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TEXTRON INC

FORM 10-Q
(Quarterly Report)

Filed 11/08/06 for the Period Ending 09/30/06

Address	40 WESTMINSTER ST PROVIDENCE, RI 02903
Telephone	4014212800
CIK	0000217346
Symbol	TXT
SIC Code	6162 - Mortgage Bankers and Loan Correspondents
Fiscal Year	01/02

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TEXTRON INC

FORM 10-Q
(Quarterly Report)

Filed 11/8/2006 For Period Ending 9/30/2006

Address	40 WESTMINSTER ST
	PROVIDENCE, Rhode Island 02903
Telephone	401-421-2800
CIK	0000217346
Industry	Conglomerates
Sector	Conglomerates
Fiscal Year	12/31

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal quarter ended September 30, 2006
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-5480

TEXTRON INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	05-0315468 (I.R.S. Employer Identification No.)

40 Westminster Street, Providence, RI 02903
401-421-2800
(Address and telephone number of principal executive offices)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ✓ Accelerated filer ___ Non-accelerated filer ___

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 October 28, 2006 - 125,444,933 shares

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

TEXTRON INC.
Consolidated Statements of Operations (unaudited)
(Dollars in millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Revenues				
Manufacturing revenues	$ 2,625	$ 2,250	$ 7,703	$ 6,899
Finance revenues	212	155	586	443
Total revenues	2,837	2,405	8,289	7,342
Costs, expenses and other				
Cost of sales	2,099	1,787	6,135	5,482
Selling and administrative	369	350	1,106	1,027
Interest expense, net	117	64	320	204
Provision for losses on finance receivables	10	4	18	17
Special charges	-	2	-	97
Total costs, expenses and other	2,595	2,207	7,579	6,827
Income from continuing operations before income taxes	242	198	710	515
Income taxes	(67)	(52)	(200)	(167)
Income from continuing operations	**175**	**146**	**510**	**348**
Loss from discontinued operations, net of income taxes	(6)	(310)	(104)	(263)
Net income (loss)	**$ 169**	**$ (164)**	**$ 406**	**$ 85**
Per common share:				
Basic:				
Income from continuing operations	$ 1.39	$ 1.10	$ 3.98	$ 2.59
Loss from discontinued operations, net of income taxes	(0.05)	(2.33)	(0.81)	(1.96)
Net income (loss)	**$ 1.34**	**$ (1.23)**	**$ 3.17**	**$ 0.63**
Diluted:				
Income from continuing operations	$ 1.36	$ 1.07	$ 3.90	$ 2.53
Loss from discontinued operations, net of income taxes	(0.04)	(2.27)	(0.80)	(1.91)
Net income (loss)	**$ 1.32**	**$ (1.20)**	**$ 3.10**	**$ 0.62**
Average shares outstanding (in thousands):				
Basic	125,809	132,910	128,128	134,180
Diluted	128,379	135,629	130,849	137,136
Dividends per share:				
$2.08 Preferred stock, Series A	$ 0.52	$ 0.52	$ 1.56	$ 1.56
$1.40 Preferred stock, Series B	$ 0.35	$ 0.35	$ 1.05	$ 1.05
Common stock	$ 0.3875	$ 0.35	$ 1.1625	$ 1.05

See Notes to the Consolidated Financial Statements.

Item 1. FINANCIAL STATEMENTS (Continued)

TEXTRON INC.

Consolidated Balance Sheets (unaudited)

(Dollars in millions)

	September 30, 2006	December 31, 2005
Assets		
Textron Manufacturing		
Cash and cash equivalents	$ 771	$ 786
Accounts receivable, less allowance for doubtful accounts of $39 and $38	962	891
Inventories	2,128	1,712
Other current assets	404	464
Assets of discontinued operations	139	1,122
Total current assets	4,404	4,975
Property, plant and equipment, less accumulated depreciation and amortization of $2,124 and $1,999	1,630	1,574
Goodwill	994	979
Other intangible assets, net	38	32
Other assets	1,553	1,498
Total Textron Manufacturing assets	8,619	9,058
Textron Finance		
Cash	51	10
Finance receivables, less allowance for losses of $94 and $96	8,044	6,667
Goodwill	169	169
Other assets	559	595
Total Textron Finance assets	8,823	7,441
Total assets	$ 17,442	$ 16,499
Liabilities and Shareholders' Equity		
Liabilities		
Textron Manufacturing		
Current portion of long-term debt and short-term debt	$ 6	$ 275
Accounts payable	860	677
Accrued liabilities	1,800	1,749
Liabilities of discontinued operations	160	446
Total current liabilities	2,826	3,147
Accrued postretirement benefits other than pensions	516	515
Other liabilities	1,617	1,511
Long-term debt	1,728	1,659
Total Textron Manufacturing liabilities	6,687	6,832
Textron Finance		
Other liabilities	558	510
Deferred income taxes	478	461
Debt	6,678	5,420
Total Textron Finance liabilities	7,714	6,391
Total liabilities	14,401	13,223
Shareholders' equity		
Capital stock:		
Preferred stock	10	10

Common stock		26		26
Capital surplus		1,749		1,533
Retained earnings		6,065		5,808
Accumulated other comprehensive loss		(82)		(78)
		7,768		7,299
Less cost of treasury shares		4,727		4,023
Total shareholders' equity		3,041		3,276
Total liabilities and shareholders' equity	$	17,442	$	16,499
Common shares outstanding (in thousands)		125,316		130,185

See Notes to the Consolidated Financial Statements.

Item 1. FINANCIAL STATEMENTS (Continued)

TEXTRON INC.

Consolidated Statements of Cash Flows (unaudited)

For the Nine Months Ended September 30, 2006 and October 1, 2005, respectively

(In millions)

	Consolidated	
	2006	2005 Revised- See Note 1
Cash flows from operating activities:		
Net income	$ 406	$ 85
Loss from discontinued operations	104	263
Income from continuing operations	510	348
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Earnings of Textron Finance, net of distributions	-	-
Depreciation	197	207
Amortization	13	14
Provision for losses on finance receivables	18	17
Special charges	-	97
Share-based compensation	22	19
Deferred income taxes	12	17
Changes in assets and liabilities:		
Accounts receivable, net	(40)	(112)
Inventories	(456)	(223)
Other assets	97	96
Accounts payable	170	251
Accrued liabilities	205	15
Captive finance receivables, net	(263)	(88)
Other operating activities, net	50	32
Net cash provided by operating activities of continuing operations	535	690
Net cash (used in) provided by operating activities of discontinued operations	(8)	58
Net cash provided by operating activities	527	748
Cash flows from investing activities:		
Finance receivables:		
Originated or purchased	(8,557)	(7,486)
Repaid	7,158	6,713
Proceeds on receivables sales and securitization sales	185	178
Capital expenditures	(224)	(202)
Net cash used in acquisitions	(12)	(23)
Net proceeds from sale of businesses	12	(1)
Proceeds on sale of property, plant and equipment	4	4
Other investing activities, net	50	48
Net cash used in investing activities of continuing operations	(1,384)	(769)
Net cash provided by (used in) investing activities of discontinued operations	624	(4)
Net cash used in investing activities	(760)	(773)
Cash flows from financing activities:		
Increase (decrease) in short-term debt	153	(202)
Proceeds from issuance of long-term debt	1,656	1,642
Principal payments and retirements of long-term debt	(805)	(1,012)

Proceeds from employee stock ownership plans	153	80
Purchases of Textron common stock	(749)	(410)
Dividends paid	(195)	(189)
Dividends paid to Textron Manufacturing	-	-
Capital contributions paid to Textron Finance	-	-
Excess tax benefits related to stock option exercises	27	9
Net cash provided by (used in) financing activities of continuing operations	240	(82)
Net cash provided by (used in) financing activities of discontinued operations	2	(1)
Net cash provided by (used in) financing activities	242	(83)
Effect of exchange rate changes on cash and cash equivalents	17	(22)
Net increase (decrease) in cash and cash equivalents	26	(130)
Cash and cash equivalents at beginning of year	796	697
Cash and cash equivalents at end of period	$ 822	$ 567
Supplemental schedule of non-cash investing and financing activities from continuing operations:		
Capital expenditures financed through capital leases	$ 14	$ 3

See Notes to the Consolidated Financial Statements.

Item 1 . FINANCIAL STATEMENTS (Continued)

TEXTRON INC.

Consolidated Statements of Cash Flows (unaudited) (continued)

For the Nine Months Ended September 30, 2006 and October 1, 2005, respectively

(In millions)

	Textron Manufacturing*		**Textron Finance***	
	2006	2005 Revised- See Note 1	2006	2005 Revised- See Note 1
Cash flows from operating activities:				
Net income	$ 406	$ 85	$ 113	$ 80
Loss from discontinued operations	104	263	-	-
Income from continuing operations	510	348	113	80
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:				
Earnings of Textron Finance, net of distributions	(33)	20	-	-
Depreciation	176	182	21	25
Amortization	5	5	8	9
Provision for losses on finance receivables	-	-	18	17
Special charges	-	97	-	-
Share-based compensation	22	19	-	-
Deferred income taxes	(6)	(4)	18	21
Changes in assets and liabilities:				
Accounts receivable, net	(40)	(112)	-	-
Inventories	(418)	(205)	-	-
Other assets	80	64	7	17
Accounts payable	170	266	-	(15)
Accrued liabilities	126	(46)	79	61
Captive finance receivables, net	-	-	-	-
Other operating activities, net	44	29	6	3
Net cash provided by operating activities of continuing operations	636	663	270	218
Net cash (used in) provided by operating activities of discontinued operations	(4)	58	(4)	-
Net cash provided by operating activities	632	721	266	218
Cash flows from investing activities:				
Finance receivables:				
Originated or purchased	-	-	(9,298)	(8,062)
Repaid	-	-	7,636	7,149
Proceeds on receivables sales and securitization sales	-	-	185	230
Capital expenditures	(216)	(196)	(8)	(6)
Net cash used in acquisitions	(12)	(23)	-	-
Net proceeds from sale of businesses	12	(1)	-	-
Proceeds on sale of property, plant and equipment	4	13	-	-
Other investing activities, net	-	-	22	36

Net cash used in investing activities of continuing

operations	(212)	(207)	(1,463)	(653)
Net cash provided by (used in) investing activities of discontinued operations	624	(4)	-	-
Net cash provided by (used in) investing activities	412	(211)	(1,463)	(653)
Cash flows from financing activities:				
(Decrease) increase in short-term debt	(280)	-	433	(202)
Proceeds from issuance of long-term debt	-	403	1,656	1,239
Principal payments and retirements of long-term debt	(15)	(420)	(790)	(592)
Proceeds from employee stock ownership plans	153	80	-	-
Purchases of Textron common stock	(749)	(410)	-	-
Dividends paid	(195)	(189)	-	-
Dividends paid to Textron Manufacturing	-	-	(80)	(100)
Capital contributions paid to Textron Finance	(18)	-	18	-
Excess tax benefits related to stock option exercises	27	9	-	-
Net cash (used in) provided by financing activities of continuing operations	(1,077)	(527)	1,237	345
Net cash provided by (used in) financing activities of discontinued operations	2	(1)	-	-
Net cash (used in) provided by financing activities	(1,075)	(528)	1,237	345
Effect of exchange rate changes on cash and cash equivalents	16	(24)	1	2
Net (decrease) increase in cash and cash equivalents	(15)	(42)	41	(88)
Cash and cash equivalents at beginning of year	786	570	10	127
Cash and cash equivalents at end of period	$ 771	$ 528	$ 51	$ 39
Supplemental schedule of non-cash investing and financing activities \from continuing operations:				
Capital expenditures financed through capital leases	$ 14	$ 3	$ -	$ -

**Textron is segregated into two borrowing groups, Textron Manufacturing and Textron Finance, as described in Note 1 to the Consolidated Financial Statements. Textron Manufacturing's cash flows exclude the pre-tax income from Textron Finance in excess of dividends paid to Textron Manufacturing. All significant transactions between Textron Manufacturing and Textron Finance have been eliminated from the Consolidated column provided on page 4.*

See Notes to the Consolidated Financial Statements.

Item 1. FINANCIAL STATEMENTS (Continued)

TEXTRON INC.

Notes to the Consolidated Financial Statements (unaudited)

Note 1: Basis of Presentation

The consolidated financial statements should be read in conjunction with the financial statements included in Textron's Annual Report on Form 10-K for the year ended December 31, 2005. The consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for the fair presentation of Textron's consolidated financial position at September 30, 2006, and its consolidated results of operations and cash flows for each of 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.

Textron's financings are conducted through two borrowing groups: Textron Manufacturing and Textron Finance. This framework is designed to enhance Textron's borrowing power by separating the Finance segment. Textron Manufacturing consists of Textron Inc., the parent company, consolidated with the entities that operate in the Bell, Cessna and Industrial business segments. Textron Manufacturing's cash flows include dividends received from Textron Finance but exclude its pre-tax income. Textron Finance consists of Textron's wholly owned commercial finance subsidiary, Textron Financial Corporation, consolidated with its subsidiaries, which are the entities through which Textron operates its Finance segment. Textron Finance obtains financing for its operations by borrowing from its own group of external creditors. All significant intercompany transactions are eliminated from the consolidated financial statements, including retail and wholesale financing activities for inventory sold by Textron Manufacturing that is financed by Textron Finance.

For the year ended December 31, 2005, and in 2006, Textron has separately disclosed the operating, investing and financing portions of the cash flows for its discontinued operations, which in prior periods were reported on a combined basis as a single amount. Prior 2005 interim periods have been revised to conform to this presentation.

Note 2: Discontinued Operations

On August 11, 2006, Textron completed the sale of its Fastening Systems business to Platinum Equity, a private equity investment firm, for $610 million in cash and the assumption of $15 million of net indebtedness and certain liabilities. There was no gain or loss recorded upon completion of the sale. The purchase price is subject to final adjustment based on the audited net asset value, net debt and cash balances at the closing date, and is expected to be determined in the fourth quarter of 2006. Textron had previously recorded a $120 million after-tax impairment charge in the second quarter of 2006 to record the business at the estimated fair value less cost to sell based on offers received from potential purchasers at that time.

Textron's consolidated financial statements and related footnote disclosures reflect the Fastening Systems business and the previously sold businesses of InteSys and OmniQuip as discontinued operations, net of applicable income taxes, for all periods presented.

Item 1. FINANCIAL STATEMENTS (Continued)

Operating results of these discontinued businesses, primarily related to Fastening Systems, are as follows:

	Three Months Ended		Nine Months Ended	
(In millions)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Revenues	$ 176	$ 457	$ 1,101	$ 1,501
Income (loss) from discontinued operations	5	(347)	(93)	(344)
Income tax (expense) benefit	(11)	34	(11)	38
Operating loss from discontinued operations, net of income taxes	(6)	(313)	(104)	(306)
Gain on disposal, net of income taxes	-	3	-	43
Loss from discontinued operations, net of income taxes	$ (6)	$ (310)	$ (104)	$ (263)

For the nine months ended October 1, 2005, an after-tax net gain of $43 million was recognized on the sale of InteSys, a business previously reported in the Industrial segment.

At September 30, 2006, assets of discontinued operations include current assets of $139 million related to the sale of the Fastening Systems business, and liabilities of discontinued operations include current liabilities of $74 million and long-term liabilities of $86 million, representing liabilities retained upon the sale of the Fastening Systems business.

Note 3: Inventories

(In millions)	September 30, 2006	December 31, 2005
Finished goods	$ 720	$ 527
Work in process	1,626	1,410
Raw materials	357	267
	2,703	2,204
Less progress/milestones payments	575	492
	$ 2,128	$ 1,712

Note 4: Comprehensive Income and Accumulated Other Comprehensive Loss

Comprehensive income is summarized below:

	Three Months Ended		Nine Months Ended	
(In millions)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Net income (loss)	$ 169	$ (164)	$ 406	$ 85
Other comprehensive (loss) income	(13)	22	(4)	(54)
Comprehensive income (loss)	$ 156	$ (142)	$ 402	$ 31

Item 1. FINANCIAL STATEMENTS (Continued)

The components of accumulated other comprehensive loss, net of related taxes, are as follows:

	Nine Months Ended	
(In millions)	September 30, 2006	October 1, 2005
Beginning of period	$ (78)	$ (97)
Currency translation adjustment	24	(57)
Net deferred gain (loss) on hedge contracts	6	(1)
Net deferred (loss) gain on interest-only securities	(2)	4
Reclassifications due to the sale of Fastening Systems:		
Currency translation adjustment	(71)	-
Pension liability adjustment	39	-
Other comprehensive loss	(4)	(54)
End of period	$ (82)	$ (151)

The net income tax impact included in other comprehensive loss for the nine months ended September 30, 2006 was not significant, and the net income tax expense for the nine months ended October 1, 2005 totaled $13 million.

Note 5: Earnings per Share

The dilutive effect of stock options, restricted stock and convertible preferred shares was approximately 2,570,000 and 2,719,000 shares for the three months ended September 30, 2006 and October 1, 2005, respectively, and approximately 2,721,000 and 2,956,000 shares for the nine months ended September 30, 2006 and October 1, 2005, respectively. Income available to common shareholders that was used to calculate both basic and diluted earnings per share approximated net income (loss) for both periods.

Note 6: Share-Based Compensation

The compensation expense that has been recorded in net income (loss) for Textron's share-based compensation plans is as follows:

	Three Months Ended		Nine Months Ended	
(In millions)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Compensation expense, net of hedge income or expense	$ 12	$ 11	$ 52	$ 40
Income tax benefit	(2)	(2)	(20)	(13)
Total net compensation cost included in net income (loss)	10	9	32	27
Net compensation costs included in discontinued operations	(4)	-	(2)	2
Net compensation costs included in continuing operations	$ 14	$ 9	$ 34	$ 25

There were no significant issuances of stock options in the third quarter of 2006 or 2005.

Item 1. FINANCIAL STATEMENTS (Continued)

Restricted stock activity under the 1999 Long-Term Incentive Plan for the nine months ended September 30, 2006 is as follows:

(Shares in thousands)	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year, nonvested	1,156	$ 55.99
Granted	383	83.26
Vested	(62)	40.33
Forfeited	(236)	59.73
Outstanding at end of period, nonvested	1,241	$ 64.47

Forfeitures during the period relate primarily to the sale of the Fastening Systems business.

Note 7: Pension Benefits and Postretirement Benefits Other Than Pensions

The components of net periodic benefit cost for the three months ended September 30, 2006 and October 1, 2005 are as follows:

(In millions)	Pension Benefits		Postretirement Benefits Other Than Pensions	
	2006	2005	2006	2005
Service cost	$ 35	$ 33	$ 2	$ 3
Interest cost	73	65	10	11
Expected return on plan assets	(96)	(96)	-	-
Amortization of transition obligation	-	1	-	-
Amortization of prior service cost	5	2	(1)	(3)
Amortization of net loss	8	10	4	4
Net periodic benefit cost	$ 25	$ 15	$ 15	$ 15

The components of net periodic benefit cost for the nine months ended September 30, 2006 and October 1, 2005 are as follows:

(In millions)	Pension Benefits		Postretirement Benefits Other Than Pensions	
	2006	2005	2006	2005
Service cost	$ 106	$ 96	$ 7	$ 7
Interest cost	211	204	30	28
Expected return on plan assets	(288)	(290)	-	-
Amortization of transition obligation	-	1	-	-
Amortization of prior service cost	14	13	(4)	(5)
Amortization of net loss	32	26	15	10
Net periodic benefit cost	$ 75	$ 50	$ 48	$ 40

Note 8: Special Charges

Special charges for the third quarter of 2005 include $2 million in restructuring costs in connection with Textron's company-wide restructuring program that was completed at the end of 2005. Special charges for the nine months ended October 1, 2005 include $91 million of impairment charges related to preferred shares in Collins & Aikman Products Co. ("C&A Products") and $6 million in restructuring costs in connection with the company-wide restructuring program.

Item 1. FINANCIAL STATEMENTS (Continued)

Textron's remaining reserves under the company-wide restructuring program total $30 million as of September 30, 2006. This balance includes a $29 million liability associated with exiting certain leased facilities in the Industrial segment that will be paid out over the remaining lease term.

Note 9: Income Taxes

A reconciliation of the federal statutory income tax rate to the effective income tax rate is provided below:

	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Federal statutory income tax rate	35.0%	35.0%	35.0%	35.0%
Increase (decrease) in taxes resulting from:				
State income taxes	2.5	1.3	1.8	0.5
C&A impairment valuation allowance	-	-	-	5.2
Foreign tax rate differential	(3.1)	(4.6)	(3.1)	(4.6)
Canadian dollar functional currency	(4.8)	-	(1.6)	-
Favorable tax settlements	-	-	(1.7)	-
Special foreign dividend	-	(1.6)	-	(0.3)
Other, net	(1.9)	(3.8)	(2.2)	(3.4)
Effective income tax rate	27.7%	26.3%	28.2%	32.4%

In the third quarter of 2006, Textron Finance recorded a one-time tax benefit related to the adoption of the Canadian dollar as the functional currency for U.S. tax purposes for one of its Canadian subsidiaries which lowered the effective tax rate by 4.8% and 1.6% for the three and nine month periods ended September 30, 2006.

Note 10: Commitments and Contingencies

Textron is subject to legal proceedings and other claims arising out of the conduct of Textron's business, including proceedings and claims relating to private sector transactions; government contracts; 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, Textron is subject to audits, reviews and investigations to determine whether its operations are being conducted in accordance with applicable regulatory requirements. Under federal government procurement regulations, certain claims brought by the U.S. Government could also result in Textron's suspension or debarment from U.S. Government contracting for a period of time. On the basis of information presently available, Textron believes that these proceedings and claims will not have a material effect on Textron's financial position or results of operations.

In connection with the 2002 recall of certain Lycoming turbocharged airplane engines, a former third-party supplier filed a lawsuit against Lycoming claiming that the former supplier had been wrongly blamed for aircraft engine failures resulting from its crankshaft forging process and that Lycoming's design was the cause of the engine failures. In February 2005, a jury returned a verdict against Lycoming for $86 million in punitive damages, $2.7 million in expert fees and $1.7 million in increased insurance costs. The jury also found that the former supplier's claim that it had incurred $5.3 million in attorneys' fees was reasonable. Judgment was entered on the verdict on March 29, 2005, awarding the former supplier $9.7 million in alleged compensatory damages and attorneys' fees and $86 million in alleged punitive damages. While the ultimate outcome of the litigation cannot be assured, management strongly disagrees with the verdict and believes that it is probable that it will be reversed through the appellate process.

In 2005, Lycoming issued a service bulletin covering certain non-turbocharged aircraft engines to replace potentially faulty crankshafts manufactured by the former supplier with new crankshafts certified by the U.S. Federal Aviation Administration ("FAA"). This bulletin was amended later in 2005 to include additional engines. Including the

amendment, the service bulletin covers approximately 1,425 crankshafts and requires that the affected crankshafts be replaced within the earlier of the next 50 hours of operation or six months. On April 27, 2006, the FAA issued an Airworthiness Directive requiring compliance within six months of that date. As of September 30, 2006, reserves to cover costs directly related to crankshafts provided by the former supplier, excluding the retirement program described below, totaled $8 million.

During the fourth quarter of 2005, Lycoming developed a plan to institute a retirement program for approximately 5,100 crankshafts, representing the remaining crankshafts manufactured by the former supplier using the same forging technique as the crankshafts covered by prior service bulletins. A service bulletin was issued in the first quarter of 2006 implementing this plan, which requires the retirement of an affected crankshaft at the next crankshaft access or scheduled overhaul, whichever occurs first, but not to exceed three years from the issuance of the service bulletin. On September 29, 2006, the FAA issued an Airworthiness Directive requiring compliance within twelve years of that date, or the next access. These crankshafts have not been the subject of a recall. As of September 30, 2006, reserves for this program totaled $10 million.

Note 11: Arrangements with Off-Balance Sheet Risk

Bell Helicopter and AgustaWestland North America Inc. ("AWNA") formed the AgustaWestlandBell LLC ("AWB LLC") in January 2004 for the joint design, development, manufacture, sale, customer training and product support of the US101 helicopter, subsequently designated the VH-71 helicopter, and certain variations and derivatives thereof, to be offered and sold to departments or agencies of the U.S. Government.

In March 2005, AWB LLC received a $1.2 billion cost reimbursement-type subcontract from Lockheed Martin for the System Development and Demonstration phase of the U.S. Marine Corps Marine 1 Helicopter Squadron (VH-71) Program. On March 11, 2005, Bell Helicopter guaranteed to Lockheed Martin the due and prompt performance by AWB LLC of all its obligations under this subcontract, provided that Bell Helicopter's liability under the guaranty shall not exceed 49% of AWB LLC's aggregate liability to Lockheed Martin under the subcontract. AgustaWestland N.V., AWNA's parent company, has guaranteed the remaining 51% to Lockheed Martin. Bell Helicopter and AgustaWestland N.V. have entered into cross-indemnification agreements in which each party indemnifies the other related to any payments required under these agreements that result from the indemnifying party's workshare under any subcontracts received.

For 2006, AWB LLC's maximum obligation is 40% of the total contract value, which equates to $464 million based on the current contract value of $1.2 billion and thereafter increases to 50%, or $580 million. Accordingly, the maximum amount of Bell Helicopter's liability under the guarantee will be $227 million in 2006 and $284 million thereafter through completion.

In connection with the disposition of Trim, certain operating leases were transferred and assigned to Collins & Aikman Corporation ("C&A"). Textron has guaranteed C&A's payments under these operating leases and an environmental matter up to an aggregate remaining amount of approximately $18 million. Textron would be required to make payments under the guarantees upon default by C&A. Textron has not received any significant default notices related to these leases, and management believes C&A will continue to make payments. In July 2006, as part of C&A's announced plan to sell its European operations, Textron settled its guarantee related to C&A's lease of certain European facilities. Management will continue to monitor C&A's performance and Textron's reserves related to these matters. Textron's reserves of $6 million at September 30, 2006 are based on management's best estimate of Textron's exposure under these guarantees.

In connection with the sale of the Fastening Systems business in the third quarter of 2006, Textron guaranteed certain payments and performance of the buyer of the business. In accordance with the purchase and sale agreement, Textron is entitled to reimbursement by the buyer for payments made under these guarantees.

Textron has guaranteed payment on certain credit facilities and bank-issued letters of credit and guarantees of the Fastening Systems business where the total guarantee is capped at approximately $25 million, for which the buyer has

provided a letter of credit of approximately $4 million as collateral. Since September 30, 2006, Textron has been released from $11 million of these capped guarantees. Textron has also guaranteed payment and performance on certain other credit facilities and leases of the Fastening Systems business totaling approximately $21 million, where Textron is also liable for unpaid interest, fees and other costs associated with claims that may arise from these guarantees. While potential interest and fees are not capped, Textron has monitoring provisions which mitigate the exposure to these additional costs. The buyer has provided a letter of credit of approximately $9 million as collateral on these guarantees. Since September 30, 2006, Textron has been released from $2 million of these uncapped guarantees. An additional $9 million of these capped and uncapped guarantees are expected to be released in the fourth quarter of 2006. The estimated fair value of Textron’s exposure under all the guarantees associated with Fastening Systems is approximately $0.4 million.

As disclosed under the caption "Guarantees" in Note 18 to the Consolidated Financial Statements in Textron's 2005 Annual Report on Form 10-K, Textron has issued or is party to certain other guarantees. As of September 30, 2006, there have been no material changes to these other guarantees.

Note 12: Recently Announced Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") No. 155 "Accounting for Certain Hybrid Financial Instruments - An amendment of FASB Statements No. 133 and 140". This Statement requires evaluation of all interests in securitized financial assets to determine whether they represent either freestanding derivatives or contain embedded derivatives. These interests were previously exempted from such evaluation. SFAS No. 155 permits any hybrid instrument, such as an interest in securitized financial assets containing an embedded derivative, to be accounted for at fair value as opposed to bifurcating and accounting for the embedded derivative separate from the host instrument. This Statement also eliminates restrictions on a qualifying special purpose entity's ability to hold passive derivative financial instruments pertaining to beneficial interests that are, or contain, a derivative financial instrument. Textron will adopt this Statement in the first quarter of 2007, and does not expect the adoption to have a material impact on Textron's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156 "Accounting for Servicing of Financial Assets - An amendment of FASB Statement No. 140". This Statement requires all separately recognized servicing assets and liabilities to be initially measured at fair value and permits entities to choose to either subsequently measure servicing rights at fair value and report changes in fair value in earnings, or amortize servicing rights in proportion to, and over, the estimated net servicing income or loss and assess the rights for impairment or the need for an increased obligation. The option to subsequently measure servicing rights at fair value will allow entities which utilize derivative instruments to hedge their servicing rights to account for such hedging relationships at fair value and avoid the complications of hedge accounting. Textron does not utilize derivative instruments to hedge its servicing rights as of September 30, 2006. Textron will adopt this Statement in the first quarter of 2007, and will utilize the amortization method to subsequently measure its servicing rights. The adoption of this Statement is not expected to have a material impact on Textron's financial position or results of operations.

In July 2006, the FASB issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes - An interpretation of FASB Statement No. 109" ("FIN 48"). This Interpretation provides a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Textron will adopt this Interpretation in the first quarter of 2007. The cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings. Textron is currently assessing the impact of this Interpretation on Textron's financial position and results of operations.

In July 2006, the FASB issued Staff Position No. 13-2 "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction". This Staff Position amends SFAS No. 13 "Accounting for Leases" and requires a recalculation of returns on leveraged leases if there is a change or projected change in the timing of cash flows related to income taxes generated by the leveraged lease. In accordance with this guidance, the difference between the revised calculation of earnings since lease inception and the actual amount of cumulative earnings recognized is recorded in income from continuing operations. Textron is required to adopt this

guidance in the first quarter of 2007. Upon adoption, any change in the projected cash flows will be reported as an adjustment to retained earnings. The Internal Revenue Service ("IRS") has challenged both the ability to accelerate the timing of tax deductions and the amounts of those deductions related to certain leveraged lease transactions within the Finance segment. These transactions, along with other transactions with similar characteristics, have an initial investment of approximately $209 million. Management believes the positions taken by the IRS are inconsistent with tax law in existence at the time the leases were originated and intends to vigorously defend Textron's position. However, if the IRS were to prevail, the maximum potential adjustment to Textron's retained earnings at the beginning of fiscal 2007 would be approximately $38 million. In addition, resolution of these issues could result in the acceleration of cash payments to the IRS, which have been provided in deferred income taxes on the consolidated balance sheets.

In September 2006, the FASB issued SFAS No. 157 "Fair Value Measurements". This Statement replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value, and expands financial statement disclosures regarding fair value measurements. This Statement applies only to fair value measurements that are already required or permitted by other accounting standards and does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning subsequent to November 15, 2007. Textron will adopt this Statement in the first quarter of 2008, and is currently evaluating the impact on its financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An amendment of FASB Statements No. 87, 88, 106, and 132(R)". This Statement requires an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year; and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur, and report these changes in comprehensive income. SFAS No. 158 is effective for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. Textron will adopt this Statement as of December 30, 2006. The measurement date provisions will not impact Textron, as all of its plans have a measurement date of December 31 of the current fiscal year.

Textron has analyzed the impact that SFAS No. 158 would have had on its consolidated financial statements at December 31, 2005, had it been effective at that time. The impact would have reduced total assets by approximately $500 million, increased total liabilities by approximately $300 million and reduced shareholders' equity (increase in accumulated other comprehensive loss) by approximately $800 million, net of tax. In addition, Textron would have classified an additional $100 million of pension and postretirement benefit liabilities as current. These estimates may vary from the actual impact of implementing this Statement as the ultimate amounts recorded are dependant on a number of assumptions, including the discount rate at the end of 2006 and the actual rate of return on pension assets for 2006. Changes in these and other assumptions since our last measurement date could increase or decrease the expected impact of implementing this Statement at the end of 2006. The adoption of this Statement will not impact Textron's results of operations or cash flows.

Note 13: Segment Information

Textron reports under the following segments: Bell, Cessna, Industrial and Finance. Textron evaluates segment performance based on segment profit. Segment profit for the Manufacturing segments excludes interest expense, certain corporate expenses, special charges, and gains and losses from the disposition of significant business units. The measurement for the Finance segment includes both interest income and expense, and excludes special charges. Provisions for losses on finance receivables involving the sale or lease of Textron products are recorded by the selling manufacturing division when Textron Finance has recourse to Textron Manufacturing.

Item 1. FINANCIAL STATEMENTS (Continued)

A summary of continuing operations by segment is provided below:

	Three Months Ended		Nine Months Ended	
(In millions)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
REVENUES				
MANUFACTURING:				
Bell	$ 855	$ 674	$ 2,443	$ 2,076
Cessna	1,050	890	2,924	2,513
Industrial	720	686	2,336	2,310
	2,625	2,250	7,703	6,899
FINANCE	212	155	586	443
Total revenues	$ 2,837	$ 2,405	$ 8,289	$ 7,342
SEGMENT OPERATING PROFIT				
MANUFACTURING:				
Bell	$ 67	$ 89	$ 201	$ 247
Cessna	162	117	432	325
Industrial	28	21	131	134
	257	227	764	706
FINANCE	53	43	158	120
Segment profit	310	270	922	826
Special charges	-	(2)	-	(97)
Segment operating income	310	268	922	729
Corporate expenses and other, net	(45)	(47)	(142)	(145)
Interest expense, net	(23)	(23)	(70)	(69)
Income from continuing operations before income taxes	$ 242	$ 198	$ 710	$ 515

Note 14: Subsequent Event

On October 25, 2006, Textron reached an agreement to acquire Overwatch Systems for a purchase price of approximately $325 million. Overwatch Systems is a leading developer and provider of intelligence analysis tools and communication products for the defense industry.

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

Business Overview

With nine months of strong overall performance behind us, we continue to expect year-over-year growth in revenues and segment profit in 2006 . Our revenues increased 18% to $2.8 billion in the third quarter of 2006 and earnings per share from continuing operations increased to $1.36 from $1.07 in 2005. On a year-to-date basis, revenues are up 13% to $8.3 billion with earnings per share from continuing operations increasing to $3.90 from $2.53 in 2005. Backlog in our aircraft businesses increased to $10.5 billion at September 30, 2006.

Cessna has continued to experience strong order activity in 2006 and has filled its 2007 delivery plan of 370 jets. In September, we received the first full Federal Aviation Administration ("FAA") certification of a "very light jet" model, the Mustang. We also introduced a new model, the CJ4, and already have 25 orders in backlog for this model at the end of the third quarter. We expect full year business jet deliveries to drive revenues and profit well above 2005 levels.

Our Finance segment has grown its owned finance receivable portfolio by $1.4 billion, up 20% from the end of 2005, resulting in higher net interest margin. The credit performance of our portfolio continues to be strong with nonperforming assets representing only 1.43% of the portfolio, compared to 1.53% at the end of 2005. We believe this segment is poised to surpass its 2005 results driven by the growth in owned finance receivables.

Strong performance in our Cessna and Finance segments has allowed us to overcome lower profit in the Bell segment. At Bell, increased military volume and higher commercial deliveries resulted in higher revenues for the first nine months of 2006. However, higher costs to support future growth at Bell have contributed to a decline in profit. We expect revenues at Bell for the full year to increase over 2005, while profit is expected to decrease.

Our Industrial segment's profit through the first nine months approximated last year's as improvements in the golf and turf-care businesses were partially offset by lower profit at Kautex. We continue to expect higher margins for this segment in 2006 compared to 2005, while revenues are expected to remain essentially flat.

Consolidated Results of Operations

Revenues

Revenues increased $432 million in the third quarter of 2006, compared to 2005, primarily due to higher manufacturing volume of $307 million, favorable pricing of $66 million in the manufacturing segments and higher Finance segment revenues of $57 million.

Revenues increased $947 million in the first nine months of 2006, compared to 2005, primarily due to higher volume of $672 million across all the manufacturing segments, higher pricing of $181 million in the manufacturing segments and higher Finance segment revenues of $143 million. These increases were partially offset by the divestiture of non-core product lines in the Industrial segment of $54 million.

Segment Profit

Segment profit increased $40 million in the third quarter of 2006, compared to 2005. Major drivers included $66 million from higher pricing in the manufacturing segments, the increased contribution of $44 million from higher net manufacturing volume and mix, and higher profit in the Finance segment of $10 million, partially offset by inflation of $64 million.

Segment profit increased $96 million in the first nine months of 2006, compared to 2005. Major drivers included $181 million from higher pricing in the manufacturing segments, the increased contribution of $107 million from

higher net manufacturing volume and mix, and higher profit in the Finance segment of $38 million, partially offset by inflation of $208 million.

Special Charges

Special charges for the first nine months of 2005 include $91 million of impairment charges related to preferred shares in Collins & Aikman Products Co. ("C&A Products") and $6 million in restructuring costs in connection with Textron's company-wide restructuring program that was completed at the end of 2005. Special charges for the third quarter of 2005 include $2 million in restructuring costs.

Income Taxes

A reconciliation of the federal statutory income tax rate to the effective income tax rate is provided below:

	Three Months Ended		Nine Months Ended	
	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Federal statutory income tax rate	35.0%	35.0%	35.0%	35.0%
Increase (decrease) in taxes resulting from:				
State income taxes	2.5	1.3	1.8	0.5
C&A impairment valuation allowance	-	-	-	5.2
Foreign tax rate differential	(3.1)	(4.6)	(3.1)	(4.6)
Canadian dollar functional currency	(4.8)	-	(1.6)	-
Favorable tax settlements	-	-	(1.7)	-
Special foreign dividend	-	(1.6)	-	(0.3)
Other, net	(1.9)	(3.8)	(2.2)	(3.4)
Effective income tax rate	27.7%	26.3%	28.2%	32.4%

In the third quarter of 2006, Textron Finance recorded a one-time tax benefit related to the adoption of the Canadian dollar as the functional currency for U.S. tax purposes for one of its Canadian subsidiaries which lowered the effective tax rate by 4.8% and 1.6% for the three and nine month periods ended September 30, 2006.

The effective tax rate for the full year is expected to be approximately 29% to 30%.

Discontinued Operations

Discontinued operations are primarily comprised of the Fastening Systems business which was classified as held for sale in the fourth quarter of 2005. On August 11, 2006, Textron completed the sale of its Fastening Systems business, which is discussed in more detail in Note 2 to the consolidated financial statements. There was no gain or loss recorded upon completion of the sale. The purchase price is subject to final adjustment based on the audited net asset value, net debt and cash balances at the closing date, and is expected to be determined in the fourth quarter of 2006.

Discontinued operations for the nine months ended September 30, 2006 includes a $120 million after-tax impairment charge taken in the second quarter related to the Fastening Systems business. Discontinued operations for the three and nine months ended October 1, 2005, includes a $295 million after-tax goodwill impairment charge for the Fastening Systems business. The nine months ended October 1, 2005, also includes an after-tax net gain of approximately $43 million associated with the sale of the InteSys business.

Segment Analysis

Bell

(In millions)	Three Months Ended September 30, 2006	Three Months Ended October 1, 2005	Nine Months Ended September 30, 2006	Nine Months Ended October 1, 2005
Revenues	$ 855	$ 674	$ 2,443	$ 2,076
Segment profit	67	89	201	247

Bell Revenues

U.S. Government Business

U.S. Government revenues increased $145 million in the third quarter of 2006, compared to 2005, primarily due to higher net volume and mix of $152 million. The higher volume is primarily due to increased Armored Security Vehicle (“ASV”) deliveries of $86 million, higher V-22 volume of $32 million and higher development revenue from the Armed Reconnaissance Helicopter Systems Development and Demonstration (“ARH SDD”) program of $26 million.

U.S. Government revenues increased $309 million in the first nine months of 2006, compared to 2005, primarily due to higher net volume and mix of $297 million and the benefit from acquisitions of $21 million. The higher volume is primarily due to increased ASV deliveries of $204 million, higher ARH SDD development revenue of $84 million and increased spares and service sales of $41 million, partially offset by lower V-22 volume of $36 million.

Commercial Business

Commercial revenues increased $36 million in the third quarter of 2006, compared to 2005, due to higher volume of $26 million and higher pricing of $10 million. The higher volume primarily reflects higher civil aircraft deliveries of $31 million and increased spares and service sales of $10 million, partially offset by lower international military deliveries of $21 million.

Commercial revenues increased $58 million in the first nine months of 2006, compared to 2005, primarily due to higher volume of $31 million and higher pricing of $27 million. The higher volume is primarily due to increased civil aircraft deliveries of $129 million and higher spares and service sales of $35 million, partially offset by lower international military deliveries of $107 million.

Bell Segment Profit

U.S. Government Business

Profit in the U.S. Government business increased $14 million in the third quarter of 2006, compared to 2005, due to the impact of higher volume of $16 million and improved cost performance of $13 million, partially offset by inflation of $8 million. The improved performance includes lower costs of $7 million related to Hurricane Katrina and $5 million in favorable ASV program performance, which were offset by unfavorable year-over-year H-1 Low-Rate Initial Production (“H-1 LRIP”) and ARH SDD performance of $6 million each.

Profit in the U.S. Government business increased $19 million in the first nine months of 2006, compared to 2005. The increase was primarily due to the impact of higher net volume and mix of $27 million and improved cost

performance of $24 million, partially offset by inflation of $24 million. The improved performance reflects favorable program performance at Textron Systems of $28 million, higher helicopter spares margins of $13 million and V-22 improvements of $8 million, partially offset by unfavorable H-1 LRIP and ARH SDD performance of $19 million and $13 million, respectively.

The H-1 program continues in the development stage and is currently undergoing Operational Evaluation. Additionally, Bell has entered into three H-1 LRIP contracts with the U.S. Government under this program. Bell has maintained its commitment to invest in the H-1 program and in the third quarter of 2006, Bell estimated that it will spend an additional $11 million in unreimbursable costs over the contract performance period. These costs are incremental to the $13 million recorded in the first quarter of 2006, and reflect higher anticipated costs to maintain the schedule, primarily in final assembly. The estimated $11 million impact has been recorded in the third quarter of 2006 as this contract is in a loss position.

Bell’s ARH SDD contract is a cost plus variable fee contract under which Bell’s eligibility to earn fees is reduced as total contract costs increase. In the third quarter of 2006, Bell recorded a $6 million charge as higher than anticipated costs resulted in Bell no longer being eligible to earn fees under this development contract. Bell also recorded a $6 million charge in the second quarter related to unreimbursed launch-related costs.

Commercial Business

Commercial profit decreased $36 million in the third quarter of 2006, compared to 2005, primarily due to unfavorable cost performance of $35 million and inflation of $6 million, partially offset by higher pricing of $10 million. The unfavorable performance reflected the $13 million prior year impact of the resolution of uncertainties and receipt of cash related to a collaborative research and development agreement, an increase in overhead costs of $11 million and higher net research and development expense of $5 million.

Commercial profit decreased $65 million in the first nine months of 2006, compared to 2005, primarily due to unfavorable cost performance of $68 million and inflation of $28 million, partially offset by higher pricing of $27 million. The unfavorable cost performance reflected higher net research and development expense of $29 million, increased overhead costs of $25 million and the $13 million prior year impact of the resolution of uncertainties and receipt of cash related to a collaborative research and development agreement.

Bell Helicopter Backlog

Bell Helicopter's backlog was $3.3 billion at September 30, 2006, compared to $2.8 billion at December 31, 2005.

Cessna

	Three Months Ended		Nine Months Ended	
(In millions)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Revenues	$ 1,050	$ 890	$ 2,924	$ 2,513
Segment profit	162	117	432	325

Cessna Revenues

Cessna revenues increased $160 million in the third quarter of 2006, compared to 2005, largely due to higher volume of $109 million, primarily related to Citation business jets, and favorable pricing of $51 million.

Cessna revenues increased $411 million in the first nine months of 2006, compared to 2005, largely due to higher volume of $276 million, primarily related to Citation business jets, and favorable pricing of $135 million.

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

Cessna Segment Profit

Segment profit increased $45 million in the third quarter of 2006, compared to 2005, primarily due to higher pricing of $51 million, the impact of higher volume of $23 million and favorable warranty performance of $17 million, partially offset by inflation of $25 million and higher engineering and product development costs of $12 million.

During the initial production launch, Cessna typically incurs higher warranty-related costs until the production process matures, at which point warranty costs moderate. Based on historical production and warranty patterns, management estimates that the Sovereign and CJ3 production lines have reached this maturity level, and that Sovereign and CJ3 aircraft produced in the third quarter of 2006 will incur lower warranty costs than earlier production aircraft. In the third quarter of 2006, Cessna's margins improved by approximately $10 million as a result of lower point of sale warranty accrual costs for aircraft sold in the quarter, primarily Sovereign and CJ3, compared to the third quarter of 2005. Management expects the improved margins to continue for the foreseeable future.

Segment profit increased $107 million in the first nine months of 2006, compared to 2005, primarily due to higher pricing of $135 million, the impact of higher volume of $54 million and favorable warranty performance of $23 million, partially offset by inflation of $83 million and higher engineering and product development costs of $24 million. Favorable warranty performance includes the $13 million impact of lower estimated warranty costs for aircraft sold in 2006, as well as a benefit of $28 million in other favorable warranty performance in the first nine months of 2006 compared to a benefit of $18 million in 2005.

Cessna Backlog

Cessna's backlog was $7.2 billion at September 30, 2006, compared to $6.3 billion at December 31, 2005.

Industrial

	Three Months Ended		Nine Months Ended	
(In millions)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Revenues	$ 720	$ 686	$ 2,336	$ 2,310
Segment profit	28	21	131	134

Industrial Revenues

The Industrial segment's revenues increased $34 million in the third quarter of 2006, compared to 2005, primarily due to higher volume of $20 million, favorable foreign exchange of $13 million and higher pricing of $12 million, partially offset by the divestiture of non-core product lines of $11 million.

The Industrial segment's revenues increased $26 million in the first nine months of 2006, compared to 2005, primarily due to higher volume of $68 million and higher pricing of $28 million, partially offset by the divestiture of non-core product lines of $54 million and an unfavorable foreign exchange impact of $16 million.

Industrial Segment Profit

Segment profit increased $7 million in the third quarter of 2006, compared to 2005, mainly due to improved cost performance of $17 million, primarily the result of cost reduction efforts at Kautex, higher pricing of $12 million and the impact of higher volume and a favorable mix of $6 million, partially offset by $25 million of inflation.

Segment profit decreased $3 million in the first nine months of 2006, compared to 2005, mainly due to $73 million of inflation, the $7 million impact of the divestiture of non-core product lines and the $4 million

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

unfavorable impact of foreign exchange, partially offset by $38 million of improved cost performance, higher pricing of $28 million and the $18 million impact of higher net volume and mix.

Finance

	Three Months Ended		Nine Months Ended	
(In millions)	September 30, 2006	October 1, 2005	September 30, 2006	October 1, 2005
Revenues	$ 212	$ 155	$ 586	$ 443
Segment profit	53	43	158	120

Finance Revenues

The Finance segment's revenues increased $57 million in the third quarter of 2006, compared with 2005. The increase was primarily due to a $33 million increase related to $1.7 billion in higher average finance receivables from levels in the corresponding period in 2005 and a higher interest rate environment, which accounted for $18 million of the increase. The increase in average finance receivables was primarily due to core portfolio growth.

The Finance segment’s revenues increased $143 million in the first nine months of 2006, compared with 2005. The increase was primarily due to a higher interest rate environment, which accounted for $70 million of the increase, and a $68 million increase related to higher average finance receivables of $1.2 billion from levels in the corresponding period in 2005. The increase in average finance receivables was primary due to core portfolio growth.

Finance Segment Profit

Segment profit increased $10 million in the third quarter of 2006, compared with 2005, primarily due to a $19 million increase in net interest margin, largely attributable to the growth in average finance receivables, partially offset by a $6 million increase in the provision for loan losses.

Segment profit increased $38 million in the first nine months of 2006, compared with 2005, primarily due to a $44 million increase in net interest margin, largely attributable to the growth in average finance receivables.

Finance Portfolio Quality

The following table presents information about the credit quality of the Finance segment's portfolio:

	September 30, 2006	December 31, 2005
Nonperforming assets as a percentage of finance assets	1.43%	1.53%
Allowance for losses on finance receivables as a percentage of finance receivables	1.15%	1.43%
Allowance for losses on finance receivables as a percentage of nonaccrual finance receivables	93.9%	108.6%
60+ days contractual delinquency as a percentage of finance receivables	0.76%	0.79%

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

Textron Finance's nonperforming assets include nonaccrual accounts that are not guaranteed by Textron Manufacturing, for which interest has been suspended, and repossessed assets. Nonperforming assets by business are as follows:

(In millions)	September 30, 2006	December 31, 2005
Golf finance	$ 33	$ 13
Asset-based lending	23	6
Resort finance	19	31
Aviation finance	11	14
Distribution finance	4	2
Liquidating portfolios	33	45
Total nonperforming assets	$ 123	$ 111

The increase in nonperforming assets was mainly attributable to two loans in each of the golf finance and asset-based lending businesses, partially offset by improvements in resort finance and the liquidating portfolios. We do not believe the increases in the golf finance and asset-based lending businesses represent a trend.

Liquidity and Capital Resources

Textron's financings are conducted through two borrowing groups: Textron Manufacturing and Textron Finance. This framework is designed to enhance Textron's borrowing power by separating the Finance segment. To support creditors in evaluating the separate borrowing groups, Textron presents separate balance sheets and statements of cash flows for each borrowing group. Textron Manufacturing consists of Textron Inc., the parent company, consolidated with the entities that operate in the Bell, Cessna and Industrial business segments, whose financial results are a reflection of the ability to manage and finance the development, production and delivery of tangible goods and services. Textron Finance consists of Textron's wholly owned commercial finance subsidiary, Textron Financial Corporation, consolidated with its subsidiaries. The financial results of Textron Finance are a reflection of its ability to provide financial services in a competitive marketplace, at appropriate pricing, while managing the associated financial risks. The fundamental differences between each borrowing group's activities result in different measures used by investors, rating agencies and analysts.

A portion of Textron Finance's business involves financing retail purchases and leases for new and used aircraft and equipment manufactured by Textron Manufacturing's Bell, Cessna and Industrial segments. The cash flows related to these captive financing activities are reflected as operating activities (by Textron Manufacturing) and as investing activities (by Textron Finance) based on each group's operations. These captive financing transactions have been eliminated and cash from customers or from securitizations is recognized in operating activities within the consolidated statements of cash flows when received.

Textron Manufacturing's debt (net of cash)-to-capital ratio as of September 30, 2006 was 24%, compared with 26% at December 31, 2005. Textron Manufacturing's gross debt-to-capital ratio as of September 30, 2006 was 36%, compared with 37% at December 31, 2005. Textron Manufacturing has established a gross debt-to-capital ratio target in the mid-thirties. This target was determined under current accounting guidelines and will be reviewed upon the adoption of Statement of Financial Accounting Standard ("SFAS") No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An amendment of Financial Accounting Standards Board ("FASB") Statements No. 87, 88, 106, and 132(R)" in the fourth quarter of 2006.

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

We have a policy of maintaining unused committed bank lines of credit in an amount not less than outstanding commercial paper balances. These facilities are in support of commercial paper and letters of credit issuances only, and neither of these primary lines of credit was drawn at September 30, 2006.

Our primary committed credit facilities at September 30, 2006 include the following:

(in millions)	Facility Amount	Commercial Paper Outstanding	Letters of Credit Outstanding	Amount not reserved as support for Commercial Paper & Letters of Credit
Textron Manufacturing's multi-year facility expiring in 2011*	$ 1,250	$ -	$ 23	$ 1,227
Textron Finance's multi-year facility expiring in 2011	$ 1,750	$ 1,631	$ 13	$ 106

*Textron Finance is permitted to borrow under this multi-year facility.

At September 30, 2006, Textron Finance had $2.9 billion in debt and $489 million in other liabilities that are due within the next twelve months.

Operating Cash Flows of Continuing Operations

	Nine Months Ended	
(In millions)	September 30, 2006	October 1, 2005
Consolidated	$ 535	$ 690
Textron Manufacturing	$ 636	$ 663
Textron Finance	$ 270	$ 218

The consolidated operating cash flows of continuing operations decreased $155 million in the first nine months of 2006 compared to the corresponding period in 2005. Operating cash flows for Textron Manufacturing decreased $27 million as a $162 million increase in income from continuing operations was more than offset by higher working capital, primarily related to higher inventory to support a significant expansion in aircraft production.

Dividends received by Textron Manufacturing from Textron Finance have been eliminated from the consolidated operating cash flows, and net captive financing activities have been reclassified from investing cash flows, as discussed below.

Investing Cash Flows of Continuing Operations

	Nine Months Ended	
(In millions)	September 30, 2006	October 1, 2005
Consolidated	$ (1,384)	$ (769)
Textron Manufacturing	$ (212)	$ (207)
Textron Finance	$ (1,463)	$ (653)

The increase in investing outflows on a consolidated basis and at Textron Finance was primarily due to higher finance receivable originations, net of repayments, reflecting the growth in finance receivables. The consolidated

cash flows include the reclassification of net captive financing activities to operating cash flows of $263 million and $88 million for the first nine months of 2006 and 2005, respectively.

Textron Manufacturing investing cash flows were relatively constant and primarily driven by capital expenditures of $216 million and $196 million for the first nine months of 2006 and 2005, respectively.

Financing Cash Flows of Continuing Operations

	Nine Months Ended	
(In millions)	September 30, 2006	October 1, 2005
Consolidated	$ 240	$ (82)
Textron Manufacturing	$ (1,077)	$ (527)
Textron Finance	$ 1,237	$ 345

Consolidated financing cash flows increased as higher proceeds from debt, less principal payments, of $854 million at Textron Finance and higher proceeds of $73 million from employee stock ownership plans, were partially offset by $339 million in higher purchases of Textron common stock and a $280 million repayment of short-term debt by Textron Manufacturing. Textron Finance has increased its outstanding debt to fund asset growth.

Principal Payments on Long-Term Debt
In the first nine months of 2006 and 2005, Textron Manufacturing made principal payments of $15 million and $420 million, respectively. The principal payments in the first nine months of 2005 reflect the maturity of EUR 300 million in debt that was refinanced with EUR 300 million 3.875% notes that mature in March 2013. In the first nine months of 2006 and 2005, Textron Finance made principal payments of $790 million and $592 million, respectively.

Stock Repurchases and Proceeds from Stock Option Exercises
In the first nine months of 2006 and 2005, Textron repurchased 8,344,172 and 5,361,628 shares of common stock, respectively, under its Board authorized share repurchase programs for an aggregate cost of $729 million and $400 million, respectively. Proceeds from the exercise of stock options increased by $73 million to $153 million during the first nine months of 2006 as more options were exercised.

Dividends
On January 26, 2006, the Board of Directors authorized a $0.15 per share increase in Textron's annualized common stock dividend to $1.55 per share, representing a quarterly dividend per common share of $0.3875 for 2006 compared with $0.35 for 2005. Dividend payments to shareholders totaled $195 million and $189 million in the first nine months of 2006 and 2005, respectively.

Discontinued Operations Cash Flows

Investing cash flows from discontinued operations increased primarily due to cash proceeds of $610 million received upon the sale of the Fastening Systems business in the third quarter of 2006.

Capital Resources

Under a shelf registration statement filed with the Securities and Exchange Commission, Textron Finance may issue public debt securities in one or more offerings up to a total maximum offering of $4.0 billion. Under this registration statement, Textron Finance issued term debt of $1.4 billion and CAD 100 million during the first nine months of 2006. The proceeds of these issuances were used to fund receivable growth and repay short-term debt.

At September 30, 2006, Textron Finance had $252 million available under this registration statement. Textron Finance intends to file a new registration statement in the fourth quarter, which will allow the issuance of an unlimited amount of additional public debt securities.

Under a shelf registration statement filed with the Securities and Exchange Commission, Textron Manufacturing may issue public debt securities in one or more offerings up to a total maximum offering of $2.0 billion. At September 30, 2006, Textron Manufacturing had $1.6 billion available under this registration statement.

Off-Balance Sheet Arrangements

Textron Manufacturing enters into a forward contract in Textron common stock on an annual basis. The contract is intended to hedge the cash volatility of stock-based incentive compensation indexed to Textron common stock. The forward contract requires an annual cash settlement between the counter parties based upon a number of shares multiplied by the difference between the strike price and the prevailing Textron common stock price. A cash payment of approximately $12 million was received in January 2006 upon the settlement of the contract held at year-end. As of September 30, 2006, the contract was for approximately 1.5 million shares with a strike price of $77.62. The market price of Textron's common stock closed at $87.50 on September 29, 2006, resulting in a receivable of $14 million.

Textron Finance sells finance receivables utilizing both securitizations and whole-loan sales. As a result of these transactions, finance receivables are removed from the balance sheet and the proceeds received are used to reduce the recorded debt levels. Despite the reduction in the recorded balance sheet position, Textron Finance generally retains a subordinated interest in the finance receivables sold through securitizations, which may affect operating results through periodic fair value adjustments. Textron Finance utilizes these off-balance sheet financing arrangements (primarily asset-backed securitizations) to further diversify funding alternatives. These arrangements are an important source of funding that provided net proceeds of $50 million and $208 million during the first nine months of 2006 and 2005, respectively. Textron Finance has used the proceeds from these arrangements to fund the origination of new finance receivables.

Guarantees

Bell Helicopter and AgustaWestland North America Inc. ("AWNA") formed the AgustaWestlandBell LLC ("AWB LLC") in January 2004 for the joint design, development, manufacture, sale, customer training and product support of the US101 helicopter, subsequently designated the VH-71 helicopter, and certain variations and derivatives thereof, to be offered and sold to departments or agencies of the U.S. Government.

In March 2005, AWB LLC received a $1.2 billion cost reimbursement-type subcontract from Lockheed Martin for the System Development and Demonstration phase of the U.S. Marine Corps Marine 1 Helicopter Squadron (VH-71) Program. On March 11, 2005, Bell Helicopter guaranteed to Lockheed Martin the due and prompt performance by AWB LLC of all its obligations under this subcontract, provided that Bell Helicopter's liability under the guaranty shall not exceed 49% of AWB LLC's aggregate liability to Lockheed Martin under the subcontract. AgustaWestland N.V., AWNA's parent company, has guaranteed the remaining 51% to Lockheed Martin. Bell Helicopter and AgustaWestland N.V. have entered into cross-indemnification agreements in which each party indemnifies the other related to any payments required under these agreements that result from the indemnifying party's workshare under any subcontracts received.

For 2006, AWB LLC's maximum obligation is 40% of the total contract value, which equates to $464 million based on the current contract value of $1.2 billion, and thereafter increases to 50%, or $580 million. Accordingly, the maximum amount of Bell Helicopter's liability under the guarantee will be $227 million in 2006 and $284 million thereafter through completion.

In connection with the sale of the Fastening Systems business in the third quarter of 2006, Textron guaranteed certain payments and performance of the buyer of the business. In accordance with the purchase and sale agreement, Textron is entitled to reimbursement by the buyer for payments made under these guarantees.

Textron has guaranteed payment on certain credit facilities and bank-issued letters of credit and guarantees of the Fastening Systems business where the total guarantee is capped at approximately $25 million, for which the buyer has provided a letter of credit of approximately $4 million as collateral. Since September 30, 2006, Textron has been released from $11 million of these capped guarantees. Textron has also guaranteed payment and performance on certain other credit facilities and leases of the Fastening Systems business totaling approximately $21 million, where Textron is also liable for unpaid interest, fees and other costs associated with claims that may arise from these guarantees. While potential interest and fees are not capped, Textron has monitoring provisions which mitigate the exposure to these additional costs. The buyer has provided a letter of credit of approximately $9 million as collateral on these guarantees. Since September 30, 2006, Textron has been released from $2 million of these uncapped guarantees. An additional $9 million of these capped and uncapped guarantees are expected to be released in the fourth quarter of 2006. The estimated fair value of Textron’s exposure under all the guarantees associated with Fastening Systems is approximately $0.4 million.

As disclosed under the caption "Guarantees" in Note 18 to the Consolidated Financial Statements in Textron's 2005 Annual Report on Form 10-K, Textron has issued or is party to certain other guarantees. As of September 30, 2006, there have been no material changes to these other guarantees.

Recently Announced Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155 "Accounting for Certain Hybrid Financial Instruments - An amendment of FASB Statements No. 133 and 140". This Statement requires evaluation of all interests in securitized financial assets to determine whether they represent either freestanding derivatives or contain embedded derivatives. These interests were previously exempted from such evaluation. SFAS No. 155 permits any hybrid instrument, such as an interest in securitized financial assets containing an embedded derivative, to be accounted for at fair value as opposed to bifurcating and accounting for the embedded derivative separate from the host instrument. This Statement also eliminates restrictions on a qualifying special purpose entity's ability to hold passive derivative financial instruments pertaining to beneficial interests that are, or contain, a derivative financial instrument. Textron will adopt this Statement in the first quarter of 2007, and does not expect the adoption to have a material impact on Textron's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156 "Accounting for Servicing of Financial Assets - An amendment of FASB Statement No. 140". This Statement requires all separately recognized servicing assets and liabilities to be initially measured at fair value and permits entities to choose to either subsequently measure servicing rights at fair value and report changes in fair value in earnings, or amortize servicing rights in proportion to, and over, the estimated net servicing income or loss and assess the rights for impairment or the need for an increased obligation. The option to subsequently measure servicing rights at fair value will allow entities which utilize derivative instruments to hedge their servicing rights to account for such hedging relationships at fair value and avoid the complications of hedge accounting. Textron does not utilize derivative instruments to hedge its servicing rights as of September 30, 2006. Textron will adopt this Statement in the first quarter of 2007, and will utilize the amortization method to subsequently measure its servicing rights. The adoption of this Statement is not expected to have a material impact on Textron's financial position or results of operations.

In July 2006, the FASB issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes - An interpretation of FASB Statement No. 109" ("FIN 48"). This Interpretation provides a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Textron will adopt this Interpretation in the first quarter of 2007. The

cumulative effects, if any, of applying FIN 48 will be recorded as an adjustment to retained earnings. Textron is currently assessing the impact of this Interpretation on Textron's financial position and results of operations.

In July 2006, the FASB issued Staff Position No. 13-2 "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction". This Staff Position amends SFAS No. 13 "Accounting for Leases" and requires a recalculation of returns on leveraged leases if there is a change or projected change in the timing of cash flows related to income taxes generated by the leveraged lease. In accordance with this guidance, the difference between the revised calculation of earnings since lease inception and the actual amount of cumulative earnings recognized is recorded in income from continuing operations. Textron is required to adopt this guidance in the first quarter of 2007. Upon adoption, any change in the projected cash flows will be reported as an adjustment to retained earnings. The Internal Revenue Service (“IRS”) has challenged both the ability to accelerate the timing of tax deductions and the amounts of those deductions related to certain leveraged lease transactions within the Finance segment. These transactions, along with other transactions with similar characteristics, have an initial investment of approximately $209 million. Management believes the positions taken by the IRS are inconsistent with tax law in existence at the time the leases were originated and intends to vigorously defend Textron’s position. However, if the IRS were to prevail, the maximum potential adjustment to Textron’s retained earnings at the beginning of fiscal 2007 would be approximately $38 million. In addition, resolution of these issues could result in the acceleration of cash payments to the IRS, which have been provided in deferred income taxes on the consolidated balance sheets.

In September 2006, the FASB issued SFAS No. 157 “Fair Value Measurements”. This Statement replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value, and expands financial statement disclosures regarding fair value measurements. This Statement applies only to fair value measurements that are already required or permitted by other accounting standards and does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning subsequent to November 15, 2007. Textron will adopt this Statement in the first quarter of 2008, and is currently evaluating the impact on its financial position and results of operations.

In September 2006, the FASB issued SFAS No. 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans - An amendment of FASB Statements No. 87, 88, 106, and 132(R)”. This Statement requires an employer to: (a) recognize in its statement of financial position an asset for a plan’s overfunded status or a liability for a plan’s underfunded status; (b) measure a plan’s assets and its obligations that determine its funded status as of the end of the employer’s fiscal year; and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur, and report these changes in comprehensive income. SFAS No. 158 is effective for fiscal years ending after December 15, 2006, except for the measurement date provisions, which are effective for fiscal years ending after December 15, 2008. Textron will adopt this Statement as of December 30, 2006. The measurement date provisions will not impact Textron, as all of its plans have a measurement date of December 31 of the current fiscal year.

Textron has analyzed the impact that SFAS No. 158 would have had on its consolidated financial statements at December 31, 2005, had it been effective at that time. The impact would have reduced total assets by approximately $500 million, increased total liabilities by approximately $300 million and reduced shareholders' equity (increase in accumulated other comprehensive loss) by approximately $800 million, net of tax. In addition, Textron would have classified an additional $100 million of pension and postretirement benefit liabilities as current. These estimates may vary from the actual impact of implementing this Statement as the ultimate amounts recorded are dependant on a number of assumptions, including the discount rate at the end of 2006 and the actual rate of return on pension assets for 2006. Changes in these and other assumptions since our last measurement date could increase or decrease the expected impact of implementing this Statement at the end of 2006. The adoption of this Statement will not impact Textron’s results of operations or cash flows.

Foreign Exchange Risks

Textron's financial results are affected by changes in foreign currency exchange rates and economic conditions in the foreign markets in which products are manufactured and/or sold. For the nine months ended September 30, 2006, the impact of foreign exchange rate changes from the corresponding period in 2005 decreased revenues by approximately $16 million and segment profit by $2 million.

Forward-Looking Information

Certain statements in this Quarterly Report on Form 10-Q and other oral and written statements made by Textron 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, including the following: (a) changes in worldwide economic and political conditions that impact interest and foreign exchange rates; (b) the interruption of production at Textron facilities or Textron's customers or suppliers; (c) Textron's ability to perform as anticipated and to control costs under contracts with the U.S. Government; (d) the U.S. Government's ability to unilaterally modify or terminate its contracts with Textron for the Government's convenience or for Textron's failure to perform, to change applicable procurement and accounting policies, and, under certain circumstances, to suspend or debar Textron as a contractor eligible to receive future contract awards; (e) changes in national or international funding priorities and government policies on the export and import of military and commercial products; (f) the adequacy of cost estimates for various customer care programs, including servicing warranties; (g) the ability to control costs and successful implementation of various cost reduction programs; (h) the timing of certifications of new aircraft products; (i) the occurrence of slowdowns or downturns in customer markets in which Textron products are sold or supplied or where Textron Financial offers financing; (j) changes in aircraft delivery schedules or cancellation of orders; (k) the impact of changes in tax legislation; (l) the extent to which Textron is able to pass raw material price increases through to customers or offset such price increases by reducing other costs; (m) Textron's ability to offset, through cost reductions, pricing pressure brought by original equipment manufacturer customers; (n) Textron's ability to realize full value of receivables and investments in securities; (o) the availability and cost of insurance; (p) increases in pension expenses related to lower than expected asset performance or changes in discount rates; (q) Textron Financial's ability to maintain portfolio credit quality; (r) Textron Financial's access to debt financing at competitive rates; (s) uncertainty in estimating contingent liabilities and establishing reserves to address such contingencies; (t) performance of acquisitions; (u) the efficacy of research and development investments to develop new products; (v) bankruptcy or other financial problems at major suppliers or customers that could cause disruptions in Textron's supply chain or difficulty in collecting amounts owed by such customers; and (w) Textron's ability to execute planned dispositions.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change in Textron's exposure to market risk during the nine months ended September 30, 2006. For discussion of Textron's exposure to market risk, refer to Item 7A. Quantitative and Qualitative Disclosures About Market Risk contained in Textron's 2005 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chairman, President and Chief Executive Officer (the "CEO") and our Executive Vice President and 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 Textron's internal control over financial reporting during the fiscal quarter ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

As previously reported in Textron's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, and Quarterly Report on Form 10-Q for the quarter ended April 1, 2006, two identical lawsuits, purporting to be class actions on behalf of Textron benefit plans and participants and beneficiaries of those plans during 2000 and 2001, were filed in 2002 in the United States District Court in Rhode Island against Textron, the Textron Savings Plan and the Plan's trustee. A consolidated amended complaint alleged breach of certain fiduciary duties under ERISA, based on the amount of Plan assets invested in Textron stock during 2000 and 2001. On March 1, 2006, the District Court entered summary judgment for Textron. On November 1, 2006, the First Circuit Court of Appeals dismissed plaintiffs' appeal, and the matter has been concluded.

Item 1A. RISK FACTORS

Our business, financial condition and results of operations are subject to various risks, including those discussed below, which may affect the value of our securities. The risks discussed below are those that we believe are currently the most significant, although additional risks not presently known to us or that we currently deem less significant may also impact our business, financial condition and results of operations, perhaps materially.

We may be unable to effectively mitigate pricing pressures.

In some markets, particularly where we deliver component products and services to original equipment manufacturers, we face ongoing customer demands for price reductions, which are sometimes contractually obligated. In some cases, we are able to offset these reductions through technological advances or by lowering our cost base through improved operating and supply chain efficiencies. However, if we are unable to effectively mitigate future pricing pressures, our financial results of operations could be adversely affected.

Delays in aircraft delivery schedules or cancellation of orders may adversely affect our financial results.

Aircraft customers, including sellers of fractional share interests, may respond to weak economic conditions by delaying delivery of orders or canceling orders. Weakness in the economy may also result in fewer hours flown on existing aircraft and, consequently, lower demand for spare parts and maintenance. Weak economic conditions may also cause reduced demand for used business jets or helicopters. We may accept used aircraft on trade-in that would be subject to fluctuations in the fair market value of the aircraft while in inventory. Reduced demand for new and used aircraft, spare parts and maintenance can have an adverse effect on our financial results of operations.

Developing new products and technologies entails significant risks and uncertainties.

Delays or cost overruns in the development and acceptance of new products, or certification of new aircraft products and other products, could affect our financial results of operations. These delays could be caused by unanticipated technological hurdles, production changes to meet customer demands, coordination with joint venture partners or failure on the part of our suppliers to deliver components as agreed. We also could be adversely affected if the general efficacy of our research and development investments to develop products is less than expected.

We have customer concentration with the U.S. Government.

During 2005, we derived approximately 18% of our revenues from sales to a variety of U.S. Government entities. Our ability to compete successfully for and retain this business is highly dependent on technical excellence, management proficiency, strategic alliances, cost-effective performance and the ability to recruit and retain key personnel. U.S. Government programs are subject to uncertain future funding levels, which can result in the extension or termination of programs. Our business is also highly sensitive to changes in national and international priorities and U.S. Government budgets.

U.S. Government contracts may be terminated at any time and may contain other unfavorable provisions.

The U.S. Government typically can terminate or modify any of its contracts with us either for its convenience or if we default by failing to perform under the terms of the applicable contract. A termination arising out of our default could expose us to liability and have an adverse effect on our ability to compete for future contracts and orders.

If any of our contracts are terminated by the U.S. Government, our backlog would be reduced, in accordance with contract terms, by the expected value of the remaining work under such contracts, and our financial condition and results of operations could be adversely affected. In addition, on those contracts for which we are teamed with others and are not the prime contractor, the U.S. Government could terminate a prime contract under which we are a subcontractor, irrespective of the quality of our products and services as a subcontractor.

In addition to these termination provisions, our U.S. Government contracts contain provisions that allow the U.S. Government to unilaterally suspend us from receiving new contracts pending resolution of alleged violations of procurement laws or regulations, reduce the value of existing contracts, issue modifications to a contract, and control and potentially prohibit the export of our products, services and associated materials.

Cost overruns on U.S. Government contracts could subject us to losses or adversely affect our future business.

Contract and program accounting require judgment relative to assessing risks, estimating contract revenues and costs, and making assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenues and cost at completion is complicated and subject to many variables. Assumptions have to be made regarding the length of time to complete the contract because costs include expected increases in wages and prices for materials. Incentives or penalties related to performance on contracts are considered in estimating sales and profit rates and are recorded when there is sufficient information for us to assess anticipated performance. Estimates of award fees are also used in estimating sales and profit rates based on actual and anticipated awards.

Because of the significance of the estimates described above, it is likely that different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect our future financial results of operations.

Under fixed-price contracts, we receive a fixed price irrespective of the actual costs we incur, and consequently, any costs in excess of the fixed price are absorbed by us. Under time and materials contracts, we are paid for labor at negotiated hourly billing rates and for certain expenses. Under cost reimbursement contracts, which are subject to a contract-ceiling amount, we are reimbursed for allowable costs and paid a fee, which may be fixed or performance based. However, if our costs exceed the contract ceiling or are not allowable under the provisions of the contract or applicable regulations, we may not be able to obtain reimbursement for all such costs. Under each type of contract, if we are unable to control costs we incur in performing under the contract, our financial condition and results of operations could be adversely affected. Cost overruns also may adversely affect our ability to sustain existing programs and obtain future contract awards.

We may make acquisitions that increase the risks of our business.

We may enter into acquisitions in the future in an effort to enhance shareholder value. Acquisitions involve a certain amount of risks and uncertainties that could result in our not achieving expected benefits. Such risks include difficulties in integrating newly acquired businesses and operations in an efficient and cost-effective manner; challenges in achieving expected strategic objectives, cost savings and other benefits; the risk that the acquired businesses' markets do not evolve as anticipated and that the technologies acquired do not prove to be those needed to be successful in those markets; the risk that we pay a purchase price that exceeds what the future results of operations would have merited; the potential loss of key employees of the acquired businesses; and the risk of diverting the attention of senior management from our existing operations.

Our operations could be adversely affected by interruptions of production that are beyond our control.

Our business and financial results may be affected by certain events that we cannot anticipate or that are beyond our control, such as natural disasters and national emergencies, that could curtail production at our facilities and cause delayed deliveries and cancelled orders. In addition, we purchase components and raw materials and information technology and other services from numerous suppliers, and even if our facilities are not directly affected by such events, we could be affected by interruptions at such suppliers. Such suppliers may be less likely than our own facilities to be able to quickly recover from such events, and may be subject to additional risks such as financial problems that limit their ability to conduct their operations.

Our business could be adversely affected by strikes or work stoppages and other labor issues.

Approximately 18,000 of our employees are unionized, which represented approximately 46% of our employees at September 30, 2006. As a result, we may experience work stoppages, which could negatively impact our ability to manufacture our products on a timely basis, resulting in strain on our relationships with our customers and a loss of revenues. In addition, the presence of unions may limit our flexibility in responding to competitive pressures in the marketplace, which could have an adverse effect on our financial results of operations.

In addition to our workforce, the workforces of many of our customers and suppliers are represented by labor unions. Work stoppages or strikes at the plants of our key customers could result in delayed or cancelled orders for our products. Work stoppages and strikes at the plants of our key suppliers could disrupt our manufacturing processes. Any of these results could adversely affect our financial results of operations.

Our Textron Finance borrowing group's business is dependent on its continuing access to the capital markets.

Our financings are conducted through two borrowing groups, Textron Finance and Textron Manufacturing. Textron Finance consists of Textron Financial Corporation and its subsidiaries, which are the entities through which we operate in the Finance segment. Textron Finance relies on its access to the capital markets to fund asset growth, fund operations and meet debt obligations and other commitments. Textron Finance raises funds through commercial paper borrowings, issuances of medium-term notes and other term debt securities, and syndication and securitization of receivables. Additional liquidity is provided to Textron Finance through bank lines of credit. Much of the capital markets funding is made possible by the maintenance of credit ratings that are acceptable to investors. If the credit ratings of Textron Finance were to be lowered, it might face higher borrowing costs, a disruption of its access to the capital markets or both. Textron Finance could also lose access to financing for other reasons, such as a general disruption of the capital markets. Any disruption of Textron Finance's access to the capital markets could adversely affect its business and our profitability.

If Textron Finance is unable to maintain portfolio credit quality, our financial performance could be adversely affected.

A key determinant of financial performance at Textron Finance will be its ability to maintain the quality of loans, leases and other credit products in its finance asset portfolios. Portfolio quality may adversely be affected by several factors, including finance receivable underwriting procedures, collateral quality, geographic or industry concentrations, or general economic downturns. Any inability by Textron Finance to successfully collect its finance receivable portfolio and to resolve problem accounts may adversely affect our cash flow, profitability, and financial condition.

We are subject to legal proceedings and other claims.

We are subject to legal proceedings and other claims arising out of the conduct of our business, including proceedings and claims relating to private sector transactions; government contracts; production partners; product liability; employment; and environmental contamination. 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. However, litigation is inherently unpredictable, and we could incur judgments or enter into settlements for current or future claims that could adversely affect our financial position or our results of operations in any particular period.

The levels of our reserves are subject to many uncertainties and may not be adequate to cover writedowns or losses.

In addition to reserves at Textron Finance, we establish reserves in our manufacturing segments to cover uncollectible accounts receivable, excess or obsolete inventory, fair market value writedowns on used aircraft and golf cars, recall campaigns, warranty costs and litigation. These reserves are subject to adjustment from time to time depending on actual experience and are subject to many uncertainties, including bankruptcy or other financial problems at key customers.

In the case of litigation matters for which reserves have not been established because the loss is not deemed probable, it is reasonably possible such matters could be decided against us and could require us to pay damages or make other expenditures in amounts that are not presently estimable.

The effect on our financial results of many of these factors depends in some cases on our ability to obtain insurance covering potential losses at reasonable rates.

Currency, raw material price and interest rate fluctuations may adversely affect our results.

We are exposed to a variety of market risks, including the effects of changes in foreign currency exchange rates, raw material prices and interest rates. We monitor and manage these exposures as an integral part of our overall risk management program. In some cases, we purchase derivatives or enter into contracts to insulate our financial results of operations from these fluctuations. Nevertheless, changes in currency exchange rates, raw material prices and interest rates can have substantial adverse effects on our financial results of operations.

The increasing costs of certain employee and retiree benefits could adversely affect our results.

Our earnings and cash flow may be impacted by the amount of income or expense we expend or record for employee benefit plans. This is particularly true for our pension plans, which are dependent on actual plan asset returns and factors used to determine the value and current costs of plan benefit obligations.

In addition, medical costs are rising at a rate faster than the general inflation rate. Continued medical cost inflation in excess of the general inflation rate increases the risk that we will not be able to mitigate the rising costs of medical benefits. Increases to the costs of pension and medical benefits could have an adverse effect on our financial results of operations.

Unanticipated changes in Textron's tax rates or exposure to additional income tax liabilities could affect our profitability.

We are subject to income taxes in both the United States and various foreign jurisdictions, and our domestic and international tax liabilities are subject to the allocation of income among these different jurisdictions. Our effective tax rates could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or in tax laws, which could affect our profitability. In particular, the carrying value of deferred tax assets is dependent on our ability to generate future taxable income. In addition, the amount of income taxes we pay is subject to audits in various jurisdictions, and a material assessment by a tax authority could affect our profitability.

PART II. OTHER INFORMATION (continued)

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

ISSUER REPURCHASES OF EQUITY SECURITIES

	Total Number of Shares Purchased	Average Price Paid per Share (Excluding Commissions)	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan
Month 1 (July 2, 2006 - August 5, 2006)	360,700	$ 89.60	360,700	5,621,600
Month 2 (August 6, 2006 - September 2, 2006)	604,300	$ 88.06	604,300	5,017,300
Month 3 (September 3, 2006 - September 30, 2006)	399,500	$ 82.68	399,500	4,617,800
Total	1,364,500	$ 86.89	1,364,500	

On January 26, 2006, Textron's Board approved a new share repurchase plan under which Textron is authorized to repurchase up to 12 million shares of common stock. The new plan has no expiration date.

PART II. OTHER INFORMATION (continued)

Item 6. EXHIBITS

10.1	Description of Textron Spillover Pension Plan
12.1	Computation of ratio of income to fixed charges of Textron Manufacturing
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 Rule 13a-14(a)
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

SIGNATURES

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

TEXTRON INC.

Date: November 8, 2006

/s/R. L. Yates

R. L. Yates
Senior Vice President and Corporate Controller
(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	Description of Textron Spillover Pension Plan
12.1	Computation of ratio of income to fixed charges of Textron Manufacturing
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 Rule 13a-14(a)
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

Exhibit 10.1

Description of Textron Spillover Pension Plan

Textron's Board of Directors adopted a resolution on September 27, 2006 that approved the following actions, effective as of January 1, 2007:

1. To amend the Supplemental Benefits Plan for Textron Key Executives to divide it into two separate plans: the Textron Spillover Pension Plan (which would consist of the supplemental pension benefits), and the Supplemental Savings Plan for Textron Key Executives;
2. To direct the Management Committee of the company to amend the Textron Supplemental Benefits Plan for Executives to effect a similar division;
3. To combine the defined benefit portions of these plans to form the Textron Spillover Pension Plan; and
4. To amend the benefit formula and related provisions of the Textron Spillover Pension Plan as approved in the Board resolution.

Pending finalization of the Plan document, the following describes the provisions of the Textron Spillover Plan.

Textron is merging the pension provisions of two non-qualified pension plans (formerly, the Supplemental Benefits Plan for Textron Key Executives and The Textron Supplemental Benefits Plan for Executives, collectively the "Existing Supplemental Plans") into a single non-qualified plan to be known as the "Textron Spillover Pension Plan". This new plan will be effective January 1, 2007. Textron's Executive Officers participate in The Supplemental Benefits Plan for Textron Key Executives, which was previously filed as Exhibit 10.3 to Textron's Annual Report on Form 10-K for the fiscal year ended January 3, 2004. The Textron Spillover Pension Plan, like the Existing Supplemental Plans, is a non-qualified plan designed to "make-whole" the pension benefit for employees whose benefits under the qualified plan have been limited by the eligible qualified plan compensation limitations set forth by Section 401(a)(17) of the Internal Revenue Code.

Eligibility

The Textron Spillover Pension Plan (the "Spillover Plan") will cover executives who satisfy the eligibility conditions formerly set forth in either of the Existing Supplemental Plans. Specifically, any Executive that either:

1. is designated by Textron's Chief Executive Officer and Chief Human Resources Officer and whose compensation exceeds limits under IRC Section 401(a)(17), or
2. is the recipient of pensionable compensation that is otherwise deferred under certain deferred income plans for executives,

will participate if his/her benefits or annual accruals under Textron's qualified plans are limited by the limits set forth by Section 401(a)(17) of the Internal Revenue Code.

Pension Benefit

The Spillover Plan will provide a benefit of 1-1/3% times final average compensation, times years of service after December 31, 2006, minus the amount of benefit payable under the qualified plan. The plan does not limit the number of years of service credited to participants. Final average compensation is equal to the highest average annual compensation of any five consecutive years during the employee's career.

Employees who are participants in the Existing Supplemental Plans as of December 31, 2006, and who are currently vested or will vest in the qualified plan, will be grandfathered in their existing formula. Upon retirement, the Spillover Plan will provide such participants the greater of what they would have received under the applicable Existing Supplemental Plan's formula or under the Spillover Plan's new pension benefit formula, as described herein. Because of these grandfather provisions, benefits payable to Textron's current executive officers under the Spillover Plan are not expected to differ from what they would have received under the Existing Supplemental Plans.

Eligible Earnings

Final average compensation for the Spillover Plan will mirror the definition in the qualified Textron Retirement Plan, plus any deferred compensation, and normally will include annual incentive compensation actually paid in the year being calculated. However, for 2006, final average compensation for employees who currently participate in the Key Executive plan will include the higher of the annual incentive compensation paid in 2006 or annual incentive compensation paid in 2007 for service in 2006.

Lump-sum payout feature

The Spillover Plan allows for a lump-sum payout of a portion of the accrued benefit at the executive's election, based upon the portion of the participant's qualified plan benefits that is attributable to the defined contribution plan account at termination. The remainder of benefits are payable in the form of a monthly payment.

Automatic cash-out

Individuals with less than a $100,000 present value of accrued liability will automatically be cashed-out of the plan upon termination. This cash-out provision applies only to the present value of accrued benefit for service after December 31, 2006.

EXHIBIT 12.1

TEXTRON MANUFACTURING

COMPUTATION OF RATIO OF INCOME TO FIXED CHARGES

(unaudited)

(In millions, except ratio)

	Nine Months Ended September 30, 2006
Fixed charges:	
Interest expense	$ 76
Estimated interest portion of rents	20
Total fixed charges	$ 96
Income:	
Income from continuing operations before income taxes	$ 710
Eliminate equity in undistributed pre-tax income on Finance subsidiary	(78)
Fixed charges	96
Adjusted income	$ 728
Ratio of income to fixed charges	7.58

EXHIBIT 12.2

TEXTRON INC.

INCLUDING ALL MAJORITY-OWNED SUBSIDIARIES

COMPUTATION OF RATIO OF INCOME TO FIXED CHARGES

(unaudited)

(In millions, except ratio)

	Nine Months Ended September 30, 2006
Fixed charges:	
Interest expense	$ 328
Estimated interest portion of rents	22
Total fixed charges	$ 350
Income:	
Income from continuing operations before income taxes	$ 710
Fixed charges	350
Adjusted income	$ 1,060
Ratio of income to fixed charges	3.03

Exhibit 31.1

Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)

I, Lewis B. Campbell, Chairman, President and Chief Executive Officer of Textron Inc. certify that:

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

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

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

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

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

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

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

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

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

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

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

Textron Inc.

Date: November 8, 2006

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

Exhibit 31.2

Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)

I, Ted R. French, Executive Vice President and Chief Financial Officer of Textron Inc. certify that:

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

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

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

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

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

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

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

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

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

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

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

Textron Inc.

Date: November 8, 2006

/s/ Ted R. French

Ted R. French
Executive Vice President and Chief
Financial Officer

EXHIBIT 32.1

TEXTRON INC.

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

In connection with the quarterly report of Textron Inc. (the "Company") on Form 10-Q for the period ended September 30, 2006 as filed with the Securities and Exchange Commission on the Date hereof (the "Report"), I, Lewis B. Campbell, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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.

Textron Inc.

Date: November 8, 2006

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

EXHIBIT 32.2

TEXTRON INC.

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

In connection with the quarterly report of Textron Inc. (the "Company") on Form 10-Q for the period ended September 30, 2006 as filed with the Securities and Exchange Commission on the Date hereof (the "Report"), I, Ted R. French, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 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.

Textron Inc.

Date: November 8, 2006

/s/ Ted R. French
Ted R. French
Executive Vice President and Chief
Financial Officer