

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)

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

For the quarterly period ended July 4, 2009

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.)
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40 Westminster Street, Providence, RI (Address of principal executive offices)	02903 (zip code)
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(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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

Common stock outstanding at July 18, 2009 – 270,236,965 shares

TEXTRON INC.

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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		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Revenues				
Manufacturing revenues	\$ 2,526	\$ 3,507	\$ 4,930	\$ 6,599
Finance revenues	86	177	208	391
Total revenues	<u>2,612</u>	<u>3,684</u>	<u>5,138</u>	<u>6,990</u>
Costs, expenses and other				
Cost of sales	2,101	2,775	4,100	5,209
Selling and administrative	340	393	686	784
Interest expense, net	75	101	157	216
Provision for losses on finance receivables	87	40	163	67
Gain on sale of assets	—	—	(50)	—
Special charges	129	—	161	—
Total costs, expenses and other	<u>2,732</u>	<u>3,309</u>	<u>5,217</u>	<u>6,276</u>
Income (loss) from continuing operations before income taxes	(120)	375	(79)	714
Income tax expense (benefit)	(58)	125	(60)	239
Income (loss) from continuing operations	<u>(62)</u>	<u>250</u>	<u>(19)</u>	<u>475</u>
Income from discontinued operations, net of income taxes	4	8	47	14
Net income (loss)	<u>\$ (58)</u>	<u>\$ 258</u>	<u>\$ 28</u>	<u>\$ 489</u>
Basic earnings per share				
Continuing operations	\$ (0.23)	\$ 1.00	\$ (0.07)	\$ 1.90
Discontinued operations	0.01	0.03	0.18	0.06
Basic earnings per share	<u>\$ (0.22)</u>	<u>\$ 1.03</u>	<u>\$ 0.11</u>	<u>\$ 1.96</u>
Diluted earnings per share				
Continuing operations	\$ (0.23)	\$ 0.98	\$ (0.07)	\$ 1.87
Discontinued operations	0.01	0.03	0.18	0.05
Diluted earnings per share	<u>\$ (0.22)</u>	<u>\$ 1.01</u>	<u>\$ 0.11</u>	<u>\$ 1.92</u>
Dividends per share				
\$2.08 Preferred stock, Series A	\$ 0.52	\$ 0.52	\$ 1.04	\$ 1.04
\$1.40 Preferred stock, Series B	\$ 0.35	\$ 0.35	\$ 0.70	\$ 0.70
Common stock	\$ 0.02	\$ 0.23	\$ 0.04	\$ 0.46

See Notes to the consolidated financial statements.

TEXTRON INC.
Consolidated Balance Sheets (Unaudited)
(Dollars in millions, except share data)

	July 4, 2009	January 3, 2009
Assets		
Manufacturing group		
Cash and cash equivalents	\$ 1,396	\$ 531
Accounts receivable, net	839	894
Inventories	3,001	3,093
Other current assets	471	584
Assets of discontinued operations	58	334
Total current assets	<u>5,765</u>	<u>5,436</u>
Property, plant and equipment, less accumulated depreciation and amortization of \$2,574 and \$2,436	2,005	2,088
Goodwill	1,697	1,698
Other assets	1,858	1,465
Total Manufacturing group assets	<u>11,325</u>	<u>10,687</u>
Finance group		
Cash and cash equivalents	489	16
Finance receivables held for investment, net	6,553	6,724
Finance receivables held for sale	613	1,658
Other assets	864	946
Total Finance group assets	<u>8,519</u>	<u>9,344</u>
Total assets	<u>\$ 19,844</u>	<u>\$ 20,031</u>
Liabilities and shareholders' equity		
Liabilities		
Manufacturing group		
Current portion of long-term debt and short-term debt	\$ 6	\$ 876
Accounts payable	721	1,101
Accrued liabilities	2,193	2,609
Liabilities of discontinued operations	119	195
Total current liabilities	<u>3,039</u>	<u>4,781</u>
Other liabilities	2,892	2,926
Long-term debt	3,354	1,693
Total Manufacturing group liabilities	<u>9,285</u>	<u>9,400</u>
Finance group		
Other liabilities	376	540
Deferred income taxes	206	337
Debt	7,057	7,388
Total Finance group liabilities	<u>7,639</u>	<u>8,265</u>
Total liabilities	<u>16,924</u>	<u>17,665</u>
Shareholders' equity		
Preferred stock	2	2
Common stock	35	32
Capital surplus	1,406	1,229
Retained earnings	3,043	3,025
Accumulated other comprehensive loss	(1,258)	(1,422)
	3,228	2,866
Less cost of treasury shares	308	500
Total shareholders' equity	<u>2,920</u>	<u>2,366</u>
Total liabilities and shareholders' equity	<u>\$ 19,844</u>	<u>\$ 20,031</u>
Common shares outstanding (in thousands)	270,051	242,041

See Notes to the consolidated financial statements.

TEXTRON INC.
Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended July 4, 2009 and June 28, 2008, respectively
(In millions)

	Consolidated	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 28	\$ 489
Income from discontinued operations	47	14
Income (loss) from continuing operations	(19)	475
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:		
Dividends received from the Finance group	—	—
Capital contribution paid to Finance group	—	—
Non-cash items:		
Depreciation and amortization	197	199
Provision for losses on finance receivables held for investment	163	67
Portfolio losses on finance receivables	60	—
Asset impairment charges	52	—
Gains on extinguishment of debt	(39)	—
Share-based compensation	18	27
Amortization of interest expense on convertible notes	5	—
Deferred income taxes	(126)	(33)
Changes in assets and liabilities:		
Accounts receivable, net	70	(90)
Inventories	75	(644)
Other assets	(12)	103
Accounts payable	(382)	229
Accrued and other liabilities	(193)	19
Captive finance receivables, net	84	23
Other operating activities, net	55	19
Net cash provided by (used in) operating activities of continuing operations	8	394
Net cash used in operating activities of discontinued operations	(12)	(31)
Net cash provided by (used in) operating activities	(4)	363
Cash flows from investing activities:		
Finance receivables originated or purchased	(1,950)	(5,818)
Finance receivables repaid	2,505	5,257
Proceeds on receivables sales, including securitizations	184	507
Net cash used in acquisitions	—	(100)
Capital expenditures	(113)	(194)
Proceeds from sale of property, plant and equipment	2	1
Proceeds from sale of repossessed assets and properties	127	9
Purchase of marketable securities	—	(100)
Other investing activities, net	64	(1)
Net cash provided by (used in) investing activities of continuing operations	819	(439)
Net cash provided by (used in) investing activities of discontinued operations	261	(6)
Net cash provided by (used in) investing activities	1,080	(445)
Cash flows from financing activities:		
Increase (decrease) in short-term debt	(1,628)	34
Proceeds from long-term lines of credit	2,970	—
Payments on long-term lines of credit	(28)	—
Proceeds from issuance of long-term debt	16	1,122
Principal payments on long-term debt	(1,435)	(933)
Payments on borrowings against officers life insurance policies	(410)	—
Intergroup financing	—	—
Proceeds from issuance of convertible notes, net of fees paid	582	—
Purchase of convertible note hedge	(140)	—
Proceeds from issuance of common stock and warrants	333	—
Proceeds from option exercises	—	38
Purchases of Textron common stock	—	(134)
Capital contributions paid to Finance group	—	—
Dividends paid	(10)	(106)
Net cash provided by financing activities of continuing operations	250	21
Net cash used in financing activities of discontinued operations	—	(2)
Net cash provided by financing activities	250	19

Effect of exchange rate changes on cash and cash equivalents	12	12
Net increase (decrease) in cash and cash equivalents	<u>1,338</u>	<u>(51)</u>
Cash and cash equivalents at beginning of period	547	531
Cash and cash equivalents at end of period	<u>\$ 1,885</u>	<u>\$ 480</u>

See Notes to the consolidated financial statements.

TEXTRON INC.
Consolidated Statements of Cash Flows (Unaudited) (Continued)
For the Six Months Ended July 4, 2009 and June 28, 2008, respectively
(In millions)

	<u>Manufacturing Group</u>		<u>Finance Group</u>	
	2009	2008	2009	2008
Cash flows from operating activities:				
Net income (loss)	\$ 146	\$ 454	\$ (118)	\$ 35
Income from discontinued operations	47	14	—	—
Income (loss) from continuing operations	99	440	(118)	35
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:				
Dividends received from the Finance group	184	142	—	—
Capital contribution paid to Finance group	(88)	—	—	—
Non-cash items:				
Depreciation and amortization	178	180	19	19
Provision for losses on finance receivables held for investment	—	—	163	67
Portfolio losses on finance receivables	—	—	60	—
Asset impairment charges	52	—	—	—
Gains on extinguishment of debt	—	—	(39)	—
Share-based compensation	18	27	—	—
Amortization of interest expense on convertible notes	5	—	—	—
Deferred income taxes	(3)	8	(123)	(41)
Changes in assets and liabilities:				
Accounts receivable, net	70	(90)	—	—
Inventories	81	(632)	—	—
Other assets	(44)	76	26	20
Accounts payable	(382)	229	—	—
Accrued and other liabilities	(256)	27	63	(8)
Captive finance receivables, net	—	—	—	—
Other operating activities, net	34	28	21	(9)
Net cash provided by (used in) operating activities of continuing operations	(52)	435	72	83
Net cash used in operating activities of discontinued operations	(12)	(31)	—	—
Net cash provided by (used in) operating activities	(64)	404	72	83
Cash flows from investing activities:				
Finance receivables originated or purchased	—	—	(2,234)	(6,338)
Finance receivables repaid	—	—	2,873	5,690
Proceeds on receivables sales, including securitizations	—	—	184	617
Net cash used in acquisitions	—	(100)	—	—
Capital expenditures	(113)	(188)	—	(6)
Proceeds from sale of property, plant and equipment	2	1	—	—
Proceeds from sale of repossessed assets and properties	—	—	127	9
Purchase of marketable securities	—	—	—	(100)
Other investing activities, net	(18)	—	61	(6)
Net cash provided by (used in) investing activities of continuing operations	(129)	(287)	1,011	(134)
Net cash provided by (used in) investing activities of discontinued operations	261	(6)	—	—
Net cash provided by (used in) investing activities	132	(293)	1,011	(134)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	(869)	82	(759)	(48)
Proceeds from long-term lines of credit	1,230	—	1,740	—
Payments on long-term lines of credit	(28)	—	—	—
Proceeds from issuance of long-term debt	—	—	16	1,122
Principal payments on long-term debt	(30)	(47)	(1,405)	(886)
Payments on borrowings against officers life insurance policies	(410)	—	—	—
Intergroup financing	133	—	(112)	—
Proceeds from issuance of convertible notes, net of fees paid	582	—	—	—
Purchase of convertible note hedge	(140)	—	—	—
Proceeds from issuance of common stock and warrants	333	—	—	—
Proceeds from option exercises	—	38	—	—
Purchases of Textron common stock	—	(134)	—	—
Capital contributions paid to Finance group	—	—	88	—
Dividends paid	(10)	(106)	(184)	(142)

Net cash provided by (used in) financing activities of continuing operations	791	(167)	(616)	46
Net cash used in financing activities of discontinued operations	—	(2)	—	—
Net cash provided by (used in) financing activities	<u>791</u>	<u>(169)</u>	<u>(616)</u>	<u>46</u>
Effect of exchange rate changes on cash and cash equivalents	<u>6</u>	<u>11</u>	<u>6</u>	<u>1</u>
Net increase (decrease) in cash and cash equivalents	865	(47)	473	(4)
Cash and cash equivalents at beginning of period	<u>531</u>	<u>471</u>	<u>16</u>	<u>60</u>
Cash and cash equivalents at end of period	<u>\$ 1,396</u>	<u>\$ 424</u>	<u>\$ 489</u>	<u>\$ 56</u>

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 all of its majority-owned subsidiaries, along with any variable interest entities for which we are the primary beneficiary. 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 January 3, 2009. 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. We have evaluated subsequent events up to the time of our filing with the Securities and Exchange Commission on July 31, 2009, which is the date that these financial statements were issued.

Our financings are conducted through two separate borrowing groups. The Manufacturing group consists of Textron Inc. consolidated with all of its majority-owned subsidiaries that operate in the Cessna, Bell, Textron Systems and Industrial segments, except for the entities comprising the Finance group. The Finance group consists of Textron Financial Corporation along with the entities consolidated into it. 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 that is financed by our Finance group.

As discussed in Note 4: Discontinued Operations, on April 3, 2009, we sold HR Textron and in November 2008, we completed the sale of our Fluid & Power business unit. Both of these businesses have been classified as discontinued operations, and all prior period information has been recast to reflect this presentation.

Note 2: Special Charges

In the fourth quarter of 2008, we initiated a restructuring program to reduce overhead costs and improve productivity across the company, which includes corporate and segment direct and indirect workforce reductions and streamlining of administrative overhead, and announced the exit of portions of our commercial finance business. This program was expanded in the first half of 2009 to include additional workforce reductions, primarily at Cessna, and the cancellation of the Citation Columbus development project. We expect to eliminate approximately 10,000 positions worldwide representing approximately 23% of our global workforce at the inception of the program. As of July 4, 2009, we have exited 11 owned and leased facilities and plants under this program.

Restructuring costs by segment are as follows:

<i>(In millions)</i>	<u>Severance Costs</u>	<u>Curtailment Charges, Net</u>	<u>Contract Terminations</u>	<u>Asset Impairments</u>	<u>Total Restructuring</u>
Three Months Ended July 4, 2009					
Cessna	\$ 38	\$ 26	\$ 1	\$ 52	\$ 117
Industrial	4	(4)	1	—	1
Finance	4	1	—	—	5
Corporate	3	—	—	—	3
Textron Systems	1	2	—	—	3
	<u>\$ 50</u>	<u>\$ 25</u>	<u>\$ 2</u>	<u>\$ 52</u>	<u>\$ 129</u>
Six Months Ended July 4, 2009					
Cessna	\$ 64	\$ 26	\$ 1	\$ 52	\$ 143
Industrial	5	(4)	1	—	2
Finance	6	1	1	—	8
Corporate	5	—	—	—	5
Textron Systems	1	2	—	—	3
	<u>\$ 81</u>	<u>\$ 25</u>	<u>\$ 3</u>	<u>\$ 52</u>	<u>\$ 161</u>

We record restructuring costs in special charges as these costs are generally of a nonrecurring nature and are not included in segment profit, which is our measure used for evaluating performance and for decision-making purposes. Severance costs related to an approved restructuring program are classified as special charges unless the costs are for volume-related reductions of direct labor that are deemed to be of a temporary or cyclical nature. Most of our severance benefits are provided for under existing severance programs and the associated costs are accrued when they are probable and estimable. Special one-time termination benefits are accounted for once an approved plan is communicated to employees that establishes the terms of the benefit arrangement, the number of employees to be terminated, along with their job classification and location, and the expected completion date.

We recorded net curtailment charges of \$25 million for our pension and other postretirement benefit plans in the second quarter of 2009, as our analysis of the impact of workforce reductions on these plans indicated that curtailments had occurred and the amounts could be reasonably estimated. These net curtailment charges are based primarily on the headcount reductions through the end of the second quarter. The curtailment charge for the pension plan is primarily due to the recognition of prior service costs that were previously being amortized over a period of years. We will continue to evaluate additional workforce reductions as they take place to assess additional potential curtailments that may occur.

Asset impairment charges include a \$43 million charge recorded in the second quarter of 2009 to write off assets related to the Citation Columbus development project. Due to the prevailing adverse market conditions and after analysis of the business jet market related to the product offering, Cessna formally cancelled the Citation Columbus development project in the second quarter of 2009. Cessna began this project in early 2008 for the development of an all-new, wide-bodied, eight-passenger business jet designed for international travel that would extend Cessna's product offering as its largest business jet to date. This development project had capitalized costs related to tooling and a partially-constructed manufacturing facility of which \$43 million is considered not to be recoverable.

Since inception of the program, we have incurred \$225 million in restructuring costs with \$124 million in severance, \$72 million in non-cash asset impairment charges, \$25 million in net pension and other postretirement benefit plan curtailment non-cash charges and \$4 million in contract termination costs. Of these amounts, \$148 million was incurred at Cessna, \$35 million in the Finance segment, \$27 million in the Industrial segment, \$11 million at Corporate and \$4 million at Textron Systems.

An analysis of the restructuring program and related reserve account is summarized below:

<i>(In millions)</i>	Severance Costs	Curtailment Charges, Net	Contract Terminations	Asset Impairment	Total
Balance at January 3, 2009	\$ 36	\$ —	\$ 1	\$ —	\$ 37
Provisions	81	25	3	52	161
Non-cash settlement	—	(25)	—	(52)	(77)
Cash paid	(65)	—	(1)	—	(66)
Balance at July 4, 2009	<u>\$ 52</u>	<u>\$ —</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 55</u>

The specific restructuring measures and associated estimated costs are based on our best judgment under prevailing circumstances. We believe that the restructuring reserve balance of \$55 million is adequate to cover the costs presently accruable relating to activities formally identified and committed to under approved plans as of July 4, 2009 and anticipate that all actions related to these liabilities will be completed within a 12-month period. We estimate that we will incur approximately \$40 million in additional pre-tax restructuring costs in 2009 that will result in future cash outlays, primarily attributable to severance payments related to additional workforce reductions throughout the company. We expect that the program will be substantially completed by the end of 2009.

Note 3: Retirement Plans

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

<i>(In millions)</i>	Pension Benefits		Postretirement Benefits Other Than Pensions	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Three Months Ended				
Service cost	\$ 30	\$ 35	\$ 2	\$ 3
Interest cost	79	76	10	10
Expected return on plan assets	(98)	(101)	—	—
Amortization of prior service cost (credit)	4	5	(2)	(2)
Amortization of net loss	2	5	2	4
Net periodic benefit cost	<u>\$ 17</u>	<u>\$ 20</u>	<u>\$ 12</u>	<u>\$ 15</u>
Six Months Ended				
Service cost	\$ 63	\$ 71	\$ 4	\$ 5
Interest cost	155	152	19	21
Expected return on plan assets	(195)	(203)	—	—
Amortization of prior service cost (credit)	9	10	(3)	(3)
Amortization of net loss	8	9	4	8
Net periodic benefit cost	<u>\$ 40</u>	<u>\$ 39</u>	<u>\$ 24</u>	<u>\$ 31</u>

Due to the magnitude of the workforce reductions under the restructuring program discussed in Note 2: Special Charges, in the second quarter of 2009, we determined that a curtailment had occurred in certain pension and other postretirement benefit plans. Accordingly, we recorded a net curtailment charge of \$25 million, reflecting the recognition of prior service cost of \$30 million related to the pension plans and \$5 million of prior service credits related to other postretirement benefit plans. In addition, we re-measured the plans that had the curtailments and revised our assumptions accordingly. The discount rate for these plans was increased from 6.25% to 7.0%, while other assumptions remained consistent with year-end assumptions. As a result of the curtailment and revised discount rate, we recorded a reduction in our unrealized losses of approximately \$130 million through other comprehensive loss.

Note 4: Discontinued Operations

On April 3, 2009, we sold HR Textron, an operating unit previously reported within the Textron Systems segment, for \$376 million in cash. The sale resulted in an after-tax gain of \$7 million and net after-tax proceeds of approximately \$275 million.

In November 2008, we completed the sale of our Fluid & Power business unit and received approximately \$527 million in cash, a six-year note with a face value of \$28 million and may receive up to \$50 million based on final 2008 operating results that would be primarily payable in a six-year note. During the first quarter of 2009, the final settlement of this transaction was extended until later this year.

Results of our discontinued businesses are as follows:

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Revenue	\$ —	\$ 236	\$ 48	\$ 447
Income (loss) from discontinued operations before income taxes	\$ —	\$ 14	\$ (1)	\$ 25
Income tax expense (benefit)	(4)	6	(41)	11
	4	8	40	14
Gain on sale, net of income taxes	—	—	7	—
Income from discontinued operations, net of income taxes	\$ 4	\$ 8	\$ 47	\$ 14

In the first half of 2009, we had a \$34 million tax benefit from the reduction in tax contingencies as a result of the HR Textron sale and a valuation allowance reversal on a previously established deferred tax asset.

Note 5: Comprehensive Income

Our comprehensive income for the periods is provided below:

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Net income (loss)	\$ (58)	\$ 258	\$ 28	\$ 489
Other comprehensive income, net of income taxes:				
Unrealized gain on pension, net of income taxes of \$48	82	—	82	—
Pension curtailment, net of income taxes of \$10	15	—	15	—
Recognition of prior service cost and unrealized losses on pension and postretirement benefits	5	10	12	20
Deferred gains (losses) on hedge contracts	38	—	30	(17)
Net deferred loss on retained interests	(7)	(1)	(9)	—
Foreign currency translation and other	32	13	34	(5)
Comprehensive income	\$ 107	\$ 280	\$ 192	\$ 487

Note 6: Earnings per Share

In the first quarter of 2009, we adopted the new accounting standard for determining whether instruments granted in share-based payment transactions are participating securities. This new standard requires us to include any unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) as participating securities in our computation of basic earnings per share pursuant to the two-class method. In 2008, we granted restricted stock units that include nonforfeitable rights to dividends once declared. Accordingly, with the adoption of this new standard, these restricted stock units are considered participating securities and are included in our calculation of basic earnings per share using the two-class method.

Prior period basic and diluted weighted-average shares outstanding have been recast to conform to the new calculation. The adoption of this standard resulted in a \$0.01 reduction in diluted earnings per share from continuing operations for the second quarter of 2008, and had no impact on the first half of 2008.

We calculate basic and diluted earnings per share based on income available to common shareholders, which approximates net income for each period, and the restricted stock unit participating securities. We use the weighted-average number of common shares outstanding during the period and the 2008 restricted stock units discussed above for the computation of basic earnings per share using the two-class method. Diluted earnings per share includes the dilutive effect of convertible preferred shares, stock options and restricted stock units in the weighted-average number of common shares outstanding. The 2008 restricted stock units are included in the diluted weighted-average shares outstanding by virtue of their inclusion in basic weighted-average shares outstanding using the two-class method as described above. This result is more dilutive than if we had used the treasury stock method to calculate diluted weighted-average shares outstanding for these restricted stock units.

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

	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
<i>(In thousands)</i>				
Basic weighted-average shares outstanding	264,091	250,039	255,261	249,674
Dilutive effect of convertible preferred shares, stock options and restricted stock units	—	4,541	—	4,917
Diluted weighted-average shares outstanding	<u>264,091</u>	<u>254,580</u>	<u>255,261</u>	<u>254,591</u>

Diluted weighted average shares outstanding for the three and six months ended July 4, 2009 equal basic weighted average shares outstanding, as we incurred losses from continuing operations in each of these periods. A weighted average of approximately 11 million units of restricted stock and options to purchase common stock were anti-dilutive for the three and six months ended July 4, 2009, and were not included in the computation of diluted earnings per share for these periods. These securities could potentially dilute basic earnings per share in the future.

On May 5, 2009, we issued 4.50% Convertible Senior Notes (the “Notes”) due 2013, as discussed in Note 9: Debt. In connection with the issuance of these notes, we entered into a warrant transaction with the note underwriters to sell common stock warrants. The initial strike price of these warrants is \$15.75 per share of our common stock and the warrants cover an aggregate of 45,714,300 shares of our common stock. If our closing stock price exceeds this strike price, this number of shares will be dilutive. It is our intention to settle the face value of the Notes in cash upon conversion/maturity.

Concurrently with the offering and sale of the Notes, we also offered and sold to the public under the Textron Inc. registration statement 23,805,000 shares of our common stock for net proceeds of approximately \$238 million, after deducting discounts, commissions and expenses.

Note 7: Accounts Receivable, Finance Receivables and Securitizations

Accounts Receivable

<i>(In millions)</i>	July 4, 2009	January 3, 2009
Accounts receivable - Commercial	\$ 474	\$ 496
Accounts receivable - U.S. Government contracts	391	422
	865	918
Allowance for doubtful accounts	(26)	(24)
	<u>\$ 839</u>	<u>\$ 894</u>

Finance Receivables

We evaluate finance receivables on a managed as well as owned basis since we retain subordinated interests in finance receivables sold in securitizations resulting in credit risk. In contrast, we do not have a retained financial interest or credit risk in the performance of the serviced portfolio and, therefore, performance of these portfolios is limited to billing and collection activities. Our Finance group manages and services finance receivables for a variety of investors, participants and third-party portfolio owners. A reconciliation of our managed and serviced finance receivables to finance receivables held for investment, net is provided below:

<i>(In millions)</i>	July 4, 2009	January 3, 2009
Total managed and serviced finance receivables	\$ 9,868	\$ 12,173
Less: Nonrecourse participations sold to independent investors	(793)	(820)
Less: Third-party portfolio servicing	(430)	(532)
Total managed finance receivables	8,645	10,821
Less: Securitized receivables	(1,195)	(2,248)
Owned finance receivables	7,450	8,573
Less: Finance receivables held for sale	(613)	(1,658)
Finance receivables held for investment	6,837	6,915
Allowance for loan losses	(284)	(191)
Finance receivables held for investment, net	<u>\$ 6,553</u>	<u>\$ 6,724</u>

Finance receivables held for investment at July 4, 2009 and January 3, 2009 include approximately \$0.6 billion and \$1.1 billion, respectively, of finance receivables that have been legally sold to special purpose entities and are consolidated subsidiaries of Textron Financial Corporation. The assets of these special purpose entities are pledged as collateral for \$484 million and \$853 million of debt at July 4, 2009 and January 3, 2009, respectively, which is reflected as securitized on-balance sheet debt.

In connection with our fourth quarter 2008 plan to exit portions of the commercial finance business, we classified certain finance receivables as held for sale. Following an effort to market the portfolios held for sale and the progress made in liquidating our portfolios, we believe that we will be able to maximize the economic value of a portion of the finance receivables held for sale through orderly liquidation rather than selling the portfolios. Accordingly, since we now intend to hold a portion of these finance receivables for the foreseeable future, we have reclassified \$654 million and \$65 million, net of valuation allowances, from the held for sale classification to held for investment during the first and second quarter of 2009, respectively. The remaining balance of these reclassified finance receivables was \$697 million, net of a \$144 million valuation allowance at July 4, 2009.

We periodically evaluate finance receivables, excluding homogeneous loan portfolios and finance leases, for impairment. A loan 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. Impaired loans are classified as either nonaccrual or accrual loans. Nonaccrual loans include accounts that are contractually delinquent by more than three months for which the accrual of interest income is suspended. Impaired accrual loans represent loans with original terms that have been significantly modified to reflect deferred principal payments, generally at market interest rates, for which collection of principal and interest is not doubtful.

At July 4, 2009, impaired loans include \$585 million of nonaccrual loans for which we have established specific reserves of \$134 million based on our review of the loan and the estimated fair value of the collateral. At January 3, 2009, we established \$43 million in specific reserves on \$182 million of nonaccrual loans. The impaired loans included within finance receivables held for investment are as follows:

<i>(In millions)</i>	July 4, 2009	January 3, 2009
Impaired nonaccrual loans	\$ 629	\$ 234
Impaired accrual loans	96	19
Total impaired loans	<u>\$ 725</u>	<u>\$ 253</u>

Nonaccrual finance receivables include impaired nonaccrual loans and accounts in homogeneous loan portfolios that are contractually delinquent by more than three months. At July 4, 2009 and January 3, 2009, nonaccrual finance receivables totaled \$683 million and \$277 million, respectively. The increase is primarily attributable to the lack of liquidity available to borrowers within the resort finance business and to a significant increase in delinquent accounts, combined with weakening collateral values in the captive finance business.

Securitizations

Our Finance group has historically sold its distribution finance receivables to a qualified special purpose trust through securitization transactions. Distribution finance receivables represent loans secured by dealer inventories that typically are collected upon the sale of the underlying product. The distribution finance revolving securitization trust is a master trust that purchases inventory finance receivables from the Finance group and issues asset-backed notes to investors. Through a revolving securitization, the proceeds from collection of the principal balance of these loans can be used by the trust to purchase additional distribution finance receivables from us each month. Proceeds from securitizations include amounts received related to the incremental increase in the issuance of additional asset-backed notes to investors, and exclude amounts received related to the ongoing replenishment of the outstanding sold balance of these short-duration finance receivables. In the first half of 2009, we had no proceeds from securitizations, compared with \$250 million in the first half of 2008.

Generally, we retain an interest in the assets sold in the form of servicing responsibilities and subordinated interests, including interest-only securities, seller certificates and cash reserves. We had \$110 million and \$191 million of retained interests on our Consolidated Balance Sheets associated with \$1.2 billion and \$2.2 billion of off-balance sheet finance receivables in the distribution finance securitization trust as of July 4, 2009 and January 3, 2009, respectively. At July 4, 2009, the trust had \$1.2 billion in asset-backed notes. Cash received on retained interests totaled \$42 million and \$29 million in the first half of 2009 and 2008, respectively. Total net pre-tax gains (losses), including impairments were \$(20) million and \$15 million in the second quarter of 2009 and 2008, respectively, and \$(27) million and \$30 million, in the first half of 2009 and 2008, respectively. See Note 12: Fair Values of Assets and Liabilities for disclosure of the fair value estimates for retained interests in securitizations and the impairments recorded on the interest-only securities and other retained interests in the first half of 2009.

Note 8: Inventories

<i>(In millions)</i>	July 4, 2009	January 3, 2009
Finished goods	\$ 1,281	\$ 1,081
Work in process	1,850	1,866
Raw materials	623	765
	3,754	3,712
Progress/milestone payments	(753)	(619)
	<u>\$ 3,001</u>	<u>\$ 3,093</u>

Note 9: Debt

4.50% Convertible Senior Notes

On May 5, 2009, we issued \$600 million of 4.50% Convertible Senior Notes (the "Notes"). The Notes have a maturity date of May 1, 2013 and interest is payable semi-annually on May 1 and November 1. The Notes are convertible, under certain circumstances, at the holder's option, into shares of our common stock, at an initial conversion rate of 76.1905 shares of common stock per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately \$13.125 per share. Upon conversion, we have the right to settle the conversion of each \$1,000 principal amount of Notes with any of the three following alternatives: (1) shares of our common stock, (2) cash, or (3) a combination of cash and shares of our common stock.

The Notes are convertible only under the following certain circumstances: (1) during any calendar quarter commencing after June 30, 2009 and only during such calendar quarter, if the last reported sale price of our common stock for at least 20 trading days during the 30 consecutive trading days ending on the last trading day of the preceding calendar quarter is more than 130% of the applicable conversion price per share of common stock on the last trading day of such preceding calendar quarter, (2) during the five business day period after any ten consecutive trading day measurement period in which the trading price per \$1,000 principal amount of Notes for each day in the measurement period was less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate, (3) if specified distributions to holders of our common stock are made or specified corporate transactions occur, or (4) at any time on or after February 19, 2013. As of July 4, 2009, none of the conditions permitting conversion of the Notes had been satisfied.

The net proceeds from the issuance of the Notes totaled approximately \$582 million after deducting discounts, commissions and expenses. The Notes are accounted for in accordance with generally accepted accounting principles, which require us to separately account for the liability (debt) and the equity (conversion option) components of the Notes in a manner that reflects our non-convertible debt borrowing rate. Accordingly, we recorded a debt discount and corresponding increase to additional paid in capital of approximately \$135 million as of the date of issuance. We are amortizing the debt discount utilizing the effective interest method over the life of the Notes which increases the effective interest rate of the Notes from its coupon rate of 4.50% to 11.72%. Transaction costs of \$18 million were proportionately allocated between the liability and equity components.

Concurrently with the pricing of the Notes, we entered into convertible note hedge transactions with two counterparties, including an underwriter and an affiliate of an underwriter, of the Notes, for purposes of reducing the potential dilutive effect upon the conversion of the Notes. The initial strike price of the convertible note hedge transactions is \$13.125 per share of our common stock (the same as the initial conversion price of the Notes) and is subject to certain customary adjustments. The convertible note hedge transactions cover 45,714,300 shares of common stock, subject to anti-dilution adjustments. We may settle the convertible note hedge transactions in shares, cash or a combination of cash and shares, at our option. The cost of the convertible note hedge transactions was \$140 million, which was recorded as a reduction to additional paid-in capital. Separately and concurrently with entering into these hedge transactions, we entered into warrant transactions whereby we sold warrants to each of the hedge counterparties to acquire, subject to anti-dilution adjustments, an aggregate of 45,714,300 shares of common stock at an initial exercise price of \$15.75 per share. The aggregate proceeds from the warrant transactions were \$95 million, which was recorded as an increase to additional paid-in capital.

We incurred cash and non-cash interest expense of \$10 million for these Notes in the second quarter of 2009. As of July 4, 2009, the unamortized discount amount was \$144 million, resulting in a net carrying value of \$456 million for the liability component.

Credit facility

On July 14, 2009, a newly formed, wholly-owned finance subsidiary of Textron entered into a credit agreement with the Export-Import Bank of the United States which establishes a \$500 million credit facility to provide funding to finance purchases of aircraft by non-U.S. buyers from Cessna and Bell. The facility is structured to be available for financing sales to international customers who take delivery of new aircraft by December 2010.

Note 10: Guarantees and Indemnifications

As disclosed under the caption “Guarantees and Indemnifications” in Note 18 to the Consolidated Financial Statements in Textron’s 2008 Annual Report on Form 10-K, we have issued or are party to certain guarantees, including a performance guarantee related to the VH-71 helicopter program. In June 2009, we received notification that the VH-71 helicopter program was terminated for convenience by the U.S. Government. As of July 4, 2009, there has been no other material change to our guarantees.

Warranty and Product Maintenance Programs

We provide limited warranty and product maintenance programs, including parts and labor, for certain products for periods ranging from one to five years. We estimate the costs that may be incurred under warranty programs and record a liability in the amount of such costs at the time product revenue is recognized. Factors that affect this liability include the number of products sold, historical and anticipated rates of warranty claims, and cost per claim. We assess the adequacy of our recorded warranty and product maintenance liabilities periodically and adjust the amounts as necessary.

Changes in our warranty and product maintenance liabilities are as follows:

<i>(In millions)</i>	Six Months Ended	
	July 4, 2009	June 28, 2008
Accrual at the beginning of period	\$ 278	\$ 312
Provision	81	95
Settlements	(117)	(96)
Adjustments to prior accrual estimates	1	(8)
Other adjustments	—	(3)
Accrual at the end of period	<u>\$ 243</u>	<u>\$ 300</u>

Note 11: Commitments and Contingencies

We are subject to legal proceedings and other claims arising out of the conduct of our business, including proceedings and claims relating to commercial and financial transactions; government contracts; 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.

The Internal Revenue Service (IRS) has challenged our tax positions related to certain lease transactions within the Finance segment. During the third quarter of 2008, the IRS made a settlement offer to numerous companies, including Textron, to resolve the disputed tax treatment of these leases. Based on the terms of the offer and our decision to accept the offer, we revised our estimate of this tax contingency. Final resolution of this matter will result in the acceleration of future cash payments to the IRS, which we expect will occur over a period of years in connection with the conclusion of IRS examinations of the relevant tax years. At July 4, 2009, \$198 million of federal tax liabilities were recorded on our Consolidated Balance Sheet related to these leases.

ARH Program Termination

On October 16, 2008, we received notification from the U.S. Department of Defense that it would not certify the continuation of the Armed Reconnaissance Helicopter (ARH) program to Congress under the Nunn-McCurdy Act, resulting in the termination of the program for the convenience of the Government. The ARH program included a development phase, covered by the System Development and Demonstration (SDD) contract, and a production phase. We are in the process of establishing the termination costs for the SDD contract, which we believe will be fully recoverable from the U.S. Government.

Prior to termination of the program, we obtained inventory and incurred vendor obligations for long-lead time materials related to the anticipated Low Rate Initial Production (LRIP) contracts to maintain the program schedule based on our belief that the LRIP contracts would be awarded. We have since terminated these vendor contracts and have initiated negotiations to settle our termination obligations, which we estimate may cost up to approximately \$80 million. We continue to evaluate the utility of the related inventory to other Bell programs, customers, or vendors. This review and the related discussions with vendors are ongoing. We estimate that our potential loss resulting from our LRIP-related vendor obligations will be between approximately \$50 million and \$80 million. At July 4, 2009, our reserves related to this program totaled \$50 million. We intend to provide a termination proposal or separate claim to the U.S. Government to request reimbursement of costs expended in support of the LRIP program.

Note 12: Fair Values of Assets and Liabilities

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 (the “inputs”) 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 exists, 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 only utilized 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 table below presents the assets and liabilities measured at fair value on a recurring basis categorized by the level of inputs used in the valuation of each asset and liability.

<i>(In millions)</i>	July 4, 2009			January 3, 2009		
	(Level 1)	(Level 2)	(Level 3)	(Level 1)	(Level 2)	(Level 3)
Assets						
Manufacturing group						
Foreign currency exchange contracts	\$ —	\$ 25	\$ —	\$ —	\$ 2	\$ —
Finance group						
Derivative financial instruments, net	—	60	—	—	112	—
Interest-only securities	—	—	3	—	—	12
Total assets	\$ —	\$ 85	\$ 3	\$ —	\$ 114	\$ 12
Liabilities						
Manufacturing group						
Forward contracts for Textron Inc. stock	\$ 7	\$ —	\$ —	\$ 98	\$ —	\$ —
Foreign currency exchange contracts	—	8	—	—	84	—
Total liabilities	\$ 7	\$ 8	\$ —	\$ 98	\$ 84	\$ —

The table below presents the change in fair value measurements for our interest-only securities that used significant unobservable inputs (Level 3):

(In millions)	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Balance, beginning of period	\$ 3	\$ 52	\$ 12	\$ 43
Net gains for the period:				
Increase due to securitization gains on sale of finance receivables	—	21	—	42
Change in value recognized in Finance revenues	—	—	—	1
Change in value recognized in other comprehensive income	2	(2)	(1)	—
Impairments recognized in earnings	(2)	—	(8)	—
Collections	—	(18)	—	(33)
Balance, end of period	<u>\$ 3</u>	<u>\$ 53</u>	<u>\$ 3</u>	<u>\$ 53</u>

Assets Recorded at Fair Value on a Nonrecurring Basis

The table below presents those assets that are measured at fair value on a nonrecurring basis that had fair value measurement adjustments in 2009. These assets were measured using significant unobservable inputs (Level 3) and include the following as of July 4, 2009:

(In millions)

Finance group

Finance receivables held for sale	\$ 613
Impaired loans	451
Retained interests in securitizations, excluding interest-only securities	110
Other assets	75

Finance Receivables Held for Sale - Finance receivables held for sale are recorded at the lower of cost or fair value. We recorded a \$12 million increase to the valuation allowance for the held for sale portfolio to reflect changes in fair value in the first half of 2009, of which \$11 million was recorded in the second quarter of 2009. There was no change to the methodology used to determine fair value for these receivables during 2009. See Note 7: Accounts Receivable, Finance Receivables and Securitizations, regarding the change in classification of certain finance receivables from held for sale to held for investment in 2009.

Impaired Loans - Loan impairment is measured by comparing the expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if the loan is collateral dependent, to its carrying amount. If the carrying amount is higher, we establish a reserve based on this difference. This evaluation is inherently subjective, as it requires estimates, including the amount and timing of future cash flows expected to be received on impaired loans and the underlying collateral, which may differ from actual results. The measurement of required reserves on these loans is largely dependent on significant unobservable inputs including the fair value of the underlying collateral, which are determined utilizing either appraisals, industry pricing guides, input from market participants, our recent experience selling similar assets or internally developed discounted cash flow models. Fair market value adjustments totaled \$85 million in the second quarter of 2009 and \$117 million in the first half of 2009, primarily related to initial fair value adjustments for loans impaired during the respective period.

Retained Interests in Securitizations, Excluding Interest-only Securities - Retained interests in securitizations represent our subordinated interest in finance receivables sold to qualified special purpose trusts. The portion of our retained interests related to interest-only securities is recorded at fair value on a recurring basis, while the remaining retained interests are recorded at fair value on a nonrecurring basis. We estimate fair value upon the initial recognition of the retained interest based on the present value of expected future cash flows using our best estimates of key assumptions – credit losses, prepayment speeds, forward interest rate yield curves and discount rates commensurate with the risks involved. These inputs are classified as Level 3 since they reflect our own judgment regarding the assumptions market participants would use in pricing these assets based on the best information available in the circumstances as there is no active market for these assets.

We review the fair values of the retained interests using a discounted cash flow model and updated assumptions, and compare such amounts with the carrying value. At July 4, 2009, the key economic assumptions used in measuring the retained interests related to the distribution finance revolving securitization included an annual rate for expected credit losses of 2.85%, a monthly payment rate of 12.1% and a residual cash flow discount rate of 12.9%. Net charge-offs as a percentage of distribution finance receivables was 3.81% for first half of 2009, compared with 1.94% for the full year of 2008. The 60+ days contractual delinquency percentage for distribution finance receivables was 5.74% and 2.08% at July 4, 2009 and January 3, 2009, respectively.

During the second quarter of 2009, we recognized a \$31 million other-than-temporary impairment of our retained interests, excluding interest-only securities. Of this amount, \$18 million was charge to income primarily due to credit losses, representing a decrease in cash flows expected to be collected on these interests for the distribution finance revolving securitization. The remaining \$13 million impairment charge was recognized in other comprehensive income as it is attributable to an increase in market discount rates. Since we have the intent and ability to hold these retained interests to maturity, changes in market discount rates do not affect our ultimate realization of our investment.

Other assets - Other assets include repossessed assets and properties and operating assets received in satisfaction of troubled finance receivables. The fair value of repossessed assets and properties and operating assets received in satisfaction of troubled finance receivables is determined based on the use of appraisals, industry pricing guides, input from market participants, our recent experience selling similar assets or internally developed discounted cash flow models. For repossessed assets and properties, which are considered assets held for sale, if the carrying amount of the asset is higher than the estimated fair value, we record a corresponding charge to income for the difference. For operating assets received in satisfaction of troubled finance receivables, if the sum of the undiscounted cash flows is estimated to be less than the carrying value, we record a charge to income for any shortfall between estimated fair value and the carrying amount. Fair value measurements recorded during the three and six months ended July 4, 2009 on these assets resulted in an \$18 million and \$22 million charge, respectively, recorded to Finance revenues in the Consolidated Statement of Operations.

In connection with the cancellation of the Citation Columbus development program, we recorded a \$43 million in impairment charge to write off capitalized costs related to tooling and a partially-constructed manufacturing facility, which we no longer consider to be recoverable. The fair value of the remaining assets was determined using Level 3 inputs and was less than \$1 million. See Note 2: Special Charges for more detail regarding these charges.

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:

<i>(In millions)</i>	July 4, 2009		January 3, 2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Manufacturing group				
Debt	\$ (3,265)	\$ (2,954)	\$ (2,438)	\$ (2,074)
Finance group				
Finance receivables held for investment	5,615	4,747	5,665	4,828
Retained interest in securitizations, excluding interest only securities	6	6	188	178
Investment in other marketable securities	80	60	95	78
Debt	(7,057)	(6,087)	(7,388)	(6,507)

In accordance with disclosure requirements, debt and finance receivables held for investment in the table above exclude leases. Fair value for the Manufacturing group debt is determined using market observable data for similar transactions. We utilize the same valuation methodologies to determine the fair value estimates for finance receivables held for investment as used for finance receivables held for sale.

In the second quarter of 2009, certain retained interests in securitizations were recorded at fair value as discussed in the preceding section and, accordingly, are not reflected in the above table.

Investments in other marketable securities represent notes receivable issued by securitization trusts that purchase timeshare notes receivable from timeshare developers. These notes are classified as held-to-maturity and are held at cost. The estimate of fair value was based on observable market inputs for similar securitization interests in markets that are currently inactive.

At July 4, 2009 and January 3, 2009, approximately 63% and 82%, respectively, of the fair value of term debt for the Finance group was determined based on observable market transactions. 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.

Note 13: Derivatives

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.

Cash Flow Hedges

We experience variability in the cash flows we receive from our Finance group's investments in interest-only securities due to fluctuations in interest rates. To mitigate our exposure to this variability, our Finance group enters into interest rate exchange, cap and floor agreements. The combination of these instruments converts net residual floating-rate cash flows expected to be received by our Finance group to fixed-rate cash flows. Changes in the fair value of these instruments are recorded net of the income taxes in other comprehensive income (OCI).

Our exposure to loss from nonperformance by the counterparties to our derivative agreements at July 4, 2009 is minimal. We do not anticipate nonperformance by counterparties in the periodic settlements of amounts due. We have historically minimized this potential for risk by entering into contracts exclusively with major, financially sound counterparties having no less than a long-term bond rating of A. The recent uncertainty in the financial markets has negatively affected the bond ratings of all of our counterparties, and we continuously monitor our exposures to ensure that we limit our risks. The credit risk generally is limited to the amount by which the counterparties' contractual obligations exceed our obligations to the counterparty.

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 created in the normal course of business. We primarily utilize forward exchange contracts and purchased options with maturities of no more than 18 months that qualify as cash flow hedges. These are intended to offset the effect of exchange rate fluctuations on forecasted sales, inventory purchases and overhead expenses. At July 4, 2009, we had a deferred gain of \$4 million in OCI related to these cash flow hedges, which we expect to reclassify into earnings in the next 18 months as the underlying transactions occur.

Net Investment Hedges

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. Currency effects on the effective portion of these hedges, which are reflected in the cumulative translation adjustment account within OCI, produced a \$33 million after-tax loss, leaving an accumulated net loss balance of \$17 million. We recorded a \$1 million after tax gain in selling and administrative expenses in the first half of 2009 on the ineffective portion of these hedges.

Stock-Based Compensation Hedges

We manage the expense related to certain stock-based compensation awards using cash settlement forward contracts on our common stock. The use of these forward contracts modifies compensation expense exposure to changes in the stock price with the intent to reduce potential variability. Cash received or paid on the contract settlement is included in cash flows from operating activities, consistent with the classification of the cash flows on the underlying hedged compensation expense.

Fair Values of Derivative Instruments

(In millions)	Assets		Liabilities	
	July 4, 2009	January 3, 2009	July 4, 2009	January 3, 2009
Derivatives designated as hedging instruments				
Fair value hedges				
Finance group				
Interest rate exchange contracts	\$ 65	\$ 112	\$ (12)	\$ (7)
Total fair value hedges	<u>65</u>	<u>112</u>	<u>(12)</u>	<u>(7)</u>
Cash flow hedges				
Manufacturing group				
Foreign currency exchange contracts	18	2	(8)	(41)
Forward contracts for Textron Inc. stock	—	—	(7)	(98)
Finance group				
Cross-currency interest rate exchange contracts	12	21	(1)	(1)
Total cash flow hedges	<u>30</u>	<u>23</u>	<u>(16)</u>	<u>(140)</u>
Total derivatives designated as hedging instruments	<u>\$ 95</u>	<u>\$ 135</u>	<u>\$ (28)</u>	<u>\$ (147)</u>
Derivatives not designated as hedging instruments				
Manufacturing group				
Foreign currency exchange contracts	\$ 7	\$ —	\$ —	\$ (43)
Finance group				
Foreign currency exchange contracts	—	—	(7)	—
Interest rate exchange contracts	—	—	—	(13)
Total derivatives not designated as hedging instruments	<u>\$ 7</u>	<u>\$ —</u>	<u>\$ (7)</u>	<u>\$ (56)</u>

The fair values of derivative instruments for the Manufacturing group are included in either other current assets or accrued liabilities on our Consolidated Balance Sheets. For the Finance group, they are included in either other assets or other liabilities.

The effect of derivative instruments designated as fair value hedges is recorded in the Consolidated Statements of Operations. The gain (loss) for each respective period is provided in the following table:

(In millions)	Gain (Loss) Location	Three Months Ended		Six Months Ended	
		July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Finance group					
Interest rate exchange contracts	Interest expense, net	\$ (19)	\$ (37)	\$ (15)	\$ 13
Interest rate exchange contracts	Finance charges	8	1	6	(1)

For our cash flow hedges, the amount of gain (loss) reclassified from accumulated other comprehensive income into income (the effective portion) is provided in the following table:

(In millions)	Gain (Loss) Location	Three Months Ended		Six Months Ended	
		July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Manufacturing group					
Foreign currency exchange contracts	Cost of sales	\$ (4)	\$ 1	\$ (9)	\$ 4
Forward contracts for Textron Inc. stock	Selling and administrative	(2)	2	(4)	6

The amount of ineffectiveness on our fair value and cash flow hedges is insignificant. The amount of gain (loss) in accumulated other comprehensive income (the effective portion) at the end of each period is provided below:

<i>(In millions)</i>	July 4, 2009	June 28, 2008
Manufacturing group		
Foreign currency exchange contracts	\$ 8	\$ 21
Forward contracts for Textron Inc. stock	(4)	—

We also enter into certain foreign currency derivative instruments that do not meet hedge accounting criteria and primarily are intended to protect against exposure related to intercompany financing transactions. For these instruments, the Manufacturing group reported a gain in selling and administrative expenses of \$8 million and \$25 million for the three and six months ended July 4, 2009, respectively, and a loss of \$2 million and \$10 million for the three and six months ended June 28, 2008. Our Finance group, reported a loss of \$52 million in selling and administrative expenses for the three and six months ended July 4, 2009 and a \$3 million loss for the six months ended June 28, 2008.

Note 14: Recently Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 166, “Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140.” This standard eliminates the concept of a qualifying special-purpose entity (QSPE) and its exclusion from consolidation by the primary beneficiary in that variable interest entity (VIE) or the transferor of financial assets to the VIE. The new accounting guidance also requires that former QSPEs be reevaluated for consolidation. This standard is effective beginning in the first quarter of 2010 and early application is prohibited. The adoption of this standard may result in the consolidation of our off-balance sheet securitization trusts, which hold our securitized finance receivables and debt. As our off balance-sheet securitization trusts are winding down in conjunction with our liquidation plan, we are currently assessing the impact the adoption of this standard may have on our financial position, results of operations and liquidity when we are required to adopt it next year.

Also in June 2009, the FASB Issued SFAS No. 167, “Amendments to FASB Interpretation No 46(R).” This standard changes the approach to determining the primary beneficiary of a VIE and requires companies to more frequently assess whether they must consolidate VIEs. This standard is effective beginning in the first quarter of 2010 and early application is prohibited. The adoption of this standard is not expected to have any significant impact on our financial position or results of operations.

Note 15: 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 includes interest income and expense and excludes special charges. 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:

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
REVENUES				
MANUFACTURING:				
Cessna	\$ 871	\$ 1,501	\$ 1,640	\$ 2,747
Bell	670	698	1,412	1,272
Textron Systems	477	467	895	986
Industrial	508	841	983	1,594
	2,526	3,507	4,930	6,599
FINANCE	86	177	208	391
Total revenues	\$ 2,612	\$ 3,684	\$ 5,138	\$ 6,990
SEGMENT OPERATING PROFIT				
MANUFACTURING:				
Cessna <i>(a)</i>	\$ 48	\$ 262	\$ 138	\$ 469
Bell	72	68	141	121
Textron Systems	55	60	107	127
Industrial	12	44	3	85
	187	434	389	802
FINANCE	(99)	13	(165)	55
Segment profit	88	447	224	857
Special charges	(129)	—	(161)	—
Corporate expenses and other, net	(45)	(43)	(80)	(84)
Interest expense, net for Manufacturing group	(34)	(29)	(62)	(59)
Income (loss) from continuing operations before income taxes	\$ (120)	\$ 375	\$ (79)	\$ 714

(a) During the first quarter of 2009, we sold the assets of CESCO, Cessna's aircraft maintenance tracking service line, resulting in a pre-tax gain of \$50 million.

Item 1A. RISK FACTORS

Our business, financial condition and results of operations are subject to various risks, including the following risk factor as well as the risk factors discussed in our Annual Report on Form 10-K for the year ended January 3, 2009 and those additional and updated risk factors discussed in our Quarterly Report on Form 10-Q for the fiscal quarter ended April 4, 2009, all of which should be carefully considered by investors in our securities. The risks discussed in our SEC filings are those that we believe currently are the most significant, although additional risks not presently known to us or that we currently deem less significant also may impact our business, financial condition or results of operations, perhaps materially.

If we fail to comply with the covenants contained in our various debt agreements, it may adversely affect our liquidity, results of operations and financial condition.

Our credit facility contains affirmative and negative covenants including (i) limitations on creation of liens on assets of Textron or of its manufacturing subsidiaries; (ii) maintenance of existence and properties; and (iii) maintaining a maximum debt to capital ratio (as defined and excluding our Finance group) of 65%. The indentures governing our outstanding senior notes also contain covenants, including limitations on creation of liens on certain principal manufacturing facilities and shares of stock of subsidiaries which own such facilities and restrictions on sale and leaseback transactions with respect to such facilities. In addition, both the credit facility and the indentures provide that consolidations, mergers or sale of all or substantially all of our assets may only be effected if certain provisions are complied with. Some of these covenants may limit our ability to engage in certain financing structures, create liens, sell assets or effect a consolidation or merger.

Our credit facility also contains a cross-default provision which would trigger an event of default thereunder if we fail to pay or otherwise have a continued default under other indebtedness of Textron or any of our subsidiaries, other than any of our subsidiaries that are primarily engaged in the business of a finance company, of over \$100 million. Similarly, the supplemental indenture governing our convertible notes contains a cross-default provision which would trigger an event of default thereunder if we fail to pay or otherwise have a continued default under other indebtedness of Textron or any of our subsidiaries, other than TFC or its subsidiaries, of over \$100 million. Therefore, Cessna Finance Export Corporation, the newly-formed indirect subsidiary of Textron Inc. which is the borrower under the Ex-Im Bank Facility we entered into on July 14, 2009, would be included within the cross-default provision of the supplemental indenture for the convertible notes, although not within the similar provision in our credit facility. As a result, a failure to pay or a continued default under the Ex-Im Bank Facility, if the outstanding balance thereunder exceeded \$100 million, could give rise to an event of default with respect to our convertible notes.

In addition, a bankruptcy or monetary judgment in excess of \$100 million against us or any of our subsidiaries which accounts for more than 5% of our consolidated revenues or our consolidated assets, including our finance subsidiaries, would also result in an event of default under our credit facility, and a bankruptcy against us or any of our non-finance "significant subsidiaries" (within the meaning of the SEC's rules) would also result in an event of default under the indenture governing our convertible notes.

Our failure to comply with material provisions or covenants in the credit facility or the indentures, or the failure of certain of our subsidiaries to comply with their debt agreements, could have a material adverse effect on our liquidity, results of operations and financial condition.

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

Consolidated Results of Operations

Revenues

Revenues decreased \$1.1 billion, 29% and \$1.9 billion, 27% in the second quarter and first half of 2009, respectively, compared with the corresponding periods of 2008. Lower volumes at Cessna accounted for approximately 60% of the revenue decrease in both periods, and were primarily due to reductions in business jet and other aircraft volume, reflecting the impact of order cancellations and reduced demand. The economic recession has also negatively impacted the automotive, construction and golf industries resulting in lower volume at the Industrial segment, which accounted for approximately 30% of the total revenue decrease for both periods. In addition, lower revenues for the Finance segment accounted for approximately 10% of the total revenue decrease for both periods, primarily due to discounts taken on the sale or early termination of finance assets and impairment charges associated with repossessed aircraft.

Cost of Sales

Cost of sales as a percentage of Manufacturing revenues was 83.2% for the second quarter of 2009, compared with 79.1% for the second quarter of 2008. For the first half of 2009, cost of sales as a percentage of Manufacturing revenues was 83.2%, compared with 78.9% for the first half of 2008. Cost of sales increased in 2009 primarily due to the impact of lower production levels and temporary plant shutdowns at Cessna and Industrial, resulting in increased conversion costs and idle capacity, along with writedowns at Cessna.

Selling and Administrative Expense

Selling and administrative expense decreased \$53 million, 13%, in the second quarter of 2009 and \$98 million, 13%, in the first half of 2009, compared with corresponding periods of 2008. In the second quarter of 2009, approximately \$33 million of this decrease is due to lower sales commissions at Cessna as a result of lower sales, \$18 million is due to lower compensation costs resulting from workforce reductions and furlough programs throughout the company and \$11 million is due to lower professional service and travel costs due to cost reduction efforts. In the first half of 2009, approximately \$60 million of this decrease is due to lower sales commissions at Cessna as a result of lower sales, \$26 million is due to lower compensation costs resulting from workforce reductions and furlough programs throughout the company and \$20 million is due to lower professional service and travel costs due to cost reduction efforts.

Interest Expense, net

Interest expense, net includes interest for both the Finance group and the Manufacturing group. For the second quarter of 2009, interest expense, net decreased \$26 million, 26%, compared with the second quarter of 2008, primarily due to reduced debt in the Finance segment as it continues to liquidate its portfolio and repay indebtedness with a portion of the proceeds. Interest expense, net for the Manufacturing group increased \$5 million, 17%, largely due to \$10 million in interest on the 4.50% Convertible Senior Notes issued in the second quarter of 2009, partially offset by the lower rates on borrowings from our bank lines of credit compared to 2008. Interest expense for the Finance group is included within segment profit.

In the first half of 2009, interest expense, net decreased \$59 million, 27%, compared with the first half of 2008, primarily due to reduced debt in the Finance segment as it continues to liquidate its portfolio and repay indebtedness with a portion of the proceeds. Interest expense, net for the Manufacturing group increased \$3 million, 5%, partially due to \$10 million in interest on the 4.50% Convertible Senior Notes issued in the second quarter of 2009, partially offset by the lower rates on borrowings from our bank lines of credit compared to 2008.

Special Charges

In the fourth quarter of 2008, we initiated a restructuring program to reduce overhead costs and improve productivity across the company, which includes corporate and segment direct and indirect workforce reductions and streamlining of administrative overhead, and announced the exit of portions of our commercial finance business. This program was expanded in the first half of 2009 to include additional workforce reductions, primarily at Cessna, and the cancellation of the Citation Columbus development project. We expect to eliminate approximately 10,000 positions worldwide representing approximately 23% of our global workforce at the inception of the program. As of July 4, 2009, we have exited 11 owned and leased facilities and plants under this program.

Restructuring costs by segment are as follows:

<i>(In millions)</i>	Severance Costs	Curtailment Charges, Net	Contract Terminations	Asset Impairments	Total Restructuring
Three Months Ended July 4, 2009					
Cessna	\$ 38	\$ 26	\$ 1	\$ 52	\$ 117
Industrial	4	(4)	1	—	1
Finance	4	1	—	—	5
Corporate	3	—	—	—	3
Textron Systems	1	2	—	—	3
	<u>\$ 50</u>	<u>\$ 25</u>	<u>\$ 2</u>	<u>\$ 52</u>	<u>\$ 129</u>
Six Months Ended July 4, 2009					
Cessna	\$ 64	\$ 26	\$ 1	\$ 52	\$ 143
Industrial	5	(4)	1	—	2
Finance	6	1	1	—	8
Corporate	5	—	—	—	5
Textron Systems	1	2	—	—	3
	<u>\$ 81</u>	<u>\$ 25</u>	<u>\$ 3</u>	<u>\$ 52</u>	<u>\$ 161</u>

We recorded net curtailment charges of \$25 million for our pension and other postretirement benefit plans in the second quarter of 2009, as our analysis of the impact of workforce reductions on these plans indicated that curtailments had occurred and the amounts could be reasonably estimated. These net curtailment charges are based primarily on the headcount reductions through the end of the second quarter. The curtailment charge for the pension plan is primarily due to the recognition of prior service costs that were previously being amortized over a period of years. We will continue to evaluate additional workforce reductions as they take place to assess additional potential curtailments that may occur.

Asset impairment charges include a \$43 million charge recorded in the second quarter of 2009 to write off assets related to the Citation Columbus development project. Due to the prevailing adverse market conditions and after analysis of the business jet market related to the product offering, Cessna formally cancelled the Citation Columbus development project in the second quarter of 2009. Cessna began this project in early 2008 for the development of an all-new, wide-bodied, eight-passenger business jet designed for international travel that would extend Cessna's product offering as its largest business jet to date. This development project had capitalized costs related to tooling and a partially-constructed manufacturing facility of which \$43 million is considered not to be recoverable.

Since inception of the program, we have incurred \$225 million in restructuring costs with \$124 million in severance, \$72 million in non-cash asset impairment charges, \$25 million in net pension and other postretirement benefit plan curtailment non-cash charges and \$4 million in contract termination costs. Of these amounts, \$148 million was incurred at Cessna, \$35 million in the Finance segment, \$27 million in the Industrial segment, \$11 million at Corporate and \$4 million at Textron Systems. We estimate that we will incur approximately \$40 million in additional pre-tax restructuring costs in 2009 that will result in future cash outlays, primarily

attributable to severance payments related to additional workforce reductions throughout the company. We expect that the program will be substantially completed by the end of 2009.

Income Taxes

A reconciliation of the federal statutory income tax rate (benefit) to the effective income tax rate for continuing operations is provided below:

	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Federal statutory income tax rate (benefit)	(35.0)%	35.0%	(35.0)%	35.0%
Increase (decrease) in taxes resulting from:				
State income taxes	4.0	0.3	4.5	1.2
Valuation allowance on contingent receipts	—	—	(8.5)	—
Foreign tax rate differential	(3.2)	(4.4)	(12.1)	(5.1)
Manufacturing deduction	(1.4)	(1.4)	(2.1)	(1.4)
Equity hedge expense (income)	(0.2)	1.1	5.1	2.2
Tax contingencies and related interest	(2.0)	3.8	(12.1)	2.6
Research credit	(7.4)	—	(11.2)	—
Other, net	(3.1)	(1.1)	(4.5)	(1.0)
Effective income tax rate	<u>(48.3)%</u>	<u>33.3%</u>	<u>(75.9)%</u>	<u>33.5%</u>

In the first half of 2009, the effective tax rate changed significantly compared with 2008 primarily attributable to the adoption, for Canadian tax purposes, of the U.S. dollar as the functional currency for one of our wholly-owned Canadian subsidiaries, a reduction in unrecognized tax benefits due to the recognition of a capital gain in connection with the sale of CESCO and a reduction in a valuation allowance related to contingent payments on a prior year transaction.

Backlog

Our aircraft and defense business backlog totaled \$16.0 billion at July 4, 2009 and was primarily comprised of the following:

(In millions)	July 4, 2009	January 3, 2009
Bell	\$ 5,887	\$ 6,192
Textron Systems	1,975	2,192
Cessna	8,167	14,530

Backlog at Cessna represents firm orders from customers who have made deposits to purchase aircraft in the future. We work with our customers to provide estimated delivery dates, which may be adjusted based on the customers' needs or our production schedule, but do not establish definitive delivery dates until approximately six months before expected delivery. There is considerable uncertainty as to when backlog will convert to revenues as the conversion depends on production capacity, customer needs and credit availability; these factors may also be impacted by the economy and public perceptions of private corporate jet usage. Therefore, while backlog is an indicator of future revenues, we cannot reasonably estimate the year each order in backlog will ultimately result in revenues and cash flows.

In the second quarter of 2009, Cessna decided to formally cancel the development of the Citation Columbus. The decrease in backlog at Cessna includes \$2.1 billion attributable to orders for the Citation Columbus aircraft that were cancelled in the second quarter of 2009, along with cancellations of other business jet orders due to the economic recession. We have continued to experience cancellations since the end of the first quarter of 2009 and expect ongoing volatility in our Cessna backlog until economic conditions stabilize.

Discontinued Operations

On April 3, 2009, we sold HR Textron, an operating unit previously reported within the Textron Systems segment, for \$376 million in cash. The sale resulted in an after-tax gain of \$7 million and net after-tax proceeds of approximately \$275 million.

In November 2008, we completed the sale of our Fluid & Power business unit and received approximately \$527 million in cash, a six-year note with a face value of \$28 million and may receive up to \$50 million based on final 2008 operating results that would be primarily payable in a six-year note. During the first quarter of 2009, the final settlement of this transaction was extended until later this year.

Results of our discontinued businesses are as follows:

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Revenue	\$ —	\$ 236	\$ 48	\$ 447
Income (loss) from discontinued operations before income taxes	\$ —	\$ 14	\$ (1)	\$ 25
Income tax expense (benefit)	(4)	6	(41)	11
	4	8	40	14
Gain on sale, net of income taxes	—	—	7	—
Income from discontinued operations, net of income taxes	\$ 4	\$ 8	\$ 47	\$ 14

In the first half of 2009, we had a \$34 million tax benefit from the reduction in tax contingencies as a result of the HR Textron sale and a valuation allowance reversal on a previously established deferred tax asset.

Segment Analysis

Segment profit is an important measure used to evaluate 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 includes interest income and expense and excludes special charges.

Cessna

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Revenues	\$ 871	\$ 1,501	\$ 1,640	\$ 2,747
Segment profit	48	262	138	469

The deterioration in the global economy over the past nine months has significantly impacted the business jet market as evidenced by a decline in new aircraft orders and an increase in order cancellations. Lower demand has also resulted in increased inventory levels of new and pre-owned aircraft. In response to these conditions, Cessna has made several reductions to its aircraft production schedule to align output with customer demand. Cessna has reduced its headcount by 7,600 employees through the end of the second quarter of 2009 and has exited or announced a plan to exit some of its facilities. See the Special Charges section regarding this restructuring program, including cancellation of the Citation Columbus development program in the second quarter of 2009.

Second Quarter of 2009

Cessna's revenues decreased \$630 million in the second quarter of 2009, compared with the corresponding period of 2008, primarily due to lower volume in business jets and other aircraft reflecting the impact of order cancellations and decreased demand. We delivered 84 jets in the second quarter of 2009, compared with 117 jets

in the corresponding period of 2008, resulting in a \$493 million reduction in revenues. Volume also declined for spare parts, product support and maintenance activities due to lower aircraft utilization, largely as a result of the economic recession, which lowered revenues by \$57 million. CitationShares volume decreased \$24 million primarily due to lower demand.

Cessna's segment profit decreased \$214 million in the second quarter of 2009, compared with the corresponding period of 2008, primarily due to the \$220 million impact of lower volumes, which includes lower sales commissions. Segment profit was also impacted by a \$38 million increase in writedowns of pre-owned aircraft inventory, reflecting lower fair market values due to an excess supply on the market, and \$12 million due to idle capacity related to lower production levels and temporary plant shutdowns. These decreases were partially offset by \$38 million in forfeiture income from order cancellations and \$30 million in lower engineering, selling and administrative expense largely due to the workforce reduction over the first half of 2009.

First half of 2009

In the first half of 2009, Cessna's revenues decreased \$1,107 million compared with the corresponding period of 2008, primarily due to lower volume in business jets and other aircraft reflecting the impact of order cancellations and decreased demand. We delivered 153 jets in the first half of 2009, compared with 212 jets in the corresponding period of 2008, resulting in an \$897 million reduction in revenues. Volume also declined for spare parts, product support and maintenance activities due to lower aircraft utilization, largely as a result of the economic recession, which lowered revenues by \$86 million. CitationShares volume decreased \$45 million primarily due to lower demand.

In the first half of 2009, Cessna's segment profit decreased \$331 million compared with the corresponding period of 2008, primarily due to a \$396 million impact from lower sales volume, which includes lower sales commissions, partially offset by a \$50 million gain on the sale of assets in the first quarter and \$15 million in pricing in excess of inflation. The gain on the sale of assets relates to CESCO, which provided maintenance tracking services to Cessna's customers. Segment profit was also impacted by a \$50 million increase in writedowns of pre-owned aircraft inventory, reflecting lower fair market values due to an excess supply on the market, and \$12 million due to idle capacity related to lower production levels. These decreases were partially offset by \$50 million in forfeiture income from order cancellations and \$27 million in lower engineering, selling and administrative expense largely due to the workforce reduction over the first half of 2009.

Bell

	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
<i>(In millions)</i>				
Revenues	\$ 670	\$ 698	\$ 1,412	\$ 1,272
Segment profit	72	68	141	121

Second Quarter of 2009

Bell's revenues have decreased \$28 million in the second quarter of 2009, compared with the corresponding period of 2008. While overall unit volume for commercial helicopters increased, a change in product mix lowered revenues by \$34 million. In addition, the ARH program contributed \$20 million to the revenue decrease as this program was cancelled in 2008. These decreases were partially offset by increased pricing of \$20 million, primarily for certain commercial helicopters and spares and support.

Bell's segment profit increased by \$4 million in the second quarter of 2009, compared with the corresponding period of 2008, primarily due to higher pricing in excess of inflation of \$11 million and increased royalty income of \$5 million, partially offset by an increase in costs related to the termination of certain commercial models of \$8 million and the impact of the change in product mix of commercial helicopters.

On June 13, 2009, almost 2,500 manufacturing employees at Bell's Fort Worth, Texas plant went on strike after rejecting a new three-year contract, principally over healthcare changes. The impact of the strike on segment profit for the quarter was not significant and the strike was subsequently settled in July.

First half of 2009

In the first half of 2009, Bell's revenues have increased \$140 million compared with the corresponding period of 2008, primarily due to increased volumes of \$101 million and improved pricing of \$39 million. The volume increase primarily relates to a \$75 million increase in the V-22 program, \$21 million in Huey II Kits and \$19 million in the Kiowa Warrior Safety Enhancement Program, partially offset by a \$29 million decrease attributed to the ARH program, which was cancelled in 2008.

In the first half of 2009, Bell's segment profit increased by \$20 million compared with the corresponding period of 2008, primarily due to higher pricing in excess of inflation of \$20 million and higher volume of \$15 million, partially offset by \$16 million in unfavorable cost performance. The unfavorable cost performance includes higher product development costs for the 429 program of \$10 million and an increase in costs related to the termination of certain commercial models of \$8 million.

Textron Systems

<i>(In millions)</i>	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Revenues	\$ 477	\$ 467	\$ 895	\$ 986
Segment profit	55	60	107	127

Second Quarter of 2009

Textron Systems' revenue increased \$10 million in the second quarter of 2009, compared with the corresponding period of 2008, primarily due to higher net volume. Sensor-Fused Weapon (SFW) volume increased \$35 million, largely due to deliveries made under a contract in the second quarter of 2009 for which there were no deliveries in the second quarter of 2008, and volume in our training and simulation systems business increased \$18 million primarily due to timing of deliveries in the first two quarters of 2009. These increases were partially offset by lower aircraft engine volume of \$25 million, which is due to the decline in aircraft production as aircraft manufacturers cut production levels in response to lower demand, and lower Armored Security Vehicle (ASV) aftermarket volume of \$15 million. The lower aftermarket volume for the ASV is primarily due to upgrade kits sold in 2008 for ASVs already in the field; for 2009, the capabilities of these kits have been incorporated into the new ASV design.

Textron Systems' segment profit decreased by \$5 million in the second quarter of 2009, compared with the corresponding period of 2008, primarily due to the \$14 million impact of lower aircraft engine volume, including idle facility costs resulting from lower production, and inflation in excess of higher pricing of \$10 million, partially offset by an \$11 million impact from higher SFW volume and improved cost performance of \$10 million.

First Half of 2009

In the first half of 2009, Textron Systems' revenue decreased \$91 million compared with the corresponding period of 2008, primarily due to lower net volume. Aircraft engine volume decreased \$45 million, largely due to the decline in aircraft production as aircraft manufacturers cut production levels in response to lower demand, Unmanned Aircraft Systems (UAS) volume decreased \$39 million, which reflects the slippage of units from the fourth quarter of 2007 into the first quarter of 2008, and ASV aftermarket volume decreased \$16 million, primarily due to the upgrade kits discussed above. These decreases were partially offset by higher SFW volume of \$34 million, largely due to deliveries made under a contract in the second quarter of 2009 for which there were no deliveries in the second quarter of 2008.

In the first half of 2009, Textron Systems' segment profit decreased by \$20 million compared with the corresponding period of 2008, primarily due to the \$23 million impact of lower aircraft engine volume, including idle facility costs resulting from lower production, and inflation in excess of higher pricing of \$20 million, partially offset by improved cost performance of \$26 million. Improved cost performance includes \$9 million in improved labor efficiencies in the UAS program and \$7 million for our aircraft engine business related to a settlement received in the first quarter of 2009 and the reversal of a reserve for an expired service bulletin.

Industrial

(In millions)	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Revenues	\$ 508	\$ 841	\$ 983	\$ 1,594
Segment profit	12	44	3	85

Second Quarter of 2009

The deterioration of the global economy over the past nine months, particularly in the automotive, construction and golf markets, has negatively impacted our industrial businesses, which have experienced a significant decline in demand. Revenues for the Industrial segment decreased \$333 million in the second quarter of 2009, compared with the corresponding period of 2008, primarily due to lower volumes of \$305 million and an unfavorable foreign exchange impact of \$35 million, largely due to fluctuations with the Euro.

The Industrial segment's profit decreased \$32 million in the second quarter of 2009, compared with the corresponding quarter of 2008, primarily due to lower volume of \$88 million and unfavorable product sales mix of \$12 million, primarily in the golf-related businesses, partially offset by improved cost performance of \$60 million. Cost performance has improved largely due to significant efforts made to reduce costs through workforce reductions, employee furloughs, temporary plant shutdowns and lower engineering, selling and administrative costs.

First Half of 2009

In the first half of 2009, revenues for the Industrial segment decreased \$611 million, compared with the first half of 2008, primarily due to lower volume of \$565 million reflecting lower demand due to the economic recession and an unfavorable foreign exchange impact of \$69 million, largely due to fluctuations with the Euro, partially offset by \$17 million in higher pricing.

In the first half of 2009, the Industrial segment's profit decreased \$82 million compared with the first half of 2008, primarily due to lower volume of \$178 million, partially offset by improved cost performance of \$82 million and higher pricing of \$17 million. Cost performance has improved largely due to significant efforts made to reduce costs through workforce reductions, employee furloughs, temporary plant shutdowns and lower engineering, selling and administrative costs.

Finance

(In millions)	Three Months Ended		Six Months Ended	
	July 4, 2009	June 28, 2008	July 4, 2009	June 28, 2008
Revenues	\$ 86	\$ 177	\$ 208	\$ 391
Segment profit (loss)	(99)	13	(165)	55

Second Quarter of 2009

Revenues for the Finance group decreased \$91 million and segment profit decreased \$112 million in the second quarter of 2009, compared with the corresponding quarter of 2008, primarily due to the following:

(In millions)	Revenue	Segment Profit
Portfolio losses	\$ (47)	\$ (47)
Increase in provision for loan losses	—	(47)
Lower market interest rates	(23)	5
Higher impairments of retained interests in securitization	(20)	(20)
Lower securitization gains	(20)	(20)
Lower other income	(17)	(17)
Revenue impact of lower average finance receivables of \$588 million	(10)	(10)
Gains on debt extinguishment	37	37
Benefit from variable-rate receivable interest rate floors	12	12

Portfolio losses for the second quarter of 2009 include discounts taken on the sale or early termination of finance assets, including discounts associated with the liquidation of distribution finance and golf mortgage receivables of \$30 million and impairment charges of \$13 million associated with repossessed aircraft. Other income decreased due to an \$11 million increase to the valuation allowance for the held for sale portfolio to reflect changes in fair value.

The higher provision for loan losses for the second quarter of 2009 was primarily the result of a \$32 million specific reserve established on one automobile manufacturer lease within the structured finance portfolio, a \$23 million increase in the captive finance portfolio related to a significant increase in delinquent accounts and declining aircraft values, and a \$21 million increase in the resort finance portfolio, reflecting the lack of liquidity available to borrowers in this industry. The impact of these increases was partially offset by \$12 million in specific reserving actions taken on two accounts in 2008. Net charge-offs as a percentage of average finance receivables held for investment were 1.33% and 0.89% for the second quarter of 2009 and 2008, respectively.

First Half of 2009

Finance segment revenues decreased \$183 million and segment profit decreased \$220 million in the first half of 2009, compared with the first half of 2008, primarily due to the following:

<i>(In millions)</i>	<u>Revenue</u>	<u>Segment Profit</u>
Portfolio losses	\$ (62)	\$ (62)
Lower market interest rates	(62)	10
Increase in provision for loan losses	—	(96)
Higher impairments of retained interests in securitization	(26)	(26)
Lower securitization gains	(41)	(41)
Lower other income	(28)	(28)
Revenue impact of lower average finance receivables of \$488 million	(17)	(17)
Gains on debt extinguishment	39	39
Benefit from variable-rate receivable interest rate floors	28	28

Portfolio losses for the first half of 2009 include discounts taken on the sale or early termination of finance assets, including discounts associated with the liquidation of distribution finance and golf mortgage receivables of \$32 million and impairment charges of \$16 million associated with repossessed aircraft. Other income decreased due to a \$12 million increase to the valuation allowance for the held for sale portfolio to reflect changes in fair value.

The higher provision for loan losses for the first half of 2009 was primarily the result of a \$57 million increase in the captive finance portfolio related to a significant increase in delinquent accounts and declining aircraft values, a \$50 million increase in the resort finance portfolio, reflecting the lack of liquidity available to borrowers in this industry and a \$32 million specific reserve established in the second quarter on one automobile manufacturer lease within the structured finance portfolio. The impact of these increases was partially offset by \$27 million in specific reserving actions taken on two accounts in 2008. Net charge-offs as a percentage of average finance receivables held for investment were 2.03% and 0.68% for the first half of 2009 and 2008, respectively.

The following table reflects information about the Finance segment's credit performance related to finance receivables held for investment. Finance receivables held for sale are reflected at fair value on the Consolidated Balance Sheets. As a result, finance receivables held for sale are not included in the credit performance statistics below.

<i>(Dollars in millions)</i>	July 4, 2009	January 3, 2009
Nonaccrual finance receivables	\$ 683	\$ 277
Allowance for losses	\$ 284	\$ 191
Ratio of nonaccrual finance receivables to finance receivables held for investment	10.04%	4.01%
Ratio of allowance for losses on finance receivables to nonaccrual finance receivables held for investment	41.58%	68.90%
Ratio of allowance for losses on finance receivables to finance receivables held for investment	4.18%	2.76%
60+ days contractual delinquency as a percentage of finance receivables	6.62%	2.59%
Repossessed assets and properties	\$ 75	\$ 70
Operating assets received in satisfaction of troubled finance receivables	\$ 192	\$ 84

The increase in nonaccrual finance receivables is primarily attributable to \$271 million in resort finance as a result of the lack of liquidity available to borrowers in that industry, \$74 million in captive finance, primarily due to a significant increase in delinquent accounts and weakening aircraft values, \$51 million in distribution finance and \$32 million in structured capital portfolios. We expect nonaccrual finance receivables to liquidate more slowly than our performing finance receivables, and believe that the percentage of nonaccrual finance receivables to finance receivables held for investment generally will continue to increase as we execute our liquidation plan under the current economic conditions.

The ratio of allowance for losses to nonaccrual finance receivables held for investment decreased primarily as a result of the increase in resort and captive finance accounts for which specific reserves were either not established or established at a percentage of the outstanding balance based on our best estimate of loss upon a detailed review of our workout strategy and estimates of collateral value.

The increase in operating assets received in satisfaction of troubled finance receivables primarily reflects an increase in the number of golf courses whose ownership was transferred from the borrower to us and investments in real estate associated with leveraged leases that matured during the first half of the year. We intend to operate and improve the performance of these properties prior to their eventual disposition.

Recently Issued Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140." This standard eliminates the concept of a qualifying special-purpose entity (QSPE) and its exclusion from consolidation by the primary beneficiary in that variable interest entity (VIE) or the transferor of financial assets to the VIE. The new accounting guidance also requires that former QSPEs be reevaluated for consolidation. This standard is effective beginning in the first quarter of 2010 and early application is prohibited. The adoption of this standard may result in the consolidation of our off-balance sheet securitization trusts, which hold our securitized finance receivables and debt. As our off balance-sheet securitization trusts are winding down in conjunction with our liquidation plan, we are currently assessing the impact the adoption of this standard may have on our financial position, results of operations and liquidity when we are required to adopt it next year.

Also in June 2009, the FASB Issued SFAS No. 167, "Amendments to FASB Interpretation No 46(R)." This standard changes the approach to determining the primary beneficiary of a VIE and requires companies to more frequently assess whether they must consolidate VIEs. This standard is effective beginning in the first quarter of 2010 and early application is prohibited. The adoption of this standard is not expected to have any significant impact on our financial position or results of operations.

Liquidity and Capital Resources

Borrowing Group Presentation

Our financings are conducted through two separate borrowing groups. The Manufacturing group consists of Textron Inc. consolidated with all of its majority-owned subsidiaries that operate in the Cessna, Bell, Textron Systems and Industrial segments, except for the entities comprising the Finance group. The Finance group consists of Textron Financial Corporation along with the entities consolidated into it. We designed this framework to enhance our borrowing ability 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.

Overview

We expect the economic uncertainty and capital market turbulence to continue throughout 2009. During the second quarter of 2009, we took several significant actions to improve our liquidity. In May 2009, we completed a concurrent public offering of 4.50% Convertible Senior Notes due 2013 and 23,805,000 shares of our common stock for total net proceeds of approximately \$775 million. On July 14, 2009, a newly formed, wholly-owned finance subsidiary of Textron entered into a credit agreement with the Export-Import Bank of the United States which establishes a \$500 million credit facility to provide funding to finance purchases of aircraft by non-U.S. buyers from Cessna and Bell. The facility is structured to be available for financing sales to international customers who take delivery of new aircraft by December 2010.

In the fourth quarter of 2008, our Board of Directors approved a plan to exit all of the commercial finance business of the Finance segment, other than that portion of the business supporting customer purchases of Textron-manufactured products. We made the decision to exit this business due to continued weakness in the economy and in order to address our long-term liquidity position in light of continuing disruption and instability in the capital markets. As of July 4, 2009, this exit plan applies to \$5.4 billion of the Finance segment's \$8.6 billion managed receivable portfolio. The exit plan will be effected through a combination of orderly liquidation and selected sales and is expected to be substantially complete over the next two to four years.

Under the exit plan, in 2009, we originally expected to reduce managed finance receivables by at least \$2.6 billion, net of originations, of which approximately \$2.0 billion must be used to pay down off-balance sheet securitized debt. Most of the remainder of cash generated has been and will be utilized to repay a portion of the term debt issued by the Finance group that is maturing in 2009. In the first half of 2009, we have already reduced managed finance receivables by \$2.2 billion, primarily in the distribution finance and asset based lending portfolios. Transfers from finance receivables to other assets related to repossessions, foreclosures or the maturity of leveraged leases with residual values represented \$229 million of the managed finance receivable reduction; however, we also generated \$194 million from the collection or sale of these assets and other investments in the first half of 2009. We now expect to reduce managed finance receivables by at least \$3.4 billion, net of originations, by the end of 2009.

In order to ensure that we have sufficient liquidity to repay our maturing debt obligations during the first quarter of 2010 and beyond, our focus continues to be on the maximization of cash flow through the following initiatives:

- Liquidation of finance receivables, including selected sales of finance receivables held for sale by our Finance group, in accordance with our plan to exit our non-captive commercial finance business;
- Realignment of production in our commercial manufacturing businesses to match lower expected demand;
- Cost reduction activities, including reducing our workforce, freezing salaries and furloughs, plant/facility closures, curtailing most discretionary spending, and reducing most areas of discretionary capital spending;

- Realignment of executive compensation targets to focus on cash efficiency; and
- Reduction of working capital with a focus on inventory management.

We are continuing to explore other potential avenues of liquidity, including additional funding sources in the capital markets, and have been actively pursuing new financing structures for the Finance group, such as the \$500 million credit facility with Export-Import Bank. We are also continuing to pursue additional transfers of other existing funding obligations to new financing providers; during the second quarter, we transferred the rights to financing programs with two large manufacturers of lawn and garden products in the distribution finance business, which will reduce future originations. Similarly, in early April we entered into a 3-year agreement with a financial service company to become a provider of financing for a portion of our sales of E-Z-GO golf cars.

During the first half of 2009, mostly during the second quarter, we repurchased \$393 million of our Finance group's debt prior to maturity resulting in early extinguishment gains of \$39 million. We intend to continually evaluate opportunities to strategically repurchase our outstanding debt, and that of our Finance group, if it is in our economic interest, depending on our cash needs and market conditions.

Depending on the success of the above cash flow initiatives and changes in external factors affecting the marketability and value of our assets, we may consider the sale of additional assets in the finance business. We believe that with the continued successful execution of the Finance group's exit plan, combined with other liquidity actions discussed above and the cash we expect to generate from our manufacturing operations, we will have cash sufficient to meet our future liquidity needs.

Contractual Obligations

We have updated our Form 10-K disclosure of the Finance group's contractual obligations, as defined by reporting regulations, to provide an update on the status of our liquidation plan. Due to the nature of finance companies, we believe that it is meaningful to include contractual cash receipts that we expect to receive in the future. The Finance group has historically borrowed funds at various contractual maturities to match the maturities of its finance receivables.

The following table summarizes the Finance group's liquidity position, including all managed finance receivables and both on- and off-balance sheet funding sources as of June 30, 2009, for the specified periods:

(In millions)	Payments/Receipts Due by Period						Total
	Less than 1 year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	More than 5 years	
Payments due: (1)							
Multi-year bank lines of credit	\$ —	\$ —	\$ 1,740	\$ —	\$ —	\$ —	\$ 1,740
Other short-term debt	9	—	—	—	—	—	9
Term debt	2,253	1,382	53	578	31	159	4,456
Securitized on-balance sheet debt (2)	68	66	96	76	71	107	484
Subordinated debt	—	—	—	—	—	300	300
Securitized off-balance sheet debt (2)	1,161	5	—	—	—	31	1,197
Interest on borrowings (3)	132	82	61	41	29	78	423
Loan commitments	16	6	2	—	—	5	29
Operating lease rental payments	5	4	3	1	1	—	14
Total payments due	3,644	1,545	1,955	696	132	680	8,652
Cash and contractual receipts: (1)(4)							
Finance receivable held for investment	1,625	1,302	1,121	828	491	1,582	6,949
Finance receivable held for sale	198	211	109	118	18	51	705
Securitized off-balance sheet finance receivables and cash receipts (2)	1,302	5	—	—	—	31	1,338
Interest receipts on finance receivables (3)	442	328	233	166	118	214	1,501
Operating lease rental receipts	27	22	18	13	7	16	103
Total contractual receipts	3,594	1,868	1,481	1,125	634	1,894	10,596
Cash	521	—	—	—	—	—	521
Total cash and contractual receipts	4,115	1,868	1,481	1,125	634	1,894	11,117
Net cash and contractual receipts (payments)	\$ 471	\$ 323	\$ (474)	\$ 429	\$ 502	\$ 1,214	\$ 2,465
Cumulative net cash and contractual receipts (payments)	\$ 471	\$ 794	\$ 320	\$ 749	\$ 1,251	\$ 2,465	

- (1) *Excludes cash which may be generated by the disposal of operating lease residual assets and other assets in addition to cash which may be used to pay future income taxes, accrued interest and other liabilities.*
- (2) *Securitized on-balance sheet and securitized off-balance sheet debt payments are based on the contractual receipts of the underlying receivables, which are remitted into the securitization structure when and as they are received. These payments do not represent contractual obligations of the Finance group, and we do not provide legal recourse to investors that purchase interests in the securitizations beyond the credit enhancement inherent in the retained subordinate interests.*
- (3) *Interest payments and receipts reflect the current interest rate paid or received on the related debt and finance receivables. They do not include anticipated changes in either market interest rates or changes in borrower performance, which could have an impact on the interest rate according to the terms of the related debt or finance receivable contract. The future receipt of interest we charge borrowers on finance receivables and payments of interest charged on debt obligations are excluded from this liquidity profile.*
- (4) *Finance receivable receipts are based on contractual cash flows only and do not reflect any reserves for uncollectible amounts. These receipts could differ due to sales, prepayments, charge-offs and other factors, including the inability of borrowers to repay the balance of the loan at the contractual maturity date. Finance receivable receipts on the held for sale portfolio represent the contractual balance of the finance receivables and therefore exclude the potential negative impact from selling the portfolio at the estimated fair value.*

This liquidity profile, combined with the excess cash generated by our borrowing under committed bank lines of credit, is an indicator of the Finance group's ability to repay outstanding funding obligations, assuming contractual collection of finance receivables, absent access to new sources of liquidity or origination of additional finance receivables. On July 4, 2009, our Finance group also had \$325 million in other liabilities, primarily accounts payable and accrued expenses, that are payable within the next 12 months.

At July 4, 2009, the Finance group had \$643 million of unused commitments to fund new and existing customers under revolving lines of credit. These loan commitments generally have an original duration of less than three years, and funding under these facilities is dependent on the availability of eligible collateral and compliance with customary financial covenants. As these agreements may not be used to the extent committed or may expire unused, the total commitment amount does not represent future cash requirements. We also have ongoing customer relationships, including manufacturers and dealers in the Distribution Finance division, which do not contractually obligate us to provide funding, however, we may choose to fund certain of these relationships to facilitate an orderly liquidation and mitigate credit losses. Neither of these types of potential fundings is included as contractual obligations in the table above.

Bank Facilities and Other Sources of Capital

In February 2009, due to the unavailability of term debt and difficulty in accessing sufficient commercial paper on a daily basis, we drew the full amount available under our committed bank lines of credit. The \$3.0 billion borrowed under the bank lines of credit is not due until April 2012. The debt (net of cash)-to-capital ratio for our Manufacturing group was 40% at July 4, 2009, compared with 46% at January 3, 2009, and the gross debt-to-capital ratio at July 4, 2009 was 54%, compared with 52% at January 3, 2009.

We maintain an effective shelf registration statement filed with the Securities and Exchange Commission that allows us to issue an unlimited amount of public debt and other securities, and the Finance group maintains an effective shelf registration statement that allows it to issue an unlimited amount of public debt securities. On May 5, 2009, we issued \$600 million of 4.50% Convertible Senior Notes (the "Notes") under Textron Inc.'s registration statement. The Notes have a maturity date of May 1, 2013 and interest is payable semi-annually on May 1 and November 1.

The Notes are convertible, under certain circumstances, at the holder's option, into shares of our common stock, at an initial conversion rate of 76.1905 shares of common stock per \$1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately \$13.125 per share. Upon conversion, we have the right to settle the conversion of each \$1,000 principal amount of Notes with any of the three following alternatives: (1) shares of our common stock, (2) cash, or (3) a combination of cash and shares of our common stock. The

Notes are convertible only under certain circumstances, which are described in Note 9 to the Consolidated Financial Statements.

The net proceeds from the issuance of the Notes totaled approximately \$582 million after deducting discounts, commissions and expenses. In connection with the issuance of the Notes, we entered into convertible note hedge transactions with two counterparties, including an underwriter and an affiliate of an underwriter, of the Notes, for purposes of reducing the potential dilutive effect upon the conversion of the Notes. The initial strike price of the convertible note hedge transactions is \$13.125 per share of our common stock (the same as the initial conversion price of the Notes) and is subject to certain customary adjustments. The convertible note hedge transactions cover 45,714,300 shares of our common stock, subject to anti-dilution adjustments. We may settle the convertible note hedge transactions in shares, cash or a combination of cash and shares, at our option. The cost of the convertible note hedge transactions was \$140 million, which was recorded as a reduction to additional paid-in capital. Separately and concurrently with entering into these hedge transactions, we entered into warrant transactions whereby we sold warrants to each of the hedge counterparties to acquire, subject to anti-dilution adjustments, an aggregate of 45,714,300 shares of common stock at an initial exercise price of \$15.75 per share. The aggregate proceeds from the warrant transactions were \$95 million, which was recorded as an increase to additional paid-in capital.

Concurrently with the offering and sale of the Notes, we also offered and sold to the public under the Textron Inc. registration statement 23,805,000 shares of our common stock for net proceeds of approximately \$238 million, after deducting discounts, commissions and expenses.

Credit Ratings

The major rating agencies regularly evaluate both borrowing groups, and their ratings of our long-term debt are based on a number of factors, including our financial strength, and factors outside our control, such as conditions affecting the financial services industry generally. Both our long- and short-term credit ratings were downgraded since the end of 2008. In connection with these rating actions, the rating agencies have cited concerns about the Finance group, including execution risks associated with our plan to exit portions of our commercial finance business and the need for Textron Inc. to make capital contributions to Textron Financial Corporation, as well as lower than expected business and financial outlook for 2009, including Cessna's lower earnings and cash flow, the increase in outstanding debt resulting from the borrowing under our bank lines of credit, weak economic conditions and continued liquidity and funding constraints. Our current credit ratings prevent us from accessing the commercial paper markets, and may adversely affect the cost and other terms upon which we are able to obtain other financing as well as our access to the capital markets.

The credit ratings and outlooks of the debt-rating agencies at July 31, 2009 are as follows:

	Fitch Ratings	Moody's	Standard & Poor's
Long-term ratings:			
Manufacturing	BB+	Baa3	BBB-
Finance	BB+	Baa3	BB+
Short-term ratings:			
Manufacturing	B	P3	A3
Finance	B	P3	B
Outlook:			
Manufacturing	Negative	Negative	Negative
Finance	Negative	Negative	Developing

Manufacturing Group Cash Flows of Continuing Operations

<i>(In millions)</i>	Six Months Ended	
	July 4, 2009	June 28, 2008
Operating activities	\$ (52)	\$ 435
Investing activities	(129)	(287)
Financing activities	791	(167)

Cash flows from operating activities decreased for the Manufacturing group primarily due to lower earnings, including lower net distributions received from the Finance group. For the first half of 2009, changes in our working capital resulted in a \$531 million use of cash, primarily due to a decrease in accounts payable and accrued liabilities, which included a \$100 million cash settlement of our 2008 stock-based compensation hedge. For the first half of 2008, changes in our working capital resulted in a \$390 million use of cash, largely due to the buildup of inventories in the aircraft businesses, partially offset by an increase in accounts payable.

During the first half of 2009, the Finance group paid the Manufacturing group \$184 million in cash dividends. Also during the first half of 2009, the Manufacturing group contributed \$88 million of capital to Textron Financial Corporation to maintain compliance with the fixed charge coverage ratio required by the Support Agreement. Subsequent to the end of the second quarter, on July 10, 2009, the Manufacturing group made an additional \$109 million capital contribution to Textron Financial Corporation as required by the Support Agreement.

We used less cash for investing activities primarily since we had no acquisitions in the first half of 2009, while we used \$100 million in cash in the first half of 2008 in connection with our acquisition of AAI Corporation. We also used less cash for capital expenditures which decreased to \$113 million in the first half of 2009, compared with \$188 million in the first half of 2008.

Financing activities provided more cash in the first half of 2009, compared with the first half of 2008, primarily due to the draw on our bank credit lines and the receipt of proceeds from the issuance of the Convertible Senior Notes, common stock and warrants. In the first quarter of 2009, the Manufacturing group drew \$1.2 billion on our bank lines of credit, which was used to repay outstanding commercial paper borrowings and for operations. In the second quarter of 2009, we received proceeds of \$582 million, net of fees, from the issuance of the convertible notes, partially offset by the purchase of a convertible note hedge for \$140 million. In addition, we received \$238 million in cash from the issuance of 23,805,000 shares of our common stock and \$95 million from the granting of common stock warrants. Also in the first half of 2009, we paid off \$410 million of advances against our officer life insurance policies.

We did not repurchase any of our common stock in the first half of 2009, while we had used \$134 million for share repurchases in the first half of 2008. In addition, as a result of the reduction in our dividend, we paid \$96 million less in dividends to our shareholders in the first half of 2009, compared with the first half of 2008.

Finance Group Cash Flows of Continuing Operations

<i>(In millions)</i>	Six Months Ended	
	July 4, 2009	June 28, 2008
Operating activities	\$ 72	\$ 83
Investing activities	1,011	(134)
Financing activities	(616)	46

The Finance group's cash flows from investing activities increased during the first half of 2009, compared with the first half of 2008, primarily due to lower finance receivable originations of \$4.1 billion resulting from our fourth quarter 2008 decision to exit portions of our commercial finance business. Due to the wind down of this business, we also received lower finance receivable collections of \$2.8 billion and \$433 million in lower proceeds from receivable sales, including securitizations.

The Finance group used more cash for financing activities in the first half of 2009, compared with 2008, primarily due to the repayment of debt, commercial paper and intergroup financing in the first half of 2009 totaling \$2.3 billion, compared with \$934 million in the first half of 2008. In 2009, the Finance group repurchased \$393 million in debt prior to its maturity resulting in early extinguishment gains of \$39 million. The Finance group's financing outflows were partially offset by \$1.7 billion in proceeds from the first quarter 2009 draw down on its bank lines of credit. In the first half of 2008, proceeds from the issuance of long-term debt totaled \$1.1 billion.

Consolidated Cash Flows of Continuing Operations

<i>(In millions)</i>	Six Months Ended	
	July 4, 2009	June 28, 2008
Operating activities	\$ 8	\$ 394
Investing activities	819	(439)
Financing activities	250	21

Cash flows from operating activities decreased primarily due to lower earnings. For the first half of 2009, changes in our working capital resulted in a \$358 million use of cash, primarily due to a decrease in accounts payable and accrued liabilities, which included a \$100 million cash settlement of our 2008 stock-based compensation hedge. For the first half of 2008, changes in our working capital resulted in a \$360 million use of cash, largely due to the buildup of inventories in the aircraft businesses, partially offset by an increase in accounts payable.

Cash flows from investing activities increased during the first half of 2009, compared with the first half of 2008, primarily due to lower finance receivable originations of \$3.9 billion resulting from our fourth quarter 2008 decision to exit portions of our commercial finance business. Due to the wind down of this business, we also received lower finance receivable collections of \$2.8 billion and \$323 million in lower proceeds from receivable sales, including securitizations. We also used less cash since we had no acquisitions in the first half of 2009, while we used \$100 million in cash in the first half of 2008 in connection with our acquisition of AAI Corporation.

Financing activities provided more cash in the first half of 2009, compared with the first half of 2008, primarily due to the draw on our bank lines of credit and the receipt of proceeds from the issuance of the Convertible Senior Notes, common stock and warrants. In the first quarter of 2009, we drew \$3.0 billion on our bank lines of credit, which was used to repay outstanding commercial paper borrowings and for operations. In comparison, in the first half of 2008, proceeds from the issuance of long-term debt totaled \$1.1 billion. We used \$3.1 billion to repay debt and commercial paper in the first half of 2009, compared with \$899 million in the first half of 2008, including \$393 million in debt repurchased prior to its maturity resulting in early extinguishment gains of \$39 million. Also in the first half of 2009, we paid off \$410 million of advances against our officer life insurance policies.

In the second quarter of 2009, we received proceeds of \$582 million, net of fees, from the issuance of the convertible notes, partially offset by the purchase of a convertible note hedge for \$140 million. In addition, we received \$238 million in cash from the sale of 23,805,000 shares of our common stock and \$95 million from the sale of common stock warrants.

Captive Financing

Through our Finance group, we provide diversified commercial financing to third parties. In addition, this 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 securitizations 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:

<i>(In millions)</i>	Six Months Ended	
	July 4, 2009	June 28, 2008
Reclassifications from investing activities:		
Finance receivable originations for Manufacturing group inventory sales	\$ (284)	\$ (520)
Cash received from customers, sale of receivables and securitizations	368	543
Other	(21)	(5)
Total reclassifications from investing activities	63	18
Dividends paid by Finance group to Manufacturing group, net of capital contributions to the Finance group	(96)	(142)
Other	21	—
Total reclassifications and adjustments to operating activities	<u>\$ (12)</u>	<u>\$ (124)</u>

In the first half of 2009, originations have decreased largely due to lower aircraft sales. In addition, in April 2009, we signed a 3-year agreement with a financial service company to become a provider of financing for a portion of our sales of E-Z-GO golf cars. We expect this agreement to reduce future finance receivable originations in this business.

Cash Flows of Discontinued Operations

<i>(In millions)</i>	Six Months Ended	
	July 4, 2009	June 28, 2008
Operating activities	\$ (12)	\$ (31)
Investing activities	261	(6)
Financing activities	—	(2)

Cash flow from investing activities increased for discontinued operations primarily due to the receipt of \$375 million in pre-tax net proceeds upon the sale of HR Textron in the first quarter of 2009, partially offset by tax payments made in the first half of 2009 related to the sale of the HR Textron and Fluid & Power businesses.

Off-Balance Sheet Arrangements

As of July 4, 2009, we have one significant off-balance sheet financing arrangement. The distribution finance revolving securitization trust is a master trust that purchases inventory finance receivables from our Finance segment and issues asset-backed notes to investors. These finance receivables typically have short durations, which results in significant collections of previously purchased finance receivables and significant additional purchases of replacement finance receivables from our Finance segment on a monthly basis. Due to required amortization and accumulation periods associated with the scheduled maturity of the remaining asset-backed notes, the trust's revolving period is expected to end in the third quarter of 2009.

The trust had \$1.3 billion of notes outstanding as of July 4, 2009. We own \$141 million of these notes, representing our remaining retained interests. During the first half of 2009, we recognized a \$26 million other than temporary impairment charge and a \$13 million unrealized loss in other comprehensive income on our retained interests in this trust. In connection with the maturity of \$149 million of the notes in July 2009, including \$44 million retained seller certificates owned by the Finance group, the trust accumulated \$112 million of cash during the second quarter of 2009 from collections of finance receivables.

Critical Accounting Estimates

Goodwill

We evaluate the recoverability of goodwill annually in the fourth quarter or more frequently if events or changes in circumstances, such as declines in sales, earnings or cash flows, or material adverse changes in the business climate, indicate that the carrying value of an asset might be impaired.

Our goodwill at July 4, 2009 includes \$956 million at Textron Systems, \$322 million at Cessna, \$388 million at Industrial and \$31 million at Bell. The Industrial segment's goodwill includes \$141 million for the Golf & Turfcare business and \$119 million for the Greenlee business. Based on a combination of factors, including the current economic environment, our operating results and a sustained decline in our market capitalization, we reviewed our reporting units to determine whether there were sufficient indicators to require us to perform an interim goodwill analysis in the second quarter of 2009. Based on our review of the reporting units, we determined that sufficient indicators exist for the Cessna, Golf & Turfcare and Greenlee reporting units. Accordingly, we performed interim goodwill impairment tests for these reporting units in the second quarter of 2009. Based on the indicators for these reporting units, we also reviewed the long-lived assets for potential impairment. We performed an interim impairment test for the Kautex reporting unit in the first quarter of 2009 that supported the recoverability of its goodwill. Based on Kautex' current operating results and forecast, there are no indicators that would require another impairment test for this reporting unit at this time.

We determined the fair value estimates for the Cessna, Golf & Turfcare and Greenlee reporting units using discounted cash flows that incorporate assumptions consistent with market participants. For the interim analysis, the determination of discounted cash flows is based on each reporting unit's updated forecast for the current and future years. The revenue growth rates included in the forecasts represent our best estimates based on current and forecasted market conditions, and the profit margin assumptions projected by each reporting unit are based on the current cost structure and anticipated net cost reductions. If different assumptions were used in these forecasts, the related undiscounted cash flows used in measuring impairment could be different, potentially resulting in an impairment charge.

In the first half of 2009, our Golf & Turfcare reporting unit's revenue and operating margins deteriorated from plan due to a sharp decline in volume resulting from the poor economic environment and its negative impact on the golf industry. We do not, however, believe that there has been a fundamental change to the long-term prospects of this business and believe sales volume will return as the economy begins to improve. Based on the interim impairment test, our estimated fair value of this reporting unit exceeds the carrying value at this time and there is no impairment of the unit's goodwill. In addition, we determined that there is no impairment of the long-lived assets associated with this business at this time. We will continue to monitor the impact of the economic recession on this business, as well as its ability to successfully adjust its cost structure, to assess whether these factors impact our projected revenue and profit assumptions. A prolonged recession and/or an inability to improve the unit's costs structure may result in an impairment charge in the future.

The Cessna and Greenlee reporting units have also experienced continued deterioration in their respective markets, particularly in the private jet market, resulting in significant declines in revenue and operating margins as compared to plan. We do not, however, believe that there has been a fundamental change to the long-term prospects of these businesses and believe sales volume will return as the economy begins to improve. Based on the results of the impairment test, our estimated fair value for each of these reporting units exceeds the carrying value, and there is no impairment of either unit's goodwill. In addition, we reviewed the long-lived assets for these businesses and determined that there is no impairment of those long-lived assets, which have not been already impaired in connection with the restructuring program, at this time.

At July 4, 2009, our market capitalization was approximately \$2.5 billion, which is less than the sum of the fair values of our manufacturing reporting units calculated in connection with our annual impairment test, as adjusted for the reporting units where interim impairment tests have been subsequently performed. We believe that the difference between the aggregate fair value estimates of our manufacturing reporting units and our market capitalization is primarily due to the market's view of risk in the Finance segment (which has no remaining goodwill) and concerns over our liquidity, and that the fair value estimates for our manufacturing reporting units are consistent with market participant assumptions.

Foreign Exchange Risks

Our financial results are affected by changes in foreign currency exchange rates and economic conditions in the foreign markets in which our products are manufactured and/or sold. For the three and six months ended July 4, 2009, the impact of foreign exchange rate changes from the corresponding periods of 2008 decreased revenues by approximately \$36 million (1.0%) and \$70 million (1.0%), respectively. Segment profit for the three and six months ended July 4, 2009 was lowered due to the impact of foreign exchange rate changes from the corresponding periods of 2008 by approximately \$2.3 million (0.5%) and \$1.4 million (0.2%), respectively.

Forward-Looking Information

Certain statements in this Quarterly Report on Form 10-Q and other oral and written statements made by us from time to time are forward-looking statements, including those that discuss strategies, goals, outlook or other non-historical matters, or project revenues, income, returns or other financial measures. These forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update or revise any forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements, such as the Risk Factors contained herein and in our 2008 Annual Report on Form 10-K and in our Quarterly Report on Form 10-Q for the first quarter ended April 4, 2009, and including the following: (a) changes in worldwide economic or political conditions that impact demand for our products, interest rates and foreign exchange rates; (b) the interruption of production at our facilities or our customers or suppliers; (c) performance issues with key suppliers, subcontractors and business partners; (d) our ability to perform as anticipated and to control costs under contracts with the U.S. Government; (e) the U.S. Government's ability to unilaterally modify or terminate its contracts with us for the U.S. Government's convenience or for our failure to perform, to change applicable procurement and accounting policies, and, under certain circumstances, to suspend or debar us as a contractor eligible to receive future contract awards; (f) changing priorities or reductions in the U.S. Government defense budget, including those related to Operation Iraqi Freedom, Operation Enduring Freedom and the Overseas Contingency Operations; (g) changes in national or international funding priorities, U.S. and foreign military budget constraints and determinations, and government policies on the export and import of military and commercial products; (h) legislative or regulatory actions impacting our operations or demand for our products; (i) the ability to control costs and successful implementation of various cost-reduction programs, including the enterprise-wide restructuring program; (j) the timing of new product launches and certifications of new aircraft products; (k) the occurrence of slowdowns or downturns in customer markets in which our products are sold or supplied or where Textron Financial Corporation (TFC) offers financing; (l) changes in aircraft delivery schedules, or cancellation or deferral of orders; (m) the impact of changes in tax legislation; (n) the extent to which we are able to pass raw material price increases through to customers or offset such price increases by reducing other costs; (o) our ability to offset, through cost reductions, pricing pressure brought by original equipment manufacturer customers; (p) our ability to realize full value of receivables; (q) the availability and cost of insurance; (r) increases in pension expenses and other postretirement employee costs; (s) TFC's ability to maintain portfolio credit quality and certain minimum levels of financial performance required under its committed bank lines of credit and under Textron's support agreement with TFC; (t) TFC's access to financing, including securitizations, at competitive rates; (u) our ability to successfully exit from TFC's commercial finance business, other than the captive finance business, including effecting an orderly liquidation or sale of certain TFC portfolios and businesses; (v) uncertainty in estimating market value of TFC's receivables held for sale and reserves for TFC's receivables to be retained; (w) uncertainty in estimating contingent liabilities and establishing reserves to address such contingencies; (x) risks and uncertainties related to acquisitions and dispositions, including difficulties or unanticipated expenses in connection with the consummation of acquisitions or dispositions, the disruption of current plans and operations, or the failure to achieve anticipated synergies and opportunities; (y) the efficacy of research and development investments to develop new products; (z) the launching of significant new products or programs which could result in unanticipated expenses; (aa) bankruptcy or other financial problems at major suppliers or customers that could cause disruptions in our supply chain or difficulty in collecting amounts owed by such customers; and (bb) continued volatility and further deterioration of the capital markets.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change in our exposure to market risk during the first quarter of 2009. For discussion of our exposure to market risk, refer to Item 7A. Quantitative and Qualitative Disclosures about Market Risk contained in Textron's 2008 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 (the CEO) and our Senior Vice President, Corporate Controller and Acting Chief Financial Officer (the 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 July 4, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

As previously reported in our Current Report on Form 8-K filed on May 5, 2009, on April 29, 2009 and April 30, 2009, in connection with our issuance of our 4.5% Convertible Senior Notes due 2013 (the "Notes"), we entered into convertible note hedge transactions with each of Goldman, Sachs & Co. and JPMorgan Chase Bank, National Association, which we refer to as the hedge counterparties, whereby we purchased convertible note hedges covering, subject to anti-dilution adjustments, an aggregate of 45,714,300 shares of our common stock.

As further reported in our May 5, 2009 Form 8-K, on April 29, 2009 and April 30, 2009, we also separately entered into Issuer Warrant Transaction Confirmations with each of the hedge counterparties pursuant to which we sold to the hedge counterparties warrants to acquire, subject to customary anti-dilution adjustments, an aggregate of 45,714,300 shares of our common stock. The initial strike price of the equity warrants is \$15.75 per share of common stock.

The warrants are exercisable only upon expiration, and a number of warrants will be deemed to be automatically exercised on each expiration date beginning on August 1, 2013 and continuing for a period of forty-five trading days thereafter. The warrants provide that, unless we elect to settle the warrants entirely in cash which we may do under certain circumstances, they will be "net share settled" meaning that, for each warrant that is exercised, we will deliver to the hedge counterparties a number of shares of our common stock equal to the amount by which the stock price of our common stock exceeds the exercise price, divided by the stock price. We will not be required to deliver a number of our shares in connection with the net settlement of the warrants in excess of the aggregate number of shares subject to the warrants.

We received an aggregate of \$95 million in proceeds from the sale of the warrants, which partially offset the cost of the convertible note hedges. The sale of the warrants to the hedge counterparties was a private transaction, and, therefore, it was exempt from the registration requirements of the Securities Act of 1933, as amended, pursuant to Section 4(2) thereof.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At Textron's annual meeting of shareholders held on April 22, 2009, the following items were voted upon:

- The following persons were elected to serve as directors in Class I for three year terms expiring in 2012 and received the votes listed.

<u>Name</u>	<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
Lewis B. Campbell	168,607,290	4,408,651	1,698,027	15
Lawrence K. Fish	146,970,941	65,665,048	2,077,975	19
Joe T. Ford	144,970,275	67,577,783	2,165,904	21

The following directors have terms of office which continued after the meeting: Class II expiring in 2010: Kathleen M. Bader, R. Kerry Clark, Ivor J. Evans, Lord Powell of Bayswater KCMG and James L. Ziemer; Class III expiring in 2011: Paul E. Gagne, Dain M. Hancock, Lloyd G. Trotter and Thomas B. Wheeler.

- The appointment of Ernst & Young LLP by the Audit Committee as Textron's independent registered public accounting firm for 2009 was ratified by the following vote:

<u>For</u>	<u>Against</u>	<u>Abstain</u>	<u>Broker Non-Votes</u>
205,098,971	7,629,090	1,985,916	6

Item 6. EXHIBITS

- Agreement between Textron and Scott C. Donnelly, dated May 1, 2009, related to Mr. Donnelly's personal use of a portion of hangar space at T.F. Green Airport which is leased by Textron
- Form of Performance Cash Unit Grant Agreement
- Computation of ratio of income to fixed charges of Textron Inc. Manufacturing Group
- Computation of ratio of income to fixed charges of Textron Inc. including all majority-owned subsidiaries
- Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 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
- 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
- The following materials from Textron Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended July 4, 2009, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows and (iv) Notes to the Consolidated Financial Statements, tagged as blocks of text

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.

Date: July 31, 2009

TEXTRON INC.

s/Richard L. Yates
Richard L. Yates
Senior Vice President, Corporate Controller and
Acting Chief Financial Officer
(principal financial officer and principal accounting officer)

LIST OF EXHIBITS

The following exhibits are filed as part of this report on Form 10-Q:

Name of Exhibit

- | | |
|------|--|
| 10.1 | Agreement between Textron and Scott C. Donnelly, dated May 1, 2009, related to Mr. Donnelly's personal use of a portion of hangar space at T.F. Green Airport which is leased by Textron |
| 10.2 | Form of Performance Cash Unit Grant Agree ment |
| 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. Section 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. Section 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 July 4, 2009, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Balance Sheets, (iii) the Consolidated Statements of Cash Flows and (iv) Notes to the Consolidated Financial Statements, tagged as blocks of text. |

AGREEMENT

This Agreement (the "Agreement"), made and entered into as of the 1st day of May, 2009, by and between Textron Inc. (hereinafter called "Textron") and Scott C. Donnelly (hereinafter called "Licensee") and their respective successors and assigns,

WITNESSETH:

WHEREAS, Textron leases approximately 85,390 square feet of space from the Rhode Island Airport Corporation ("RIAC") pursuant to a Lease dated June 19, 1996 (the "Prime Lease"); and

WHEREAS, Licensee desires to store his Cessna 206 aircraft in a portion of the space covered by the Prime Lease, and Textron is willing to permit same;

NOW, THEREFORE, in consideration of the premises and the agreements contained herein, and intending to be legally bound hereby, Textron and Licensee agree as follows:

1. DESCRIPTION OF PROPERTY

1.1 Description of Property. Textron, in consideration of the fees, covenants and agreements to be paid, kept and performed by Licensee as hereinafter provided, and subject to the terms and conditions set forth in this Agreement, does hereby permit Licensee to store his Cessna 206 piston-engined aircraft and equipment and other items necessary for the support of the operation of such aircraft, within the hangar commonly known as "Hangar 1" (the "Premises") in the City of Warwick, Rhode Island, located at T.F. Green Airport, Rhode Island and the improvements thereon, together with the use, in common with Textron and others, of any road, driveway, or passage way open or proposed, in front of or adjoining or giving access to said tract piece or parcel of land. Licensee acknowledges that the aircraft described above shall be placed in such area in the Premises as Textron personnel shall direct.

1.2 No Representations. Licensee hereby acknowledges that Textron has made no representations as to the condition of the Premises or any facilities thereon and is licensing the Premises as is. Licensee further acknowledges that he has inspected the Premises for normal defects and that Licensee relies solely on said inspection.

2. TERM

The term of this Agreement shall commence on May 1, 2009 (the "Commencement Date"), and shall continue on a month-to-month basis until terminated by 30 day written notice by either Textron or Licensee to the other (the "Term"). Textron shall further have the right to terminate this Agreement for default as provided herein.

3. RENT

3.1 Monthly Fee. Licensee will pay to Textron as a fee (the "Monthly Fee") for the use of the Premises during the Term the sum of \$450 each month.

3.2 Payment of Fees. Textron shall invoice Licensee at the beginning of each calendar month for the Monthly Fee, which shall be due and payable by the 25th day of such month, provided however that at Licensee's option to be exercised from time to time by notice to Textron, Textron shall invoice Licensee in advance for up to six months of Monthly Fees. Checks shall be made payable to Textron Inc. and forwarded to Textron

Inc., 40 Westminister Street, Providence, RI 02903, Attention: Wendy Doyle, Real Estate Administrator, or to such other address or addresses as Textron may hereafter advise Licensee in writing, without deduction or set-off. Upon termination of this Agreement by Licensee other than at the end of a month, no refund of any portion of the applicable Monthly Fee shall be made by Textron.

3.3 Delinquency Charges . If Textron has not received the full amount of any Monthly Fees, or other charges due and payable to Textron under this Agreement, by the end of 25 calendar days after the date it first became due, Licensee shall pay interest equal to one (1%) percent per month or the maximum rate permitted by law, whichever is less, with respect to such unpaid amounts.

4. USE

The Premises are licensed for use solely by Licensee to house his aircraft and for no other purpose. This use may not vary without the prior written consent of Textron. Said consent shall not be unreasonably withheld. No aircraft maintenance and no charter operation shall be permitted on the Premises.

5. UTILITIES

Textron shall pay all costs for water, gas, electricity, sewer charges, telephone and other utilities used or consumed upon the Premises as and when the charges for the same become due and payable. Further, Textron shall maintain, at its sole cost and expense the water, gas, boiler, sewer and electric system on or about the Premises.

6. TERMINATION; REMOVAL OF LICENSEE'S PROPERTY

Upon the termination or expiration of this Agreement for whatsoever cause, Licensee shall have the privilege and right to remove and upon request of Textron shall remove, at his own expense, Licensee's aircraft. Any damage to the Premises caused by such removal shall be repaired at Licensee's expense. Licensee shall have thirty (30) days after termination to remove his property and/or repair any damage.

7. REPAIRS; LIENS

7.1 Maintenance of Premises . Textron shall maintain the Premises in good order, repair and condition and shall make all repairs (structural and non-structural, including repair or replacement of the roof), as may be necessary to keep the Premises in good condition. Licensee shall reimburse Textron for the cost of any repairs made necessary by the negligence or intentional misconduct of Licensee or his invitees.

7.2. Liens . Licensee shall promptly pay all amounts owing to his contractors and materialmen, so as to minimize the possibility of a lien attaching to the Premises, and should any such lien be made or filed, Licensee shall bond or indemnify against or discharge the same within ten (10) days after written request by Textron.

8. ACCESS TO PREMISES

No keys or cards for access to Hangar 1 will be issued to guests or invitees of Licensee, except as may be determined by Textron, in its sole discretion. Access to the Premises will be provided during normal business hours based on requests by Licensee to designated employees of Textron. The primary designated employee of Textron shall be Mick Chagnon. To the extent that Textron is required to pay overtime to Textron employees to enable Licensee to have access to the Premises at such times as he

requests, Licensee shall reimburse Textron for such hours of overtime as Textron is obligated to pay its employees at the applicable overtime rate actually paid by Textron. Licensee shall return any keys and cards promptly upon Textron's request at any time.

9. COMPLIANCE WITH LAWS AND AIRPORT REGULATIONS

9.1 Compliance with Laws . During the term of this Agreement, Textron and Licensee, shall promptly comply with all present and future laws, ordinances, orders, rules, regulations and requirements of all federal, state and municipal governments, courts, departments, commissions, boards and officers, including but not limited to all environmental laws, any regulations national or local Board of Fire Underwriters, or any other body exercising functions similar to those of any of the foregoing, and all rules and regulations of Textron which may be applicable to the Premises and Textron's and Licensee's respective use thereof. Textron and Licensee shall each likewise comply with the requirements of all policies of insurance at any time in force with respect to the Premises and Textron's and Licensee's respective operations thereon.

9.2 Hazardous Substances . Neither Textron nor Licensee shall cause or permit the presence, use, discharge, disposal, storage, release, or threatened release of any Hazardous Substances, pollutants or contaminants on or in the Premises and adjoining area (the "Property"), except in compliance with applicable law and in quantities necessary to the operation and maintenance of the Premises, or in the case of Licensee, maintenance or operation of his aircraft. Neither Textron nor Licensee shall do anything affecting the Property that is in violation of any Environmental Law, nor shall either Textron or Licensee allow anyone else to do anything affecting the Premises that is in violation of any Environmental Law.

9.3 Notice of Investigations . Each of Textron and Licensee shall promptly give the other written notice of any investigation, claim, demand, lawsuit or other action by any governmental or regulatory agency or private party involving the Property and any Hazardous Substance or Environmental Law of which such party has knowledge. If either Textron or Licensee learns, or is notified by any governmental regulatory authority, that any removal or other remediation of any Hazardous Substance affecting the Property is necessary, the party responsible for causing or permitting the presence, use, discharge, disposal, storage, release, or threatened release of such Hazardous Substance shall promptly take all necessary remedial actions in accordance with Environmental Law.

9.4 Definition of "Hazardous Substances." As used in this paragraph "Hazardous Substances" are those substances defined as toxic or hazardous substances by Environmental Law and the following substances: gasoline, kerosene, other flammable or toxic petroleum products, toxic pesticides and herbicides, volatile solvents, materials containing asbestos or urea, formaldehyde, polychlorinated biphenyls, and radioactive materials. As used in this paragraph, "Environmental Law" means federal laws, , rules, regulations, ordinances, orders, permits, licenses, judgments or decrees, or the laws, rules, regulations, ordinances, orders, permits, licenses, judgments or decrees of the jurisdiction where the Property is located that relate to health, safety, wastes, Hazardous Substances or environmental protection.

10. INDEMNIFICATION; INSURANCE

10. 1 Indemnification . Licensee shall indemnify, defend and hold Textron harmless from and against any and all loss, cost, damage and expense, including reasonable attorneys' fees, resulting from any claim for damage or injury to any person or property arising out of or in any way connected with (a) Licensee's use of, and ingress to and egress from, the Premises and adjoining areas, (b) Licensee's aircraft operations,

or (c) any act or omission of Licensee, his guests or invitees with respect to this Agreement. In the event any action or proceeding is brought against Textron by reason of any such claim, Licensee, upon notice from Textron, shall defend the same at Licensee's expense. Subject to the provisions of Section 17 (Notices), Textron shall indemnify and hold Licensee harmless from and against any and all loss, cost, damage and expense, including reasonable attorneys' fees, resulting from any claim for damage or injury to any person or property arising out of or in any way connected with (a) Textron's use and occupancy of, and ingress to and egress from, the Premises and adjoining areas, (b) Textron's aircraft operations, or (c) any act or omission of Textron, its employees, agents, guests or invitees with respect to this Agreement. In the event any action or proceeding is brought against Licensee by reason of any such claim, Textron, upon notice from Licensee, shall defend the same at Textron's expense.

10.2 Insurance to be Maintained by Licensee . During the Term, Licensee shall, at his expense, carry and maintain (a) a general liability insurance policy or policies or other, similar form of public liability insurance with a combined single limit of not less than \$1,000,000 insuring against all liability of Licensee arising out of or in connection with Licensee's use or occupancy of the Premises; (b) Automobile Liability Insurance with a combined single limit of not less than \$1,000,000; (c) aircraft liability and airport liability insurance with a combined single limit of not less than \$5,000,000; and (d) aircraft hull coverage in an amount not less than the value of his aircraft housed at the Premises. The insurance policy required by clause (a) of the first sentence of this Section 10.2 shall contain contractual liability coverage which specifically insures Licensee's indemnities contained in this Lease. The insurance policy or policies required by clause (b) of the first sentence of this Section 10.2 shall name Textron as an additional insured. The insurance policy or policies required by clause (d) of the first sentence of this Section 10.2 shall name Textron as an additional insured with respect to personal injury, bodily injury, including death, and property damage claims arising from Licensee's aircraft operations. Each policy shall provide that (1) not less than thirty (30) days' prior written notice shall be given to Textron in the event of any material modification in the terms of such policy or of the cancellation or non-renewal thereof with respect to any liability or loss created by or associated with Licensee or his aircraft. Such insurance coverage may, however, be afforded by a "blanket" policy or policies maintained by Licensee with respect to all or a portion of Licensee's activities on leased or owned properties. The amount of such required insurance coverage shall not limit Licensee's obligations under this Lease. Textron makes no representation whatsoever that the amount of such insurance coverage is adequate to protect Licensee from any liability or damage to which Licensee may become exposed. Licensee shall provide to Textron a certificate of insurance including any necessary endorsements to Licensee's insurance policies prior to commencement of the Term hereof , and shall furnish Textron with evidence of renewal of the policies not less than twenty (20) days before expiration of the terms of the policies. In the event Licensee provides a certificate of insurance, such certificate shall contain sufficient information for Textron to determine if the underlying policy complies with provisions of this Lease. Licensee shall assume the risk of loss or damage to his property on the Premises, and at all times during the Term, Licensee shall insure his personal property on the Premises against loss or damage by fire, including extended coverage, and theft.

10.3 Insurance to be Maintained by Textron . During the Term, Textron shall, at its expense, carry and maintain (a) Workers Compensation and Employer's Liability Insurance; (b) a commercial general liability insurance policy or policies or other, similar form of public liability insurance with a combined single limit of not less than \$1,000,000 insuring against all liability of Textron, its employees and representatives, arising out of or in connection with Textron's use or occupancy of the Premises; (c) Automobile Liability Insurance with a combined single limit of not less than \$1,000,000; (d) aircraft liability

insurance with a combined single limit of not less than \$100,000,000; (e) aircraft hull coverage in an amount not less than the value of Textron's aircraft housed at the Premises. The insurance policy required by clause (b) of the first sentence of this Section 10.3 shall contain contractual liability coverage, which specifically insures Textron's indemnities contained in this Lease. Such insurance coverage may be afforded by a "blanket" policy or policies maintained by Textron with respect to all or a portion of Textron's activities on leased or owned properties. Textron shall provide a certificate of insurance to Licensee prior to commencement of the Term hereof.

10.4 Insurance Policy Deductible. Notwithstanding any other provisions of this Agreement, in the event of any loss caused by the negligence or misconduct of Licensee, Licensee shall be obligated for and Licensee shall pay to Textron the deductible portion of any insured recovery Textron otherwise would have been entitled to receive but for such deductible feature of the applicable insurance policy.

11. DESTRUCTION OF PREMISES

In the event of fire or other casualty occurring during the Term which results in damage or destruction to the Premises, Textron or Licensee may terminate this Agreement by notice in writing to the other as of the date on which such fire or other casualty or taking occurs.

12. SUBLETTING AND ASSIGNMENT

Licensee shall not assign nor in any manner transfer this Agreement or any estate or interest therein, nor permit any use of the same other than by Licensee nor sublet the Premises or any part thereof, nor grant any license, concession or other right of occupancy of any portion of the Premises.

13. LICENSEE'S COVENANTS

Licensee covenants and agrees as follows:

13.1 Payment and Performance. To perform promptly all of the obligations of Licensee set forth in this Agreement; to pay when due all fees and all charges which by the terms of this Agreement are to be paid by Licensee.

13.2 Cleanliness of Premises. To the extent his guests or invitees are present on the Premises, to clean up any mess caused by any such individual, to place all refuse, rubbish and debris in covered containers furnished by Textron and to comply with Textron's reasonable rules in effect from time to time relating to maintenance and operation of the Premises.

13.3 No Waste. Not to cause, suffer or permit strip or waste.

14. BREACH OR DEFAULT

14.1 Default. If Licensee shall be in default in the payment of fees or any part thereof or of other sums payable by Licensee hereunder at the times and places herein fixed for the payment thereof and said default shall continue ten (10) days (whether or not the payment of said fees shall have been demanded), or if default shall be made in any other of the covenants or provisions herein contained on the part of Licensee to be kept and performed and if such default shall continue for a period of ten (10) days after notice to Licensee (or if such default cannot be cured within such 10 day period, Licensee has not commenced to cure default within such 10 day period), or if Licensee shall make

an assignment for the benefit of creditors, or file a voluntary petition in bankruptcy or insolvency, or shall be adjudged bankrupt, or if the estate hereby created shall be deserted or vacated, then and in any of the said cases, notwithstanding any license or waiver of any former breach of covenant or consent in a former instance, it shall be lawful for Textron thereupon or at any time thereafter, during which such default, assignment, insolvency, legal proceedings, desertion, vacancy or neglect shall continue, or be in effect to terminate this Agreement and all of Licensee's interest hereunder by giving written notice to Licensee of such termination and of the effective date thereof (and such notice having been given, this Agreement shall cease and expire on the date named therein), and/or, at Textron's option, without demand or notice, and without process of law to enter upon and into the Premises or any part thereof in the name of the whole, and to declare this Agreement at an end and in such case expel Licensee without being guilty of any manner of trespass without prejudice, however, to Textron's claims for rent or other claims for breach of covenant hereunder, it being expressly understood and agreed that this Agreement shall not continue or inure to the benefit of any assignee, receiver or trustee in bankruptcy, excepting at the option of Textron.

14.2 No Relief from Obligations . No such expiration or termination of this Agreement shall relieve Licensee of his liability and obligations under this Agreement, and such liability and obligations shall survive any such expiration or termination.

14.3 Interest, Costs and Fees . If Licensee shall breach or fail to perform any of the covenants or provisions of this Agreement, and such breach shall continue beyond the period as specified in 14.1, and such failure or breach shall cause Textron to incur any damages or expenses whatsoever, then and in that event such damages or expenses so incurred by Textron, with interest at the rate of one (1) percent per month, costs and reasonable attorney's fees shall be deemed to be additional fees hereunder and shall be due from Licensee to Textron on the first (1st) day of the month following the incurring of such respective expenses.

15. NO WAIVER

The failure of Textron to seek redress for violation of, or to insist upon the strict performance of, any covenant or condition of this Agreement shall not be deemed a waiver of such violation nor prevent a subsequent act, which would have originally constituted a violation, from having all the force and effect of any original violation. The receipt by Textron of fees with knowledge of the breach of any provision of this Agreement shall not be deemed to have been a waiver by Textron of such breach, or by Licensee, any such waiver shall not be valid unless such waiver by in writing, signed by the party to be charged. No consent or waiver, express or implied, by Textron to or of any breach of this Agreement or of any other agreement or duty between the parties shall be construed as a waiver or consent to or of any later breach of the same of any breach of any other provisions of this Agreement or other agreement or duty.

16. INSPECTIONS/MAINTENANCE

The parties acknowledge that Licensee intends to perform inspections on the aircraft referred to in Section 1 above from time to time during the Term. Licensee shall use his own contracted maintenance personnel for such purpose. No Textron personnel shall perform repairs or maintenance on Licensee's aircraft. In addition, Licensee may from time to time use the flight planning facilities located in Hangar 1. Notwithstanding any other provision of this Agreement to the contrary, Licensee agrees not to bring any action against Textron based on any theory of liability, whether in tort or contract, based upon Licensee's use of the aforementioned Textron facilities (including any gratuitous services that may from time to time be performed by Textron employees or agents); and Licensee shall indemnify, defend and hold Textron harmless from and against any and all loss, cost, damage and expense, including reasonable attorneys' fees, resulting from any claim for damage or injury to any person or property arising out of or in any way connected with Licensee's use of such Textron facilities. In the event any action or proceeding is brought against Textron by reason of any such claim, Licensee, upon notice from Textron, shall defend the same at Licensee's expense.

17. NOTICES

17.1 Notices to Licensee . All notices to Licensee shall be in writing and shall be effective upon receipt after being sent by certified mail (return receipt requested) addressed to Licensee at 40 Westminster Street, Providence, RI 02903.

17.2 Notices to Textron . All notices to Textron shall be in writing and shall be effective upon receipt after being sent by certified mail (return receipt requested) addressed to Textron (Attention Textron Real Estate) at its business offices at 40 Westminster Street, Providence, Rhode Island 02903 or at such other address as Textron shall designate in writing to Licensee.

17.3 Other Forms of Notices . Notices may also be sent by overnight courier service or delivered by hand, in which case any such notice shall be effective upon receipt by the addressee.

17.4 Changes of Address . Notwithstanding any provisions in this Agreement to the contrary concerning modifications, a change in address may be effected by certified mail (return receipt requested) sent by either party to the other.

18. ENTIRE AGREEMENT AND MODIFICATION

18.1 Entire Agreement . Neither Textron nor Licensee nor any of their agents have made any statement, promise or agreements verbally or in writing in conflict with the terms of this Agreement. Any and all representations by either of the parties or their agents made during negotiations prior to execution of this Agreement and which representations are not contained in the provisions hereof shall not be binding upon either of the parties hereto. It is further agreed that this Agreement constitutes the entire, full and complete agreement between Textron and Licensee with respect to the Premises.

18.2 Amendments . No modification, alteration or amendment of this Agreement shall be binding on either party unless mutually agreed to by the parties and executed by their authorized officers or agents in writing.

19. MISCELLANEOUS

19.1 Reserved Rights of RIAC . Licensee acknowledges that pursuant to the Prime Lease there was reserved to RIAC, its successors and assigns for the use and benefit of the public, a free and unrestricted right of flight for the passage of aircraft in the air space above the surface of the Airport including the Premises, together with a right to cause in said air space such noise, dust and fumes as may be inherent in the operation of aircraft now known or hereafter used, or navigation of or right in the air, using said air space for landing, taking off or operating on or above same Airport; and Licensee consents to be bound by such reservation of rights by RIAC.

19.2 No Partnership or Joint Venture; Notice Concerning RIAC . Neither a partnership nor a joint venture is created by this Agreement. Licensee acknowledges that Textron has notified Licensee that Textron has no authority to bind RIAC and that this Agreement must be submitted to RIAC and to Federal and State authorities for review and approval in accordance with applicable law and provisions of this Agreement.

19.3 Assistance to RIAC . Licensee shall cooperate and assist RIAC in dealing with the Federal Aviation Administration and all other Federal, State and local agencies in all matters relating to the operation of the Airport.

19.4 Cooperation With RIAC . RIAC may, from time to time, employ various planning and engineering consultants in connection with RIAC's ownership and operation of the Airport; and Licensee shall cooperate with and reasonably assist such consultants as requested by RIAC.

19.5 Airport Communications . Licensee shall not, by either his activities upon or use of the Premises, interfere with radio communications, instrument landing systems, navigational aides or flight operations of the Airport.

19.6 National Emergency . During time of war or national emergency, RIAC shall have the right to lease the Airport area of any part thereof, including the Premises, to the United States Government for military use and, if such lease is executed, the provisions of this Agreement, insofar as they are inconsistent with the provisions of the lease to the Government, shall be subordinate to said lease. Textron shall not be obliged to make any adjustment in Licensee's fees hereunder in the event if such lease is executed.

19.7 Federal Aviation Act Compliance . Licensee agrees to comply with provisions of the Federal Aviation Act of 1958 (49 U.S.C. 1349(a)), and any future amendments or revisions thereto, or any rules or regulations promulgated thereunder and any provision of any agreements providing Federal assistance for the development of Airports entered into by Textron and the United States of America or its agencies. Notwithstanding the foregoing, if Section 19.7 is invoked against Licensee, Licensee may terminate this Agreement without further liability if in Licensee's reasonable discretion such invocation materially increases Licensee's obligations or materially decreases Licensee's rights under this Agreement.

19.8 Protection of Airport Operations . Licensee covenants and agrees that he will neither erect structures not permit nor operate equipment nor store material on the Premises, in such a manner as to create any obstruction to air navigation and radar operations according to the criteria or standards as prescribed in Part 77 of the Federal Aviation Regulations or to create electrical interference with radio communications, radar or electromagnetic equipment between the Airport and aircraft, or to make it difficult for a flier to distinguish between same Airport lights and others, or to cause a glare in the eyes of fliers using same airport, or to impair visibility in the vicinity of same Airport by lights, smoke, or otherwise endanger the landing, taking-off or maneuvering of aircraft.

If Licensee is in default of this provision, Licensee shall remedy the cause immediately after notification by Textron.

19.9 Regulated Services. In the event Licensee wishes to perform services which are regulated by the Federal Aviation Administration (“FAA”), Licensee will promptly supply Textron with copies of certificates issued by the FAA. Licensee will also supply copies of all such certificates when they are renewed along with any notices of cancellation or termination of said certificates.

19.10 Time of Essence. It is expressly agreed that time is of the essence in the performance of each and every provision and covenant of this Agreement.

19.11 Original Copies. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but such counterparts together shall constitute but one and the same agreement.

19.12 Captions. The captions appearing in this Agreement are inserted only as a matter of convenience and for reference, and in no way define, limit or construe or describe the scope or intent of any provisions of this Agreement nor in any way affect this Agreement.

19.13 Binding Effect. The terms, covenants and conditions contained in this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns and any person or persons, natural or corporate, claiming through or under them, or any of them.

19.14 Taking Effect. This Agreement shall take effect only upon its proper execution by both Textron and Licensee.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as a sealed instrument, as of the date first written above.

TEXTRON INC.

By: /s/ Michael G. Chagnon
Title: Director of Aviation

LICENSEE

/s/Scott Donnelly
Scott C. Donnelly



**NOTICE OF GRANT OF PERFORMANCE CASH UNITS
AND PERFORMANCE CASH UNIT AGREEMENT**

Name:
Address:
City, State ZIP:
Country:

PCU No.:
Plan: 2007
ID:
Location:

Effective [], pursuant to the 2007 Long-Term Incentive Plan (the "Plan"), you have been granted ###,### Performance Cash Units (PCUs), which constitute the right to receive, if earned pursuant to their terms, a cash payment determined by a formula as provided in the Performance Cash Unit Terms and Conditions (2/2009).

This grant is governed by the Performance Cash Unit Terms and Conditions (2/2009) and the Plan (both of which are available on the Textron Enterprise Intranet) and is subject to the Performance Cash Unit Non-Competition Agreement (2/2009 version) attached hereto.

The Performance Period is the period beginning with Fiscal Year 20[] and ending with Fiscal Year 20[]. Separate performance measures will be established for each fiscal year within the Performance Period, and the performance measures for each fiscal year will apply to one third of the Performance Cash Units granted for the Performance Period. The Committee has discretion to reduce the number of units earned for annual performance in each fiscal year. The Committee expects to reduce the number of units by a second performance measure based on total shareholder return in relation to the S&P 500 for all three fiscal years in the Performance Period; but the Committee has discretion to make a larger or smaller downward adjustment.

The attached document **PC#####** shows the performance measures and units you can earn based on annual performance for Fiscal Year 20[], which apply to one third of the Performance Cash Units granted to you in this award. Performance measures and units you can earn for Fiscal Year 20[] and Fiscal Year 20[] will be established and communicated to you at the beginning of each fiscal year.

The attached document also shows the reduction that the Committee expects to make based on total shareholder return in relation to the S&P 500 for all three fiscal years in the Performance Period. If the Committee elects to make this reduction, the reduction will apply at the end of the Performance Period to all of the units you have earned in each fiscal year during the Performance Period. As a result, any payout you receive at the end of the Performance Period would be based in part on annual performance and in part on performance for the entire Performance Period. The Committee has discretion to make a larger or smaller downward adjustment in the units you earn in each fiscal year during the Performance Period.

The cash value of all PCUs will be paid (to the extent earned) following the end of the Performance Period, before March 15. Accordingly, PCUs earned based on annual performance in the first or second year of the Performance Period will be reduced, at the Committee's discretion, by the total shareholder return measure at the end of the third year of the Performance Period, and will not be paid until the 2½ month period following the third year of the Performance Period. All PCUs, including PCUs earned based on annual performance in the first or second year of the Performance Period, remain subject to forfeiture until the end of the Performance Period as provided in the Performance Cash Unit Terms and Conditions (2/2009) .

By your signature and the Company's signature below, you and the Company agree that this grant is governed by the attached Performance Cash Unit Terms and Conditions (2/2009) and the Plan, both of which are available on the Textron Enterprise Intranet. In addition, you agree that this grant is subject to the Performance Cash Unit Non-Competition Agreement (2/2009 version) attached hereto, the terms of which are fully incorporated herein.

TEXTRON INC.

By: _____ **Date** _____

Agreed by: _____ **Date** _____
NAME

Please retain a copy of this signed agreement and return the original to your Human Resources Department within 30 days of receipt of this document.

Performance Cash Units
20[] – 20[] Award Period
PC#####

Performance Measures for Fiscal Year 20[]:
Applicable to One Third of Performance Share Units

PCU Component Detail

Component	Weighting	Units
[]	[]%	###,###
[]	[]%	###,###

PCU Earnings Level for Each Component

Earnings per Share		Cash Efficiency	
Actual vs. Target	Percent Earned	Actual vs. Target	Percent Earned
[]% of Target	[]%	[]% of Target	[]%
100% of Target	100%	100% of Target	100%
[] Performance	150% (maximum)	[]% of Target	150% (maximum)

Discretionary Performance Reduction for 20[] – 20[] Award Period:
Applicable to All Performance Share Units

PCU Reduction Factor Based on Total Shareholder Return 20[] – 20[]

Textron's 3-Year Total Shareholder Return	Award Adjustment
Percentile Rank Against the S&P 500	
Greater than 74th	0%
69th	-6.4%
63rd	-12%
56th	-16%
50th	-20%
44th	-24%
37th	-28%
31st	-33.6%
Below 25th	-40%

- The Committee may make a discretionary reduction in the Performance Cash Units (PCUs) earned based on total shareholder return performance for the Performance Period. The Committee expects to reduce the PCUs using the table shown above; but the Committee has discretion to make a larger or smaller downward adjustment.
- Intermediate performance between the minimum and maximum levels specified earns a corresponding percentage of Performance Cash Units (PCUs) for each component.
- PCUs earned for the fiscal year equal one third of the units granted times the percentage earned based on performance and targets identified above.
- PCUs earned for the fiscal year are subject to adjustment up or down based on annual performance for each fiscal year in the Performance Period.

- All PCUs are paid in cash, to the extent earned, following the end of the Performance Period, before March 15. Accordingly, PCUs earned (subject to adjustment) in the first or second year of the Performance Period will not be paid until the 2½ month period following the third year of the Performance Period.
- Each PCU earned has a value of one US dollar.

TEXTRON INC.
TEXTRON 2007 LONG-TERM INCENTIVE PLAN
PERFORMANCE CASH UNIT TERMS AND CONDITIONS
(2/2009)

- Pursuant to the 2007 Long-Term Incentive Plan (the “Plan”), Textron has awarded to executive the number of Performance Cash Units (PCUs) set forth on the applicable Notice of Grant signed by Textron and Grantee on the terms and conditions herein set forth. Each Performance Cash Unit constitutes the right to receive cash equal to \$1.00 for each Performance Cash Unit earned by the executive, as determined in accordance with the Plan, the Notice of Grant, the Performance Cash Unit Non-Competition Agreement (2/2009), and these Performance Cash Unit Terms and Conditions (2/2009). Performance Cash Units earned for the Performance Period are based on annual performance for each fiscal year in the Performance Period and may be reduced based on performance for the entire Performance Period.. The earned Performance Cash Units payable to the executive in accordance with the provisions of this agreement shall be paid solely in cash.
- When the applicable Performance Period ends, Textron will issue to the executive cash equal to the aggregate value of the Performance Cash Units earned by the executive, reduced by the amount needed to satisfy required statutory minimum withholding taxes. The cash payment shall be made following the end of the Performance Period, before March 15.
- If the executive’s employment with Textron shall terminate for “Cause,” all Performance Cash Units awarded to the executive for which the applicable Performance Period has not ended shall be forfeited (including, but not limited to, Performance Cash Units that have already been earned based on annual performance during a fiscal year in the Performance Period).
- Except as otherwise provided herein, the executive shall forfeit outstanding Performance Cash Units (including, but not limited to, Performance Cash Units that have already been earned based on annual performance during a fiscal year in the Performance Period) if the executive’s employment with Textron ends for any reason prior to the end of the Performance Period applicable to such Performance Cash Units, provided that if the executive’s employment ends (other than for Cause) prior to such date because of “Disability,” death or after the executive has become eligible for “Early or Normal Retirement,” and if the executive has been employed by Textron for at least one year after the beginning of the Performance Period, the executive or the executive’s estate will receive a cash payment (subject to tax withholding) at the end of the Performance Period for (1) the Performance Cash Units actually earned for any fiscal year that is completed before the executive’s employment ends, and (2) a “Pro-Rata Portion” of the Performance Cash Units for the fiscal year in which the executive’s employment ends (to the extent that the financial performance goals applicable to the Performance Cash Units have been achieved upon the completion of such fiscal year), subject to a discretionary reduction, in each case, based on total shareholder return in relation to the S&P 500 for all three fiscal years in the Performance Period.

- If the executive's employment with Textron ends for any reason not mentioned above, and if the executive has been employed by Textron for at least one year after the beginning of the Performance Period, the executive will receive a cash payment (subject to tax withholding) at the end of the Performance Period for the Performance Cash Units actually earned for any fiscal year that is completed before the executive's employment ends, subject to a discretionary reduction, in each case, based on total shareholder return in relation to the S&P 500 for all three fiscal years in the Performance Period; and the executive shall forfeit any outstanding Performance Cash Units for any fiscal year during which or following which the executive's employment ends.
- Notwithstanding the above, the applicable Performance Period for the Performance Cash Units which may be paid pursuant to this Award shall end immediately upon a "Change in Control" of Textron, as defined in the Plan. In such instance, Textron shall pay to the executive (or to the executive's estate in the event of the executive's death prior to payment), subject to tax withholding, (1) the full value of any Performance Cash Units actually earned for any fiscal year that has already ended, and (2) the full value of the unearned Performance Cash Units outstanding for any fiscal year that has not yet ended, without adjustment in either case for total shareholder return in relation to the S&P 500 during the Performance Period. The payment shall be made within 30 days after the Change in Control, provided that the accelerated payment does not violate Section 409A of the Internal Revenue Code. If the accelerated payment of the Award would violate Section 409A of the Internal Revenue Code, the payment shall be made on the date when the Performance Cash Unit would have been paid if no Change in Control had occurred. Note: Sale of a business unit usually does not constitute a Change in Control as defined in the Plan.
- 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 Performance Cash Units shall not be assignable or transferable by the executive.
- The Performance Cash 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 inactions 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.

“Performance Period”

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

“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 the executive’s active service to Textron during the Performance Period divided by the total number of months required for full vesting of each fiscal year. An executive must be employed by Textron for a minimum of one year after the beginning of the Performance Period before pro-rata Performance Cash Units may be paid. The Pro-Rata Portion shall apply to one third of the Performance Cash Units granted to the executive, shall be payable to an executive only to the extent that the financial performance goals for the fiscal year are satisfied, and shall be subject to a discretionary reduction at the end of the

Performance Period based on total shareholder return in relation to the S&P 500 for all three fiscal years in the Performance Period.

Example:

[]

TEXTRON INC.
PERFORMANCE CASH UNIT NON-COMPETITION AGREEMENT
(2/2009)

You have been granted Performance Cash Units (“PCUs”) pursuant to the Textron 2007 Long-Term Incentive Plan (the “Plan”). Textron grants Performance Cash Units to attract, retain and reward employees, to increase identification with Textron’s interests and the interests of Textron’s shareholders, and to provide incentive for remaining with and enhancing the value of Textron over the long-term. In consideration for granting Performance Cash Units to you, please acknowledge that you have read and agree to this Performance Cash Unit Non-Competition Agreement by signing the attached Notice of Grant of Performance Cash Unit and Performance Cash Unit Agreement.

Agreement regarding Your Performance Cash Units

1. Forfeiture of PCUs and required repayment if you engage in certain competitive activities

If at any time during the Performance Period (as defined in the Notice of Grant of Performance Cash Unit and Performance Cash Unit Agreement) while you are a Company employee, or within two years after the termination of your employment, you do any of the following activities:

- (a) engage in any business which competes with the Company’s business (as defined in Paragraph 2) within the Restricted Territory (as defined in Paragraph 3); or
- (b) solicit customers, business or orders or sell any products and services (i) in competition with the Company’s business within the Restricted Territory or (ii) for any business, wherever located, that competes with the Company’s business within the Restricted Territory; or
- (c) divert, entice or otherwise take away customers, business or orders of the Company within the Restricted Territory, or attempt to do so; or
- (d) promote or assist, financially or otherwise, any firm, corporation or other entity engaged in any business which competes with the Company’s business within the Restricted Territory;

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

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

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

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

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

4. Forfeiture of PCUs and required repayment if you engage in certain solicitation activities

If you directly or indirectly solicit or induce or attempt to solicit or induce any employee(s), sales representative(s), agent(s) or consultant (s) of the Company to terminate their employment, representation or other association with the Company, then your right to receive all PCUs shall be forfeited effective the date you enter into such activity and you will be required to repay Textron an amount equal to the value of any PCU earned and paid to you from and after the date beginning 180 days prior to the earlier of (a) your termination of employment or (b) the date you engage in such activity, or at any time after such date.

5. Forfeiture of PCUs and required repayment if you disclose confidential information

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

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

6. Organization and Compensation Committee Discretion

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

7. Severability

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

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

	Six Months Ended <u>July 4, 2009</u>
Fixed charges:	
Interest expense	\$ 64
Estimated interest portion of rents	16
Total fixed charges	<u>\$ 80</u>
Income:	
Loss from continuing operations before income taxes	\$ (79)
Fixed charges	80
Dividends received from Finance group	184
Eliminate pretax loss of Finance group	173
Adjusted income	<u>\$ 358</u>
Ratio of income to fixed charges	<u>4.48</u>

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

	<u>Six Months Ended July 4, 2009</u>
Fixed charges:	
Interest expense	\$ 159
Estimated interest portion of rents	<u>18</u>
Total fixed charges	<u><u>\$ 177</u></u>
 Income:	
Loss from continuing operations before income taxes	\$ (79)
Fixed charges	<u>177</u>
Adjusted income	<u><u>\$ 98</u></u>
 Ratio of income to fixed charges	 <u><u>0.55</u></u>

Earnings for the six months ended July 4, 2009 were inadequate to cover fixed charges. Additional earnings of \$79 million would have been necessary to bring the ratio of income to fixed charges to 1.0.

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

I, Lewis B. Campbell, Chairman 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: July 31, 2009

/s/ Lewis B. Campbell
Lewis B. Campbell
Chairman and Chief Executive Officer

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

I, Richard L. Yates, Senior Vice President, Corporate Controller and Acting 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: July 31, 2009

/s/ Richard L. Yates
Richard L. Yates
Senior Vice President, Corporate Controller and
Acting Chief Financial Officer

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

In connection with the Quarterly Report of Textron Inc. (the "Company") on Form 10-Q for the period ended July 4, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lewis B. Campbell, Chairman 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: July 31,
2009

/s/ Lewis B. Campbell

Lewis B. Campbell
Chairman and Chief Executive
Officer

TEXTRON INC.

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

In connection with the Quarterly Report of Textron Inc. (the "Company") on Form 10-Q for the period ended July 4, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard L. Yates, Senior Vice President, Corporate Controller and Acting Chief Financial Officer, 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: July 31, 2009

/s/ Richard L. Yates
Richard L. Yates
Senior Vice President, Corporate
Controller and
Acting Chief Financial Officer