle.

Incentive payments to executive officers for 2008 under the Incentive Plan will be based on the following:

- Achieving earnings per share target: 45%
- Achieving enterprise return on invested capital target: 45%
- Achieving workforce diversity target: 5%
- Achieving specified leadership behaviors: 5%

Target payouts for the named executive officers range from 65% to 100% of the executive’s base salary, and the maximum payout on these components regardless of how much the targets are exceeded will be 200%.

With respect to awards under the 2007 Plan to executive officers, restricted stock units awarded in 2008 will receive cash dividend equivalent payments on a quarterly basis beginning in April 2008 at the same rate paid to Textron shareholders.

In addition, performance share units granted for the 2008-2010 cycle will be based 50% on achievement of earnings per share targets and 50% on enterprise return on invested capital minus weighted average cost of capital targets. The maximum payout on performance share units will be 150%.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits

The following exhibits are filed herewith:

<u>Exhibit Number</u>	<u>Description</u>
99.1	Objectives for Executive Officers under Textron Inc. Short-Term Incentive Plan
99.2	Performance Factors for Executive Officers for Performance Share Units under Textron Inc. 2007 Long-Term Incentive Plan
99.3	Form of Non-Qualified Stock Option Agreement. Incorporated by reference to Exhibit 10.2 to Textron’s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007.
99.4	Form of Incentive Stock Option Agreement. Incorporated by reference to Exhibit 10.3 to Textron’s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007.
99.5	Form of Restricted Stock Unit Grant Agreement.

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 hereunto duly authorized.

TEXTRON INC.
(Registrant)

Date: January 28, 2008

By: /s/Arnold Friedman
Arnold Friedman
Vice President and Deputy General Counsel

**Objectives for Executive Officers Under
Textron Inc. Short-Term Incentive Plan**

Under the Textron Inc. Short-Term Incentive Plan, target annual incentive payments for Executive Officers are approved by the Organization and Compensation Committee (the “Committee”) of the Board of Directors. The targets for Executive Officers can range from 65% to 100% of the Executive Officer’s base salary. The amount actually paid generally can range from zero, if the threshold level of actual performance relating to target performance objectives is not achieved, to no more than twice the target award level. Payouts are made in cash following review and certification of performance results by the Committee.

The target performance objectives for Executive Officers are set by the Committee, and generally include such targets as achieving earnings per share, enterprise return on invested capital, specified leadership behaviors, including financial goals and strategic and business objectives such as six sigma, customer growth, talent development, supply chain, information technology and compliance goals, and a specified workforce diversity target.

**Performance Factors for Executive Officers for Performance Share Units
under Textron Inc. 2007 Long-Term Incentive Plan**

Under the Performance Share Unit Plan for Textron Employees, participants are awarded a number of performance share units that are payable in cash at the end of the respective three-year performance cycle. The payout is determined by multiplying the number of performance share units earned by the then current market value of Textron common stock at the end of the performance period. The number of performance share units earned by Executive Officers at the end of the three-year performance cycle is determined by the Organization and Compensation Committee (the "Committee") of the Board of Directors, and are based on factors for each cycle determined by the Committee. Such factors generally include earnings per share ("EPS") and enterprise return on invested capital ("ROIC").

Failure to attain a minimum EPS performance level (80% of target) will result in the failure to earn any performance share units related to the EPS portion of the award. Attainment between the minimum and maximum EPS targets will result in earning a portion of the performance share units related to the EPS portion of the award as defined by a pre-established mathematical formula. The Committee may determine an award less than that determined by the formula but may not determine an award more than that derived by the formula.

With respect to the ROIC target, if enterprise-wide ROIC averages 800 basis points or more above the weighted average cost of capital ("WACC") over the performance period, then this portion of the award will be 100% earned. If the difference between ROIC and WACC is above zero but less than 800 basis points, then a pro rata portion of this amount is earned. In addition, participants have an opportunity to earn up to 150% of this portion of the award for achieving enterprise ROIC that exceeds WACC by greater than 800 basis points.

TEXTRON INC.
TEXTRON 2007 LONG-TERM INCENTIVE PLAN
RESTRICTED STOCK UNIT (WITH DIVIDEND EQUIVALENTS)
TERMS AND CONDITIONS
(1/2008)

- Pursuant to the 2007 Long-Term Incentive Plan (the "Plan"), Textron has awarded to executive the number of Restricted Stock Units set forth on the applicable Notice of Grant signed by Textron and Grantee on the terms and conditions herein set forth. Each Restricted Stock Unit constitutes the right to receive one share (a "Share") of Common Stock. As the applicable "Period of Restriction" lapses, Textron will issue to the executive that number of Shares less the number of Shares needed to satisfy required statutory withholding. Shares may be issued in the form of a certificate or a notification to the executive that the Shares are held in a book-entry account on the executive's behalf.
- If the executive's employment with Textron shall terminate for "Cause," all Shares which may be issued pursuant to the Restricted Stock Units awarded to the executive that are still subject to the applicable "Period of Restriction" shall be forfeited.
- Except as otherwise provided herein, the executive shall not be entitled to receive Shares if the executive's employment with Textron ends for any reason prior to the end of the Period of Restriction applicable to such Shares, provided that if the executive's employment ends prior to such date and at least three years after the date of grant because of "Disability," death or after the executive has become eligible for "Early or Normal Retirement," the executive or the executive's estate will receive a certificate for a "Pro-Rata Portion" of such Shares.
- Notwithstanding the above, the applicable Period of Restriction for the Shares which may be issued pursuant to this Award shall end immediately upon a "Change in Control" of Textron, as defined in the Plan. In such instance, Textron shall issue the Shares to the executive (or to the executive's estate in the event of the executive's death prior to payment) as soon as administratively practical after the Change in Control. Note: Sale of a business unit usually does not constitute a Change in Control as defined in the Plan. If executive's employment with Textron is involuntarily terminated due to the sale of a business that does not constitute a Change in Control as defined in the Plan, executive's then un-issued Shares will be forfeited.
- The number of Shares which may be issued pursuant to the Restricted Stock Units awarded to the executive hereunder shall be equitably adjusted in the event of a stock split, stock dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, or any other corporate event affecting the Common Stock, as provided in the Plan, in order to preserve the benefits or potential benefits intended to be made available to the Grantee.
- Nothing in this document shall confer upon the executive the right to continue in the employment of Textron or affect any right that Textron may have to terminate the employment of the executive.
- The Restricted Stock Units shall not be assignable or transferable by the executive. The Shares, once issued to the executive, shall be freely transferable.
- The executive shall not have voting rights.
- The executive's award of Restricted Stock Units with dividend equivalents shall entitle the executive to receive an amount equal to any cash dividend declared with respect to the number of Shares represented by those Restricted Stock Units, but only to the extent that the Restricted Stock Units have neither been converted to Shares nor been forfeited before the record date for such dividend. The dividend equivalent shall be reduced by the amount of any applicable tax withholding, and the net amount shall be paid in cash to the executive.
- The Restricted Stock Units shall be subject to the terms and conditions of the Plan in all respects.

DEFINITIONS

"Cause"

"Cause" shall mean: (i) an act or acts of willful misrepresentation, fraud or willful dishonesty (other than good faith expense account disputes) by the executive which in any case is intended to result in his or another person or entity's substantial personal enrichment at the expense of Textron; (ii) any willful misconduct by the executive with regard to Textron, its business, assets or employees that has, or was intended to have, a material adverse impact (economic or otherwise) on Textron; (iii) any material, willful and knowing violation by the executive of (x) Textron's Business Conduct Guidelines, or (y) any of his or her fiduciary duties to Textron which in either case has, or was intended to have, a material adverse impact (economic or otherwise) on Textron; (iv) the willful or reckless behavior of the executive with regard to a matter of a material nature which has a material adverse impact (economic or otherwise) on Textron; (v) the executive's willful failure to attempt to perform his or her duties or his or her willful failure to attempt to follow the legal written direction of the Board, which in either case is not remedied within ten (10) days after receipt by the executive of a written notice from Textron specifying the details thereof; or (vi) the executive's conviction of, or pleading nolo contendere or guilty to, a felony (other than (x) a traffic infraction or (y) vicarious liability solely as a result of his position provided the executive did not have actual knowledge of the actions or in actions creating the violation of the law or the executive relied in good faith on the advice of counsel with regard to the legality of such action or inaction (or the advice of other

specifically qualified professionals as to the appropriate or proper action or inaction to take with regard to matters which are not matters of legal interpretation); No action or inaction should be deemed willful if not demonstrably willful and if taken or not taken by the executive in good faith as not being adverse to the best interests of Textron. Reference in this paragraph to Textron shall also include direct and indirect subsidiaries of Textron, and materiality and material adverse impact shall be measured based on the action or inaction and the impact upon, and not the size of, Textron taken as a whole, provided that after a Change in Control, the size of Textron, taken as a whole, shall be a relevant factor in determining materiality and material adverse impact.

“Period of Restriction”

For the purposes of this grant, the Period of Restriction means, for any Share which may be issued pursuant to a Restricted Stock Unit, the period prior to the date on which such Share becomes issuable.

“Early or Normal Retirement”

“Early retirement” with Textron is defined as attainment of age 60 or the completion of 20 years of vesting service or the attainment of age 55 with the completion of 10 years of vesting service. “Normal retirement” with Textron is age 65.

“Disability”

“Disability”, shall mean, for purposes of this award, the inability of the executive to engage in any substantial gainful activity due to injury, illness, disease, bodily or mental infirmity which can be expected to result in death or is expected to be permanent. An individual shall not be considered disabled unless executive furnishes proof of the existence thereof. Textron may require the existence or non-existence of a disability to be determined by a physician whose selection is mutually agreed upon by the executive (or his or her representatives) and Textron.

Pro-Rata Portion”

“Pro-Rata Portion” shall mean the number of complete or partial months of executive’s active service to Textron during the Period of Restriction divided by the number of months in the Period of Restriction. An employee must be employed by Textron for a minimum of three years after the grant date before pro-rata Shares may be issued.

Example: On July 16, 2003, an executive was granted 2,500 Restricted Stock Units constituting the right to receive 2,500 Shares to be issued in accordance with the following vesting schedule:

Shares	Vest Dates
834	July 16, 2006
833	July 16, 2007
833	July 16, 2008

The executive terminates employment with Textron on August 30, 2006 after having attained age 55 with the completion of 10 years of vesting service.

Because the executive’s age and years of service qualify as ‘early retirement’ and executive was employed by Textron for three years after the grant date, the executive is eligible for the issuance of a pro-rata portion of the Shares. The number of Shares earned would be calculated as follows:

Vest Date	Shares Issuable	Number of Complete or Partial Months Employed by Textron During the Period of Restriction ⁽¹⁾	Number of Months in the Period of Restriction	=	Pro-Rata Shares
7/16/06	834 X	38	36 ⁽²⁾		834 shares distributed July 16, 2006
7/16/07	833 X	38	48 ⁽³⁾		659.4583
7/16/08	833 X	38	60 ⁽⁴⁾		527.5666
				Pro-Rata Shares Earned:	1,187.0249*

⁽¹⁾ July 16, 2003 – August 30, 2006 (37 completed plus 1 partial month)

⁽²⁾ July 16, 2003 – July 16, 2006

⁽³⁾ July 16, 2003 – July 16, 2007

⁽⁴⁾ July 16, 2003 – July 16, 2008

*Fractional Shares will be paid in cash. For instance, if the share price is \$90 on the date that the Shares are issued, then Textron would pay the executive \$2.24 (.0249 X \$90 = \$2.24)