TEXTRON INC

FORM 10-Q
(Quarterly Report)

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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 quarterly period ended June 28, 2008

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 (Address of principal executive offices)	02903 (zip code)

(401) 421-2800
(Registrant’s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ✓ No _

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

Large accelerated filer [✓]	Accelerated filer [_]
Non-accelerated filer [_] (Do not check if a smaller reporting company)	Smaller reporting company [_]

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

Common stock outstanding at July 12, 2008 - 248,538,061 shares

TEXTRON INC.

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PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

TEXTRON INC.
Consolidated Statements of Operations (Unaudited)
(In millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Revenues				
Manufacturing	$ 3,742	$ 2,996	$ 7,046	$ 5,750
Finance	177	239	391	449
Total revenues	3,919	3,235	7,437	6,199
Costs, expenses and other				
Cost of sales	2,948	2,374	5,542	4,554
Selling and administrative	439	429	868	801
Interest expense, net	101	124	216	247
Provision for losses on finance receivables	40	11	67	16
Total costs, expenses and other	3,528	2,938	6,693	5,618
Income from continuing operations before income taxes	391	297	744	581
Income taxes	(130)	(82)	(247)	(168)
Income from continuing operations	261	215	497	413
Loss from discontinued operations, net of income taxes	(3)	(5)	(8)	(7)
Net income	$ 258	$ 210	$ 489	$ 406
Basic earnings per share				
Continuing operations	$ 1.04	$ 0.86	$ 1.99	$ 1.65
Discontinued operations	(0.01)	(0.02)	(0.03)	(0.03)
Basic earnings per share	$ 1.03	$ 0.84	$ 1.96	$ 1.62
Diluted earnings per share				
Continuing operations	$ 1.03	$ 0.85	$ 1.95	$ 1.63
Discontinued operations	(0.01)	(0.02)	(0.03)	(0.03)
Diluted earnings per share	$ 1.02	$ 0.83	$ 1.92	$ 1.60
Dividends per share				
$2.08 Preferred stock, Series A	$ 0.52	$ 0.52	$ 1.04	$ 1.04
$1.40 Preferred stock, Series B	$ 0.35	$ 0.35	$ 0.70	$ 0.70
Common stock	$ 0.23	$ 0.194	$ 0.46	$ 0.388

See Notes to the consolidated financial statements.

TEXTRON INC.
Consolidated Balance Sheets (Unaudited)
(Dollars in millions)

	June 28, 2008	December 29, 2007
Assets		
Manufacturing group		
Cash and cash equivalents	$ 424	$ 471
Accounts receivable, less allowance for doubtful accounts of $30 and $34	1,209	1,083
Inventories	3,291	2,724
Other current assets	482	568
Total current assets	5,406	4,846
Property, plant and equipment, less accumulated depreciation and amortization of $2,557 and $2,388	2,040	1,999
Goodwill	2,107	2,132
Other assets	1,614	1,596
Total Manufacturing group assets	11,167	10,573
Finance group		
Cash	56	60
Finance receivables, less allowance for losses of $126 and $89	8,474	8,514
Goodwill	169	169
Other assets	830	640
Total Finance group assets	9,529	9,383
Total assets	$ 20,696	$ 19,956
Liabilities and shareholders' equity		
Liabilities		
Manufacturing group		
Current portion of long-term debt and short-term debt	$ 394	$ 355
Accounts payable	1,159	927
Accrued liabilities	2,894	2,840
Total current liabilities	4,447	4,122
Other liabilities	2,147	2,289
Long-term debt	1,805	1,793
Total Manufacturing group liabilities	8,399	8,204
Finance group		
Other liabilities	531	462
Deferred income taxes	431	472
Debt	7,547	7,311
Total Finance group liabilities	8,509	8,245
Total liabilities	16,908	16,449
Shareholders' equity		
Capital stock:		
Preferred stock	2	2
Common stock	32	32
Capital surplus	1,253	1,193
Retained earnings	3,140	2,766
Accumulated other comprehensive loss	(403)	(400)
	4,024	3,593
Less cost of treasury shares	236	86
Total shareholders' equity	3,788	3,507
Total liabilities and shareholders' equity	$ 20,696	$ 19,956
Common shares outstanding (in thousands)	248,434	250,061

See Notes to the consolidated financial statements.

TEXTRON INC.
Consolidated Statements of Cash Flows (Unaudited)

For the Six Months Ended June 28, 2008 and June 30, 2007, respectively
(In millions)

	Consolidated	
	2008	2007
Cash flows from operating activities:		
Net income	$ 489	$ 406
Less: Loss from discontinued operations	(8)	(7)
Income from continuing operations	497	413
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Earnings of Finance group, net of distributions	-	-
Depreciation and amortization	206	153
Provision for losses on finance receivables	67	16
Share-based compensation	27	18
Deferred income taxes	(33)	10
Changes in assets and liabilities excluding those related to acquisitions and divestitures:		
Accounts receivable, net	(105)	(103)
Inventories	(668)	(447)
Other assets	99	49
Accounts payable	218	118
Accrued and other liabilities	21	36
Captive finance receivables, net	23	(171)
Other operating activities, net	20	31
Net cash provided by operating activities of continuing operations	372	123
Net cash used in operating activities of discontinued operations	(9)	(3)
Net cash provided by operating activities	363	120
Cash flows from investing activities:		
Finance receivables:		
Originated or purchased	(5,818)	(5,964)
Repaid	5,257	5,463
Proceeds on receivables sales and securitization sales	507	689
Net cash used in acquisitions	(100)	-
Capital expenditures	(200)	(142)
Proceeds from sale of property, plant and equipment	1	3
Purchase of other marketable securities	(100)	-
Other investing activities, net	8	12
Net cash (used in) provided by investing activities of continuing operations	(445)	61
Net cash provided by investing activities of discontinued operations	-	32
Net cash (used in) provided by investing activities	(445)	93
Cash flows from financing activities:		
Increase (decrease) in short-term debt	34	(145)
Proceeds from issuance of long-term debt	1,122	1,070
Principal payments and retirements of long- term debt	(935)	(992)
Proceeds from option exercises	38	69
Purchases of Textron common stock	(134)	(221)
Dividends paid	(115)	(97)
Excess tax benefits related to stock option exercises	9	12
Net cash provided by (used in) financing activities	19	(304)
Effect of exchange rate changes on cash and cash equivalents	12	8
Net decrease in cash and cash equivalents	(51)	(83)
Cash and cash equivalents at beginning of period	531	780
Cash and cash equivalents at end of period	$ 480	$ 697

See Notes to the consolidated financial statements.

TEXTRON INC.
Consolidated Statements of Cash Flows (Unaudited) (Continued)
For the Six Months Ended June 28, 2008 and June 30, 2007, respectively
(In millions)

	Manufacturing Group*		Finance Group*	
	2008	2007	2008	2007
Cash flows from operating activities:				
Net income	$ 489	$ 406	$ 35	$ 76
Less: Loss from discontinued operations	(8)	(7)	-	-
Income from continuing operations	497	413	35	76
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:				
Earnings of Finance group, net of distributions	107	59	-	-
Depreciation and amortization	187	134	19	19
Provision for losses on finance receivables	-	-	67	16
Share-based compensation	27	18	-	-
Deferred income taxes	8	(2)	(41)	12
Changes in assets and liabilities excluding those related to acquisitions and divestitures:				
Accounts receivable, net	(105)	(103)	-	-
Inventories	(656)	(438)	-	-
Other assets	72	24	20	20
Accounts payable	218	118	-	-
Accrued and other liabilities	29	24	(8)	12
Captive finance receivables, net	-	-	-	-
Other operating activities, net	29	33	(9)	(2)
Net cash provided by operating activities of continuing operations	413	280	83	153
Net cash (used in) operating activities of discontinued operations	(9)	(3)	-	-
Net cash provided by operating activities	404	277	83	153
Cash flows from investing activities:				
Finance receivables:				
Originated or purchased	-	-	(6,338)	(6,489)
Repaid	-	-	5,690	5,795
Proceeds on receivables sales and securitization sales	-	-	617	711
Net cash used in acquisitions	(100)	-	-	-
Capital expenditures	(194)	(138)	(6)	(4)
Proceeds on sale of property, plant and equipment	1	3	-	-
Purchase of other marketable securities	-	-	(100)	-
Other investing activities, net	-	(2)	3	10
Net cash (used in) provided by investing activities of continuing operations	(293)	(137)	(134)	23
Net cash provided by investing activities of discontinued operations	-	32	-	-
Net cash (used in) provided by investing activities	(293)	(105)	(134)	23
Cash flows from financing activities:				
Increase (decrease) in short-term debt	82	(44)	(48)	(101)
Proceeds from issuance of long-term debt	-	1	1,122	1,069
Principal payments and retirements of long-term debt	(49)	(3)	(886)	(989)
Proceeds from option exercises	38	69	-	-
Purchases of Textron common stock	(134)	(221)	-	-
Dividends paid	(115)	(97)	(142)	(135)
Excess tax benefits related to stock option exercises	9	12	-	-
Net cash (used in) provided by financing activities of continuing operations	(169)	(283)	46	(156)
Effect of exchange rate changes on cash and cash equivalents	11	9	1	(1)
Net (decrease) increase in cash and cash equivalents	(47)	(102)	(4)	19
Cash and cash equivalents at beginning of period	471	733	60	47
Cash and cash equivalents at end of period	$ 424	$ 631	$ 56	$ 66

**Textron is segregated into a Manufacturing group and a Finance group, as described in Note 1 to the consolidated financial statements. The Finance group's pre-tax income in excess of dividends paid is excluded from the Manufacturing group's cash flows. All significant transactions between the borrowing groups have been eliminated from the consolidated column provided on page 5.*

See Notes to the consolidated financial statements .

Note 1: Basis of Presentation

The consolidated interim financial statements included in this quarterly report should be read in conjunction with the consolidated financial statements included in a Form 8-K filed on April 28, 2008, which includes revised sections of our Annual Report on Form 10-K for the year ended December 29, 2007 to reflect a change in segment reporting. In the opinion of management, the interim financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for the fair presentation of our consolidated financial position, results of operations and cash flows for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

As discussed in Note 11: Segment Information, we changed our segment structure effective as of the beginning of fiscal 2008. Our segments now include Cessna, Bell, Defense & Intelligence, Industrial and Finance. Prior periods have been recast to reflect the new segment reporting structure.

Our financings are conducted through two separate borrowing groups. The Manufacturing group consists of Textron Inc., consolidated with the entities that operate in the Cessna, Bell, Defense & Intelligence and Industrial segments, while the Finance group consists of the Finance segment, comprised of Textron Financial Corporation and its subsidiaries. We designed this framework to enhance our borrowing power by separating the Finance group. Our Manufacturing group operations include the development, production and delivery of tangible goods and services, while our Finance group provides financial services. Due to the fundamental differences between each borrowing group's activities, investors, rating agencies and analysts use different measures to evaluate each group's performance. To support those evaluations, we present balance sheet and cash flow information for each borrowing group within the consolidated financial statements. All significant intercompany transactions are eliminated from the consolidated financial statements, including retail and wholesale financing activities for inventory sold by our Manufacturing group that is financed by our Finance group.

In July 2007, our Board of Directors approved a two-for-one split of our common stock which was effected in August 2007. The prior period financial statements have been restated to reflect the effect of the split on share and per share amounts.

Note 2: Inventories

(In millions)	June 28, 2008	December 29, 2007
Finished goods	$ 1,061	$ 762
Work in process	1,983	1,868
Raw materials	765	636
	3,809	3,266
Less progress/milestone payments	518	542
	$ 3,291	$ 2,724

Note 3: Comprehensive Income

Our comprehensive income for the periods is provided below:

	Three Months Ended		Six Months Ended	
(In millions)	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Net income	$ 258	$ 210	$ 489	$ 406
Other comprehensive income:				
Recognition of prior service cost and unrealized losses on pension and postretirement benefits	10	14	20	29
Net deferred (loss) gain on hedge contracts	(1)	27	(17)	22
Other	13	26	(5)	29
Comprehensive income	$ 280	$ 277	$ 487	$ 486

Note 4: Earnings per Share

We calculate basic and diluted earnings per share based on income available to common shareholders, which approximates net income for each period. We use the weighted-average number of common shares outstanding during the period for the computation of basic earnings per share. Diluted earnings per share includes the dilutive effect of convertible preferred shares, stock options and restricted stock units in the weighted-average number of common shares outstanding.

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

	Three Months Ended		Six Months Ended	
(In thousands)	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Basic weighted-average shares outstanding	249,430	249,703	249,322	250,026
Dilutive effect of convertible preferred shares, stock options and restricted stock units	4,589	4,568	4,944	4,714
Diluted weighted-average shares outstanding	254,019	254,271	254,266	254,740

Note 5: Share-Based Compensation

The compensation expense we recorded in net income for our share-based compensation plans is as follows:

	Three Months Ended		Six Month Ended	
(In millions)	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Compensation expense, net of hedge income or expense	$ 17	$ 28	$ 23	$ 41
Income tax (benefit) expense	(3)	(17)	8	(19)
Total net compensation cost included in net income	$ 14	$ 11	$ 31	$ 22

Stock option activity under the 2007 Long-Term Incentive Plan for the six months ended June 28, 2008 is as follows:

	Number of Options *(In thousands)*	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life *(In years)*	Aggregate Intrinsic Value *(In millions)*
Outstanding at beginning of period	9,024	$ 35.37	6.3	$ 316
Granted	1,483	54.30		
Exercised	(1,099)	34.55		
Canceled, expired or forfeited	(66)	40.92		
Outstanding at end of period	9,342	$ 38.43	6.7	$ 298
Exercisable at end of period	6,099	$ 32.61	5.5	$ 230

There were no significant issuances of stock options in the second quarter of 2008 or 2007.

Note 6: Retirement Plans

We provide defined benefit pension plans and other postretirement benefits to eligible employees. The components of net periodic benefit cost for these plans for the three months ended June 28, 2008 and June 30, 2007 are as follows:

	Pension Benefits		Postretirement Benefits Other Than Pensions	
(In millions)	2008	2007	2008	2007
Service cost	$ 37	$ 34	$ 3	$ 2
Interest cost	82	73	10	11
Expected return on plan assets	(109)	(99)	-	-
Amortization of prior service cost (credit)	5	5	(2)	(1)
Amortization of net loss	6	12	4	5
Net periodic benefit cost	$ 21	$ 25	$ 15	$ 17

The components of net periodic benefit cost for the six months ended June 28, 2008 and June 30, 2007 are as follows:

	Pension Benefits		Postretirement Benefits Other Than Pensions	
(In millions)	2008	2007	2008	2007
Service cost	$ 74	$ 67	$ 5	$ 4
Interest cost	164	146	21	21
Expected return on plan assets	(218)	(198)	-	-
Amortization of prior service cost (credit)	10	9	(3)	(2)
Amortization of net loss	12	25	8	11
Net periodic benefit cost	$ 42	$ 49	$ 31	$ 34

Note 7: Commitments and Contingencies

We are subject to legal proceedings and other claims arising out of the conduct of our business, including proceedings and claims relating to private sector transactions; government contracts; compliance with applicable laws and regulations; production partners; product liability; employment; and environmental, safety and health matters. Some of these legal proceedings and claims seek damages, fines or penalties in substantial amounts or remediation of environmental contamination. As a government contractor, we are subject to audits, reviews and investigations to determine whether our operations are being conducted in accordance with applicable regulatory requirements. Under federal government procurement regulations, certain claims brought by the U.S. Government could result in our being suspended or debarred from U.S. Government contracting for a period of time. On the basis of information presently available, we do not believe that existing proceedings and claims will have a material effect on our financial position or results of operations.

The Internal Revenue Service (IRS) has challenged our tax positions related to certain leveraged and finance lease transactions within the Finance segment. The leveraged lease transactions had an initial investment of approximately $209 million and the finance lease transaction had an investment balance of $34 million at June 28, 2008. Resolution of these issues may result in an adjustment to the timing of taxable income and deductions that reduce the effective yield of these lease transactions. In addition, resolution of these issues could result in the acceleration of cash payments to the IRS. Deferred tax liabilities of $216 million are recorded on our consolidated balance sheet related to these leases at June 28, 2008. Despite certain recent court decisions, which were in favor of the IRS, we believe that the proposed IRS adjustments are inconsistent with the tax law in existence at the time the leases were originated.

Armed Reconnaissance Helicopter (ARH) Program — The ARH program includes a development phase, covered by the System Development and Demonstration (SDD) contract, and a production phase. The SDD contract is a cost plus incentive fee contract under which our eligibility to earn fees is reduced as total contract costs increase. Since 2006, the costs of the SDD contract have exceeded the threshold at which we are eligible to earn profit. In December 2007, we agreed to expand the scope of the development contract efforts on a funded basis. In April 2008, the SDD contract was modified to define the additional scope, raising the total contract value to $589 million from the original contract value of $210 million.

During 2007, we continued to restructure the production portion of this program through negotiations with the U.S. Government, which included reducing the number of units and modifying the pricing and delivery schedules. Based on the status of the negotiations during the year and contractual commitments with our vendors related to materials for the anticipated production units procured in advance of the low-rate initial production (LRIP) contract awards, we established reserves in 2007 representing our best estimate of the expected loss for this program. At December 29, 2007, reserves for this program totaled $50 million.

Based on the latest estimate of projected program costs, the ARH program is now required to be certified under the Nunn-McCurdy Act in order for the program to continue. The U.S. Government has begun the certification process, which we expect will be completed by the end of 2008.

In the second quarter of 2008, we submitted our proposal to the U.S. Government for the first restructured LRIP program. We do not anticipate that any contract awards will be finalized until the program is certified. Based on our vendor obligations and current expectations for the anticipated LRIP contracts, the $50 million reserve recorded in 2007 remains our best estimate of the expected loss at this time.

We expect to continue to receive inventory and incur additional vendor obligations for long-lead time materials related to the anticipated LRIP contracts. ARH production inventory and vendor obligations are anticipated to be in the range of an additional $7 million to $9 million each month. The continued expenditure and recoverability of these additional costs will be monitored and evaluated based on the progress of the certification process.

R&D Arrangements - In 2008, we entered into a risk-sharing arrangement with a supplier for the development of the Columbus aircraft. The arrangement requires periodic contributions from the supplier totaling $50 million, which are due in installments as the development effort reaches certain predetermined milestones. The contributions will be recognized as a reduction of research and development costs ratably as development costs are incurred. Based on development activities completed and costs incurred, we recorded income of less than $1 million in the second quarter of 2008.

We have also contracted with several other suppliers to perform development efforts related to the Columbus aircraft on a fixed-price basis. Our obligations to these suppliers are based on the progress toward completion of certain predetermined milestones. The related development costs are accrued as the milestones are completed. Based on the milestone progress achieved, we recorded expense of $5 million in the second quarter of 2008 related to these arrangements.

Note 8: Guarantees and Indemnifications

As disclosed under the caption "Guarantees and Indemnifications" in Note 17 to the Consolidated Financial Statements in Textron's 2007 Annual Report on Form 10-K, we have issued or are party to certain guarantees. As of June 28, 2008, there has been no material change to these guarantees.

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

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

	Six Months Ended	
(In millions)	June 28, 2008	June 30, 2007
Accrual at the beginning of period	$ 321	$ 315
Provision	97	93
Settlements	(98)	(89)
Adjustments to prior accrual estimates	(7)	2
Other adjustments	(3)	-
Accrual at the end of period	$ 310	$ 321

Note 9: Fair Values of Assets and Liabilities

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," effective for financial statements issued for fiscal years beginning after November 15, 2007. SFAS No. 157 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 already are required or permitted by other accounting standards and does not require any new fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) No. 157-2, which delayed until the first quarter of 2009 the effective date of SFAS No. 157 for nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis.

The adoption of SFAS No. 157 for our financial assets and liabilities in the first quarter of 2008 did not have a material impact on our financial position or results of operations. Our nonfinancial assets and liabilities that meet the deferral criteria set forth in FSP No. 157-2 include goodwill, intangible assets, property, plant and equipment and other long-term investments, which primarily represent collateral that is received by the Finance group in satisfaction of troubled loans. We do not expect that the adoption of SFAS No. 157 for these nonfinancial assets and liabilities will have a material impact on our financial position or results of operations.

In accordance with the provisions of SFAS No. 157, we measure fair value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Statement prioritizes the assumptions that market participants would use in pricing the asset or liability (the "inputs") into a three-tier fair value hierarchy. This fair value hierarchy gives the highest priority (Level 1) to quoted prices in active markets for identical assets or liabilities and the lowest priority (Level 3) to unobservable inputs in which little or no market data exists, requiring companies to develop their own assumptions. Observable inputs that do not meet the criteria of Level 1, and include quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets and liabilities in markets that are not active, are categorized as Level 2. Level 3 inputs are those that reflect our estimates about the assumptions market participants would use in pricing the asset or liability, based on the best information available in the circumstances. Valuation techniques for assets and liabilities measured using Level 3 inputs may include methodologies such as the market approach, the income approach or the cost approach, and may use unobservable inputs such as projections, estimates and management's interpretation of current market data. These unobservable inputs are only utilized to the extent that observable inputs are not available or cost-effective to obtain.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the assets and liabilities measured at fair value on a recurring basis at June 28, 2008 categorized by the level of inputs used in the valuation of each asset and liability.

(In millions)	Total	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Manufacturing group				
Foreign exchange rate forward contracts, net	$ 26	$ -	$ 26	$ -
Total Manufacturing group	26	-	26	-
Finance group				
Interest-only strips	53	-	-	53
Derivative financial instruments, net	22	-	22	-
Total Finance group	75	-	22	53
Total assets	$ 101	$ -	$ 48	$ 53
Liabilities				
Manufacturing group				
Cash settlement forward contract	$ 34	$ 34	$ -	$ -
Total Manufacturing group	34	34	-	-
Total liabilities	$ 34	$ 34	$ -	$ -

Valuation Techniques

Manufacturing Group

Foreign exchange rate forward contracts are measured at fair value using the market method valuation technique. The inputs to this technique utilize current foreign exchange forward market rates published by third-party leading financial news and data providers. This is observable data that represents the rates that the financial institution uses for contracts entered into at that date; however, they are not based on actual transactions so they are classified as Level 2. We record changes in the fair value of these contracts, to the extent they are effective as hedges, in other comprehensive income. If a contract does not qualify for hedge accounting or is designated as a fair value hedge, changes in the fair value of the contract are recorded in income.

Cash settlement forward contracts on our common stock are used to manage the expense related to stock-based compensation awards. The use of these forward contracts modifies compensation expense exposure to changes in the stock price with the intent of reducing potential variability. These contracts are measured at fair value using the market method valuation technique. Since the input to this technique is based on the quoted price of our common stock at the measurement date, it is classified as Level 1. Gains or losses on these instruments are recorded as an adjustment to compensation expense.

Finance Group

Interest-only strips are generally retained upon the sale of finance receivables to qualified special purpose trusts. These interest-only strips are initially recorded at the allocated carrying value, which is determined based on the relative fair values of the finance receivables sold and the interests retained. We estimate fair value upon the initial recognition of the retained interest based on the present value of expected future cash flows using our best estimates of key assumptions – credit losses, prepayment speeds, forward interest rate yield curves and discount rates commensurate with the risks involved. These inputs are classified as Level 3 since they reflect our own assumptions about the assumptions market participants would use in pricing these assets based on the best information available in the circumstances. We review the fair values of the interest-only strips quarterly using a discounted cash flow model and updated assumptions, and compare such amounts with the carrying value. When a change in fair value is deemed temporary, we record a corresponding credit or charge to other comprehensive income for any unrealized gains or losses. If a decline in the fair value is determined to be other than temporary, we record a corresponding charge to income.

Derivative financial instruments are measured at fair value based on observable market inputs for various interest and foreign currency rates published by third-party leading financial news and data providers. This is observable data that represents the rates used by market participants for instruments entered into at that date; however, they are not based on actual transactions so they are classified as Level 2. Changes in fair value for these instruments are primarily recorded in interest expense.

Changes in Fair Value for Unobservable Inputs

The table below presents the change in fair value measurements for our interest-only strips for which we used significant unobservable inputs (Level 3) during the periods ended June 28, 2008:

(In millions)	Three Months Ended June 28, 2008	Six Months Ended June 28, 2008
Balance, beginning of period	$ 52	$ 43
Net gains for the period:		
Increase due to securitization gains on sale of finance receivables	21	42
Change in value recognized in Finance revenues	-	1
Change in value recognized in other comprehensive income	(2)	-
Collections	(18)	(33)
Balance, end of period	$ 53	$ 53

Note 10: Recently Issued Accounting Pronouncements

In June 2008, the FASB issued FSP No. EITF 03-6-1, "Determining Whether Instruments Granted In Share-Based Payment Transactions Are Participating Securities." This FSP concludes that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and must be included in the computation of basic earnings per share using the two-class method. This FSP is effective in the first quarter of 2009 and is to be applied on a retrospective basis to all periods presented. In the first quarter of 2008, we granted restricted stock units which include nonforfeitable rights to dividends. Accordingly, restricted stock units awarded since the beginning of 2008 will be considered participating securities and will be included in our earnings per share calculation upon the adoption of this FSP. The adoption of this FSP will not have a material impact on our earnings per share and it will have no impact on our financial position or results of operations.

Other new pronouncements issued but not effective until after June 29, 2008 are not expected to have a significant effect on our consolidated financial position or results of operations.

Note 11: Segment Information

Effective at the beginning of fiscal 2008, we changed our segment reporting by separating the former Bell segment into two segments: the Bell segment and the Defense & Intelligence segment. We now operate in, and will report financial information for, the following five business segments: Cessna, Bell, Defense & Intelligence, Industrial and Finance. These segments reflect the manner in which we now manage our operations. Prior periods have been restated to reflect the new segment reporting structure.

Segment profit is an important measure used for evaluating performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense and certain corporate expenses. The measurement for the Finance segment includes interest income and expense. Provisions for losses on finance receivables involving the sale or lease of our products are recorded by the selling manufacturing division when our Finance group has recourse to the Manufacturing group.

Our revenues by segment and a reconciliation of segment profit to income from continuing operations before income taxes are as follows:

	Three Months Ended		Six Months Ended	
(In millions)	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
REVENUES				
MANUFACTURING:				
Cessna	$ 1,501	$ 1,203	$ 2,747	$ 2,171
Bell	698	596	1,272	1,176
Defense & Intelligence	528	319	1,103	678
Industrial	1,015	878	1,924	1,725
	3,742	2,996	7,046	5,750
FINANCE	177	239	391	449
Total revenues	3,919	$ 3,235	7,437	$ 6,199
SEGMENT OPERATING PROFIT				
MANUFACTURING:				
Cessna	$ 262	$ 200	$ 469	$ 355
Bell	68	7	121	32
Defense & Intelligence	67	52	138	118
Industrial	58	59	108	119
	455	318	836	624
FINANCE	13	68	55	120
Segment profit	468	386	891	744
Corporate expenses and other, net	(48)	(66)	(88)	(116)
Interest expense, net	(29)	(23)	(59)	(47)
Income from continuing operations before income taxes	$ 391	$ 297	$ 744	$ 581

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

Consolidated Results of Operations

Revenues and Segment Profit

Second Quarter of 2008

Revenues increased $684 million, or 21%, to $3.9 billion in the second quarter of 2008, compared with the second quarter in 2007. This increase is primarily due to higher manufacturing volume and product mix of $371 million, revenues from newly acquired businesses of $202 million, higher pricing of $109 million and favorable foreign exchange in the Industrial segment of $64 million. These increases were partially offset by lower revenue for the Finance segment of $62 million.

Segment profit increased $82 million, or 21%, to $468 million in the second quarter of 2008, compared with the second quarter in 2007. This increase is primarily due to the benefit from higher volume and mix of $72 million, higher pricing in excess of inflation of $24 million, favorable cost performance of $22 million and the benefit from newly acquired businesses of $14 million, partially offset by lower profit in the Finance segment of $55 million. Favorable cost performance includes the impact of a $48 million net charge related to Bell's Armed Reconnaissance Helicopter ("ARH") program in the second quarter of 2007.

First Half of 2008

Revenues increased $1,238 million, or 20%, to $7.4 billion in the first half of 2008 compared with the first half of 2007. This increase is primarily due to higher manufacturing volume and product mix of $551 million, revenues from newly acquired businesses of $465 million, higher pricing of $192 million and favorable foreign exchange in the Industrial segment of $116 million. These increases were partially offset by lower revenue in the Finance Segment of $58 million and the impact of last year's reimbursement of costs related to Hurricane Katrina of $28 million.

Segment profit increased $147 million, or 20%, to $891 million in the first half of 2008, compared with the first half of 2007. This increase is primarily due to the benefit from higher volume and mix of $98 million, favorable cost performance of $42 million, higher pricing in excess of inflation of $38 million and the benefit from newly acquired businesses of $27 million, partially offset by lower profit in the Finance segment of $65 million. Favorable cost performance includes the impact of $73 million in net charges in 2007 related to the ARH program, partially offset by last year's reimbursement of costs related to Hurricane Katrina of $28 million.

Backlog

Backlog in the aircraft and defense businesses grew by $4.7 billion to $23.5 billion at the end of the second quarter of 2008, compared to the end of 2007. Approximately $3.4 billion of this increase was at Cessna and $1.4 billion at Bell. At Cessna, approximately 70% of the new business jet orders were from international customers in the first half of 2008, compared with approximately 45% in the first half of 2007. Approximately $2.2 billion of Cessna's backlog relates to the Columbus aircraft with initial customer deliveries expected to begin in 2014. Bell's backlog increased as a result of a multi-year procurement contract entered into in March for the V-22 tiltrotor aircraft, which added $1.1 billion to backlog for the first funded lot and certain advanced procurement for additional lots. The remaining contract value of $4.7 billion will be reflected in backlog as each subsequent production lot is funded.

Corporate Expenses and Other, net

Corporate expenses and other, net decreased $18 million and $28 million in the second quarter and first half of 2008, respectively, compared with the corresponding periods of 2007, primarily due to lower pre-tax share-based compensation expense largely attributable to depreciation in our stock price.

Income Taxes

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

	Three Months Ended		Six Months Ended	
	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Federal statutory income tax rate	35.0%	35.0%	35.0%	35.0%
Increase (decrease) in taxes resulting from:				
State income taxes	0.3	1.4	1.2	1.3
Foreign tax rate differential	(4.8)	(1.6)	(5.5)	(1.6)
Manufacturing deduction	(1.3)	(1.6)	(1.3)	(1.6)
Equity hedge expense (income)	1.0	(1.9)	2.1	(1.0)
Interest on tax contingencies	3.8	1.2	2.6	1.2
Canadian functional currency	-	-	-	(0.3)
Favorable tax settlements	-	(3.3)	-	(1.7)
Other, net	(0.8)	(1.6)	(0.9)	(2.4)
Effective income tax rate	33.2%	27.6%	33.2%	28.9%

In the second quarter of 2008, due to court decisions involving other companies addressing the tax treatment of certain lease transactions, we increased the accrual for interest on tax contingencies related to similar lease transactions in the Finance segment. This change in assessment was also the primary factor in lowering our state income taxes and increasing the foreign tax rate differential.

Segment Analysis

Effective at the beginning of fiscal 2008, we changed our segment reporting by separating the former Bell segment into two segments: the Bell segment and the Defense & Intelligence segment. We now operate in, and report financial information for, the following five business segments: Cessna, Bell, Defense & Intelligence, Industrial and Finance. These segments reflect the manner in which we now manage our operations. Prior periods have been recast to reflect the new segment reporting structure.

Segment profit is an important measure used to evaluate performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense and certain corporate expenses. The measurement for the Finance segment includes interest income and expense.

Cessna

	Three Months Ended		Six Months Ended	
(In millions)	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Revenues	$ 1,501	$ 1,203	$ 2,747	$ 2,171
Segment profit	$ 262	$ 200	$ 469	$ 355

In the second quarter of 2008, Cessna’s revenues and segment profit increased $298 million and $62 million, respectively, compared with the second quarter of 2007. Revenues increased largely due to higher volume of $212 million, reflecting higher Citation business jet deliveries, improved pricing of $69 million and a $17 million benefit from a newly acquired business. We delivered 117 jets in the second quarter, compared with 95 jets in the second quarter of 2007. Segment profit increased primarily due to the $63 million impact from higher volume and pricing in excess of inflation of $31 million, partially offset by higher engineering and product development expense of $16 million.

In the first half of 2008, Cessna’s revenues and segment profit increased $576 million and $114 million, respectively, compared with the first half of 2007. Revenues increased largely due to higher volume of $424 million, reflecting higher Citation business jet deliveries, improved pricing of $127 million and a $25 million benefit from a newly acquired business. We delivered 212 jets in the first half of 2008, compared with 162 jets in the first half of 2007. Segment profit increased primarily due to the $107 million impact from higher volume, pricing in excess of inflation of $57 million and favorable warranty performance of $16 million, partially offset by higher engineering and product development expense of $34 million.

Bell

	Three Months Ended		Six Months Ended	
(In millions)	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Revenues	$ 698	$ 596	$ 1,272	$ 1,176
Segment profit	$ 68	$ 7	$ 121	$ 32

U.S. Government Business
Revenues and segment profit for Bell's U.S. Government business increased $97 million and $64 million, respectively, in the second quarter of 2008, compared with the second quarter of 2007. The increase in revenues is mainly due to higher H-1 program revenue of $47 million, higher V-22 volume of $30 million and higher spares and service volume of $12 million. Segment profit increased primarily due to improved cost performance of $59 million, largely due to the impact of a $48 million net charge related to the ARH program in the second quarter of 2007, and a $5 million contribution from higher volume and mix.

In the first half of 2008, revenues and segment profit for this business increased $147 million and $91 million, respectively, compared with the first half of 2007. The increase in revenues is mainly due to higher V-22 volume of $79 million, higher H-1 program revenue of $36 million and higher spares and service volume of $19 million. Segment profit increased primarily due to improved cost performance of $78 million, largely due to the impact of $73 million in net charges related to the ARH program in the first half of 2007, and a $13 million contribution from higher volume and mix.

ARH Program — The ARH program includes a development phase, covered by the System Development and Demonstration (SDD) contract, and a production phase. The SDD contract is a cost plus incentive fee contract under which our eligibility to earn fees is reduced as total contract costs increase. Since 2006, the costs of the SDD contract have exceeded the threshold at which we are eligible to earn profit. In December 2007, we agreed to expand the scope of the development contract efforts on a funded basis. In April 2008, the SDD contract was modified to define the additional scope, raising the total contract value to $589 million from the original contract value of $210 million.

During 2007, we continued to restructure the production portion of this program through negotiations with the U.S. Government, which included reducing the number of units and modifying the pricing and delivery schedules. Based on the status of the negotiations during the year and contractual commitments with our vendors related to materials for the anticipated production units procured in advance of the low-rate initial production (LRIP) contract awards, we established reserves in 2007 representing our best estimate of the expected loss for this program. At December 29, 2007, reserves for this program totaled $50 million.

Based on the latest estimate of projected program costs, the ARH program is now required to be certified under the Nunn-McCurdy Act in order for the program to continue. The U.S. Government has begun the certification process, which we expect will be completed by the end of 2008.

In the second quarter of 2008, we submitted our proposal to the U.S. Government for the first restructured LRIP program. We do not anticipate that any contract awards will be finalized until the program is certified. Based on our vendor obligations and current expectations for the anticipated LRIP contracts, the $50 million reserve recorded in 2007 remains our best estimate of the expected loss at this time.

We expect to continue to receive inventory and incur additional vendor obligations for long-lead time materials related to the anticipated LRIP contracts. ARH production inventory and vendor obligations are anticipated to be in the range of an additional $7 million to $9 million each month. The continued expenditure and recoverability of these additional costs will be monitored and evaluated based on the progress of the certification process.

Commercial Business

Revenues for Bell’s commercial business increased $5 million, while segment profit decreased $3 million in the second quarter of 2008, compared with the second quarter of 2007. The increase in revenues for this business is primarily due to higher pricing of $17 million and revenues from newly acquired businesses of $5 million, partially offset by lower helicopter volume of $19 million. The decrease in segment profit reflects unfavorable cost performance of $5 million and lower volume of $3 million, partially offset by higher pricing in excess of inflation of $6 million.

In the first half of 2008, revenues and segment profit for Bell’s commercial business decreased $51 million and $2 million, respectively, compared with the first half of 2007. The decrease in revenues for this business is primarily due to lower helicopter volume of $95 million, partially offset by higher pricing of $30 million and revenues from newly acquired businesses of $11 million. The decrease in segment profit reflects lower volume of $20 million, partially offset by favorable cost performance of $10 million and higher pricing in excess of inflation of $9 million.

Defense & Intelligence

	Three Months Ended		Six Months Ended	
(In millions)	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Revenues	$ 528	$ 319	$ 1,103	$ 678
Segment profit	$ 67	$ 52	$ 138	$ 118

Revenues and segment profit increased $209 million and $15 million, respectively, in the second quarter of 2008, compared with the second quarter of 2007. The increase in revenues is primarily due to $175 million in revenues from our newly acquired AAI business and $39 million in higher volume for our Armored Security Vehicle (“ASV”) aftermarket products and Intelligent Battlefield Systems, Joint Direct Attack Munitions and Lycoming products, partially offset by lower Sensor Fused Weapon volume of $17 million. Segment profit increased primarily due to the benefit from the newly acquired AAI business of $16 million, partially offset by unfavorable cost performance of $6 million.

In the first half of 2008, revenues and segment profit increased $425 million and $20 million, respectively, compared with the first half of 2007. The increase in revenues is primarily due to $420 million in revenues from our newly acquired AAI business and $55 million in higher volume for our ASV aftermarket products and Lycoming, Intelligent Battlefield Systems and Joint Direct Attack Munitions products, partially offset by lower Sensor Fused Weapon volume of $31 million and a $28 million reimbursement of costs in the first half of 2007 related to Hurricane Katrina.

Segment profit increased in the first half of 2008 primarily due to the benefit from the newly acquired AAI business of $34 million, partially offset by unfavorable cost performance of $12 million. Cost performance reflects a 2007 cost reimbursement related to Hurricane Katrina of $28 million, partially offset by $17 million in favorable performance for the ASV, which includes $5 million related to the resolution of several customer and vendor claims in the first quarter of 2008.

Industrial

	Three Months Ended		Six Months Ended	
(In millions)	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Revenues	$ 1,015	$ 878	$ 1,924	$ 1,725
Segment profit	$ 58	$ 59	$ 108	$ 119

Revenues in the Industrial segment increased $137 million, while segment profit decreased $1 million in the second quarter of 2008, compared with the second quarter of 2007. Revenues increased primarily due to a favorable foreign exchange impact of $65 million, higher volume of $56 million and higher pricing of $12 million. Segment profit decreased primarily due to inflation in excess of higher pricing of $18 million due to significant increases in commodity prices, partially offset by a favorable foreign exchange impact of $6 million and improved cost performance of $5 million.

In the first half of 2008, revenues in the Industrial segment increased $199 million, while segment profit decreased $11 million compared to the first half of 2007. Revenues increased primarily due to a favorable foreign exchange impact of $117 million, higher volume of $49 million and higher pricing of $25 million. Segment profit decreased primarily due to inflation in excess of higher pricing of $26 million, partially offset by improved cost performance of $9 million and a favorable foreign exchange impact of $8 million.

Finance

	Three Months Ended		Six Months Ended	
(In millions)	June 28, 2008	June 30, 2007	June 28, 2008	June 30, 2007
Revenues	$ 177	$ 239	$ 391	$ 449
Segment profit	$ 13	$ 68	$ 55	$ 120

Revenues decreased $62 million and $58 million in the second quarter and first half of 2008, respectively, compared with the corresponding periods of 2007, primarily due to the following:

(In millions)	Quarter	First Half
Lower market interest rates	$ (41)	$ (69)
Gains on the sale of leveraged lease investment	(21)	(16)
Change in estimate for leveraged lease transactions	(9)	(9)
Benefit from variable-rate receivable interest rate floors	6	6
Higher securitization gains	5	10
Leveraged lease residual value impairments	(3)	8

In the second quarter of 2008, our revenues and segment profit were reduced to reflect a cumulative adjustment due to a change in estimate of the timing of tax-related cash flows on our leveraged lease portfolio. This change was based on court decisions involving other companies that addressed the tax treatment of certain lease transactions challenged by the Internal Revenue Service.

Segment profit decreased $55 million and $65 million in the second quarter and first half of 2008, respectively, compared with the corresponding periods of 2007, primarily due to the following:

(In millions)	Quarter	First Half
Increase in the provision for loan losses	$ (29)	$ (51)
Gains on the sale of leveraged lease investment	(21)	(16)
Higher borrowing costs relative to market rates	(9)	(19)
Change in estimate for leveraged lease transactions	(9)	(9)
Leveraged lease residual value impairments	(3)	8
Higher securitization gains	5	10

We have experienced higher borrowing costs relative to various market rate indices due to continued volatility in the credit markets. Dramatic reductions in the target Federal Funds rate from January through April were generally reflected in our finance receivable portfolio yield in advance of being reflected in our borrowing costs. In addition, LIBOR rates, on which the majority of our variable-rate debt portfolio is based, have remained high relative to the Federal Funds rate and credit spreads have widened on issuances of commercial paper and term debt as compared to 2007.

The increase in the provision for loan losses in the second quarter of 2008 was primarily driven by a $12 million reserve established for one account in the golf finance portfolio and increased loan loss provisions in the distribution finance portfolio as fuel costs and general U.S. economic conditions have continued to impact borrowers in certain industries. In the first half of 2008, the increase was primarily driven by a $15 million reserve established for one account in the asset-based lending portfolio, a $12 million reserve established for one account in the golf finance portfolio and increased loan loss provisions in the distribution finance portfolio.

The following table presents information about the Finance segment's credit performance:

(Dollars in millions)	June 28, 2008	December 29, 2007
Nonperforming assets	$ 216	$ 123
Nonaccrual finance receivables	$ 176	$ 79
Allowance for losses	$ 126	$ 89
Ratio of nonperforming assets to total finance assets	2.31%	1.34%
Ratio of allowance for losses on receivables to nonaccrual finance receivables	71.8%	111.7%
60+ days contractual delinquency as a percentage of finance receivables	0.61%	0.43%

The increase in nonperforming assets and nonaccrual finance receivables is primarily attributable to one account in the asset-based lending portfolio and one account in the golf finance portfolio. In addition, nonperforming assets and net charge-offs increased in the distribution finance portfolio reflecting weakening U.S. economic conditions. For the first half of 2008, net charge-offs totaled $30 million, compared with $23 million in the first half of 2007. For the remainder of 2008, we expect nonperforming assets and charge-offs to remain high relative to the strong portfolio quality performance of 2007.

Liquidity and Capital Resources

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

We assess liquidity for our Manufacturing group in terms of our ability to provide adequate cash to fund our operating, investing and financing activities. Our principal source of liquidity is operating cash flows. We also have liquidity available to us via the commercial paper market and committed bank lines of credit, as well as access to the public capital markets that provide us with long-term capital at satisfactory terms.

Our Finance group mitigates liquidity risk (i.e., the risk that we will be unable to fund maturing liabilities or the origination of new finance receivables) by developing and preserving reliable sources of capital. We use a variety of financial resources to meet these capital needs. Cash for the Finance group is provided from finance receivable collections, sales and securitizations, as well as the issuance of commercial paper and term debt in the public and private markets. This diversity of capital resources enhances its funding flexibility, limits dependence on any one source of funds, and results in cost-effective funding. The Finance group also can borrow from the Manufacturing group when the availability of such borrowings creates an economic advantage to Textron in comparison with borrowings from other sources. In making particular funding decisions, management considers market conditions, prevailing interest rates and credit spreads, and the maturity profile of its assets and liabilities.

Manufacturing Group Cash Flows of Continuing Operations

	Six Months Ended	
(In millions)	June 28, 2008	June 30, 2007
Operating activities	$ 413	$ 280
Investing activities	$ (293)	$ (137)
Financing activities	$ (169)	$ (283)

Operating cash flows for the Manufacturing group increased primarily due to earnings growth. Changes in our working capital components resulted in a $442 million use of cash in the first half of 2008, compared to a $375 million use of cash in the first half of 2007. Cash used for inventories continues to be a significant use of operating cash due to increased production and inventory build-up primarily to support increasing sales at Bell and Cessna.

The Manufacturing group used more cash for investing activities primarily due to $100 million in cash payments made in 2008 largely related to the acquisition of AAI at the end of 2007 and a $56 million increase in capital expenditures.

Less cash was used by the Manufacturing group for financing activities primarily due to an $87 million reduction in cash used to repurchase our stock. Financing cash outflows also decreased due to $79 million of incremental borrowings, partially offset by $31 million in lower proceeds from stock option exercises. The decrease in share repurchases is due to a 1 million reduction in the number of shares repurchased in the first half of 2008 compared with 2007, and due to the timing of cash payments. In the first half of 2008, we repurchased 3.5 million shares for $190 million with $56 million in unsettled transactions at June 28, 2008. In the first half of 2007, we repurchased 4.5 million shares for $219 million with only $7 million payable at the end of the quarter due to unsettled trades.

Based on current market conditions, we plan to accelerate the pace of our share repurchase program. In the second half of 2008, we expect to utilize up to $500 million to repurchase common stock under our previously authorized share repurchase program. We anticipate that these additional repurchases will be funded through cash generated from operating activities, supplemented by the issuance of debt, including commercial paper, as required.

Finance Group Cash Flows of Continuing Operations

	Six Months Ended	
(In millions)	June 28, 2008	June 30, 2007
Operating activities	$ 83	$ 153
Investing activities	$ (134)	$ 23
Financing activities	$ 46	$ (156)

For the Finance group, lower earnings in the first half of 2008 resulted in less cash provided by operating activities. The Finance group used more cash for investing activities primarily due to the purchase of notes receivable issued by securitization trusts of $98 million and the $48 million impact of lower repayments and proceeds received from receivable sales, including securitizations to fund originations. Financing activities generated more cash for the Finance group primarily due to higher incremental borrowings as we relied less on proceeds from receivable sales, including securitizations to fund our growth in finance assets in the first half of 2008 compared with the corresponding period of 2007.

Consolidated Cash Flows of Continuing Operations

(In millions)	Six Months Ended June 28, 2008	 June 30, 2007
Operating activities	$ 372	$ 123
Investing activities	$ (445)	$ 61
Financing activities	$ 19	$ (304)

Operating cash flows increased primarily due to earnings growth in the Manufacturing group and a $189 million increase in cash received from captive finance receivables, partially offset by working capital growth.

Cash used for investing activities increased primarily due to the $242 million impact of lower repayments and proceeds received from receivable sales, including securitizations to fund originations. In addition, we made $100 million in payments in 2008, largely related to the acquisition of AAI at the end of 2007, purchased notes receivable issued by securitization trusts of $98 million in 2008 and spent an additional $56 million in capital expenditures.

We received more cash from financing activities during the first half of 2008, compared with the first half of 2007, largely related to higher incremental borrowings. In addition, we used $87 million less cash to repurchase our stock.

Captive Financing

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

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

(In millions)	Six Months Ended June 28, 2008	 June 30, 2007
Reclassifications from investing activities:		
Finance receivable originations for Manufacturing group inventory sales	$ (520)	$ (525)
Cash received from customers, sale of receivables and securitizations	543	354
Other	(5)	(4)
Total reclassifications from investing activities	18	(175)
Dividends paid by Finance group to Manufacturing group	(142)	(135)
Total reclassifications and adjustments to operating activities	$ (124)	$ (310)

Capital Resources

The debt (net of cash)-to-capital ratio for our Manufacturing group was 32% at June 28, 2008 and December 29, 2007, and the gross debt-to-capital ratio at June 28, 2008 was 37% compared with 38% at December 29, 2007.

Under separate shelf registration statements filed with the Securities and Exchange Commission, the Manufacturing group may issue public debt and other securities in one or more offerings up to a total maximum offering of $2.0 billion, and the Finance group may issue an unlimited amount of public debt securities. At June 28, 2008, we had $1.2 billion available under our registration statement. During the first half of 2008, the Finance group issued $675 million of term debt under its registration statement.

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 lines of credit was drawn at June 28, 2008 or December 29, 2007.

Our primary committed credit facilities at June 28, 2008 include the following:

(In millions)	Facility Amount	Commercial Paper Outstanding	Letters of Credit Outstanding	Amount Not Reserved as Support for Commercial Paper and Letters of Credit
Manufacturing group — multi-year facility expiring in 2012*	$ 1,250	$ 89	$ 22	$ 1,139
Finance group — multi-year facility expiring in 2012	1,750	1,340	7	403
Total	$ 3,000	$ 1,429	$ 29	$ 1,542

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

At June 28, 2008, our Finance group had $2.7 billion in debt and $447 million in other liabilities that are payable within the next 12 months.

Foreign Exchange Risks

Our financial results are affected by changes in foreign currency exchange rates and economic conditions in the foreign markets in which our products are manufactured and/or sold. For the first half of 2008, the impact of foreign exchange rate changes from the first half of 2007 increased revenues by approximately $117 million (1.9%) and increased segment profit by approximately $8 million (1.0%).

Forward-Looking Information

Certain statements in this Quarterly Report on Form 10-Q and other oral and written statements made by us from time to time are forward-looking statements, including those that discuss strategies, goals, outlook or other non-historical matters, or project revenues, income, returns or other financial measures. These forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update or revise any forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements, such as the Risk Factors contained in our 2007 Annual Report on Form 10-K and including the following: (a) changes in worldwide economic and political conditions that impact demand for our products, interest rates and foreign exchange rates; (b) the interruption of production at our facilities or our customers or suppliers; (c) performance issues with key suppliers, subcontractors and business partners; (d) our ability to perform as anticipated and to control costs under contracts with the U.S. Government; (e) the U.S. Government's ability to unilaterally modify or terminate its contracts with us for the U.S. Government's convenience or for our failure to perform, to change applicable procurement and accounting policies, and, under certain circumstances, to suspend or debar us as a contractor eligible to receive future contract awards; (f) changing priorities or reductions in the U.S. Government defense budget, including those related to Operation Iraqi Freedom, Operation Enduring Freedom and the Global War on Terrorism; (g) changes in national or international funding priorities, U.S. and foreign military budget constraints and determinations, and government policies on the export and import of military and commercial products; (h) legislative or regulatory actions impacting defense operations; (i) the ability to control costs and successful implementation of various cost-reduction programs; (j) the timing of new product launches and certifications of new aircraft products; (k) the occurrence of slowdowns or downturns in customer markets in which our products are sold or supplied or where Textron Financial Corporation offers financing; (l) changes in aircraft delivery schedules or cancellation of orders; (m) the impact of changes in tax legislation; (n) the extent to which we are able to pass raw material price increases through to customers or offset such price increases by reducing other costs; (o) our ability to offset, through cost reductions, pricing pressure brought by original equipment manufacturer customers; (p) our ability to realize full value of receivables; (q) the availability and cost of insurance; (r) increases in pension expenses and other postretirement employee costs; (s) Textron Financial Corporation's ability to maintain portfolio credit quality; (t) Textron Financial Corporation's access to financing, including securitizations, at competitive rates; (u) uncertainty in estimating contingent liabilities and establishing reserves to address such contingencies; (v) risks and uncertainties related to acquisitions and dispositions, including difficulties or unanticipated expenses in connection with the consummation of acquisitions or dispositions, the disruption of current plans and operations, or the failure to achieve anticipated synergies and opportunities; (w) the efficacy of research and development investments to develop new products; (x) the launching of significant new products or programs which could result in unanticipated expenses; and (y) bankruptcy or other financial problems at major suppliers or customers that could cause disruptions in our supply chain or difficulty in collecting amounts owed by such customers.

Item 3. QUANTITA TIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change in our exposure to market risk during the six months ended June 28, 2008. For discussion of our exposure to market risk, refer to Item 7A. Quantitative and Qualitative Disclosures about Market Risk contained in Textron's 2007 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 our internal control over financial reporting during the fiscal quarter ended June 28, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

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

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 (March 30, 2008, – May 3, 2008)	–	–	–	21,103,000
Month 2 (May 4, 2008 - May 31, 2008)	3,225	$ 61.98	–	21,103,000
Month 3 (June 1, 2008 - June 28, 2008)	1,886,000	50.12	1,886,000	19,217,000
Total	1,889,225	$ 50.14	1,886,000	

On July 18, 2007, our Board of Directors approved a new share repurchase plan under which we are authorized to repurchase up to 24 million share of common stock. The new plan has no expiration date and supersedes the previous plan, which was cancelled.

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

At Textron's annual meeting of shareholders held on April 23, 2008, the following items were voted upon:

1. The following persons were elected to serve as directors in Class III for three year terms expiring in 2011 and received the votes listed.

Name	For	Against	Abstain	Broker Non-Votes
Paul E. Gagne	215,241,252	5,579,849	2,826,955	2,586
Dain M. Hancock	217,120,959	3,688,267	2,839,302	2,114
Lloyd G. Trotter	217,061,534	3,703,441	2,883,551	2,116
Thomas B. Wheeler	215,156,912	5,627,459	2,864,145	2,126

The following directors have terms of office which continued after the meeting: Class I expiring in 2009: Lewis B. Campbell, Lawrence K. Fish and Joe T. Ford; Class II expiring in 2010: Kathleen M. Bader, R. Kerry Clark, Ivor J. Evans, Lord Powell of Bayswater KCMG and James L. Ziemer

2. The appointment of Ernst & Young LLP by the Audit Committee as Textron's independent registered public accounting firm for 2008 was ratified by the following vote:

For	Against	Abstain	Broker Non-Votes
217,616,286	3,854,998	2,177,241	2,117

3. A shareholder proposal relating to a report on foreign military sales was rejected by the following vote:

For	Against	Abstain	Broker Non-Votes
12,733,432	160,940,977	22,259,329	27,716,904

4. A shareholder proposal relating to Tax Gross-up Payments to Senior Executives was rejected by the following vote:

For	Against	Abstain	Broker Non-Votes
86,560,502	105,858,881	3,514,350	27,716,909

Item 6. EXHIBITS

10.1 Letter Agreement between Textron and Scott C. Donnelly dated June 26, 2008

12.1 Computation of ratio of income to fixed charges of Textron Inc. Manufacturing Group

12.2 Computation of ratio of income to fixed charges of Textron Inc. including all majority-owned subsidiaries

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

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

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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: July 25, 2008

/s/Richard L. Yates
Richard 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:

10.1 Letter Agreement between Textron and Scott C. Donnelly dated June 26, 2008

12.1 Computation of ratio of income to fixed charges of Textron Inc. Manufacturing Group

12.2 Computation of ratio of income to fixed charges of Textron Inc. including all majority-owned subsidiaries

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

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

32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

EXHIBIT 12.1

TEXTRON INC.
MANUFACTURING GROUP
COMPUTATION OF RATIO OF INCOME TO FIXED CHARGES
(unaudited)

(In millions, except ratio)

	Six Months Ended June 28, 2008
Fixed charges:	
Interest expense	$ 67
Estimated interest portion of rents	16
Total fixed charges	$ 83
Income:	
Income from continuing operations before income taxes	$ 744
Dividends in excess of pretax income of Textron Finance	87
Fixed charges	83
Adjusted income	$ 914
Ratio of income to fixed charges	11.01

EXHIBIT 12.2

TEXTRON INC.
INCLUDING ALL MAJORITY-OWNED SUBSIDIARIES
COMPUTATION OF RATIO OF INCOME TO FIXED CHARGES
(unaudited)

(In millions, except ratio)

	Six Months Ended June 28, 2008
Fixed charges:	
Interest expense	$ 224
Estimated interest portion of rents	18
Total fixed charges	$ 242
Income:	
Income from continuing operations before income taxes	$ 744
Fixed charges	242
Adjusted income	$ 986
Ratio of income to fixed charges	4.07

Exhibit 31.1

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

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.

Date: July 25, 2008

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

Exhibit 31.2

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

I, 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.

Date: July 25, 2008

/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 June 28, 2008 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. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date:	July 25, 2008	/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 June 28, 2008 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. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: July 25, 2008

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

Exhibit 10.1

TEXTRON

Lewis B. Campbell
Chairman, President and Chief Executive Officer
Textron Inc.

40 Westminster St.
Providence, RI 02903
Tel: (401) 457-2322
Fax: (401) 457-3682
lcampbell@textron.com

June 26, 2008

Scott C. Donnelly
6450 Given Road
Cincinnati, Ohio 45243

Dear Scott:

I am pleased to offer you the position of Executive Vice President and Chief Operating Officer of Textron Inc., reporting directly to me. The Board and I believe you have the personal and professional qualifications to make significant contributions to the continued success of Textron and that you will be an excellent leader of the organization as we address the challenges and opportunities facing us.

As Executive Vice President and Chief Operating Officer, you shall have duties, authorities and responsibilities generally commensurate with the duties, authorities and responsibilities of persons in similar capacities in similarly sized companies, subject to Textron's By-laws and its organizational structure.

The main features of your compensation package, as approved by the Organization and Compensation Committee of the Board, are summarized below:

- Base salary of $850,000 per year.

- An annual incentive award for 2008 (payable in March 2009) under Textron's annual incentive plan, in an amount determined by the Organization and Compensation Committee by applying the 2008 performance goals and award levels for executive officers to your base salary on a non-prorated basis; but in no event shall your annual incentive award for 2008 be less than $1,320,000.

- Target awards under Textron's annual incentive plan for 2009 and subsequent years having a "target" value of at least 90% of base salary, payable upon the attainment of any performance goals established for the year by the Organization and Compensation Committee. Actual payouts may vary from zero to 200% of your target award each year based on the Organization and Compensation Committee's determination that Textron has attained these performance goals. Payouts are made within the first 2½ months after the end of the performance period.

- A long-term incentive award for 2009 with a value of $3,500,000, and long-term incentive awards for subsequent years as determined by the Organization and Compensation Committee as part of its review of senior management compensation. Long-term incentive awards will consist of performance shares or performance share units, restricted stock or restricted stock units, stock options, or other equity awards in proportions and subject to vesting requirements and other terms and conditions determined by the Organization and Compensation Committee. Each component of your 2009 award will be in the same proportions as awarded to me. At present, awards of restricted stock and restricted stock units include dividend equivalents paid currently in cash.

- Effective on the later of July 1, 2008, and three business days after your first day of employment with Textron, three pro-rata awards of performance share units for the award cycles ending in 2008, 2009, and 2010, based on the time remaining within each performance cycle, with a combined value of $2,100,000. The performance share units will be payable upon the achievement of any performance goals established for the award cycle by the Organization and Compensation Committee. The award for 2008 also will be subject to a requirement that you not voluntarily terminate your employment with Textron before the first anniversary of the grant date, and will be payable after you satisfy this minimum vesting requirement. This minimum vesting requirement is mandated by Textron's 2007 Long-Term Incentive Plan (LTIP), as approved by shareholders.

- Effective on the later of July 1, 2008, and three business days after your first day of employment with Textron, an initial award of nonqualified stock options with a value of $2,510,000 (determined using standard Towers Perrin methodology), having a 10-year term and an exercise price equal to the fair market value of Textron stock on the grant date, and to become exercisable 20% on first business day of the month on or after the anniversary of the grant date in each year from 2010 through 2014, provided that you are still employed by Textron on each vesting date. Because the 2007 LTIP limits annual individual grants to 200,000 stock options in any year, your stock option grant will be for a maximum of 200,000 shares. Any additional amount necessary to reach the $2,510,000 target value will be paid in cash within 30 days after your first day of employment with Textron.

- A nonqualified pension benefit determined using the benefit formula under the Textron Master Retirement Plan (but without regard to the limits on compensation and benefits imposed by the Internal Revenue Code), taking into account your service with both General Electric and Textron, and using the definition of pensionable compensation and final average compensation in the Textron Spillover Pension Plan. This nonqualified pension benefit will become 100% vested upon the earlier of your completion of ten years of service with Textron and your attainment of age 62 while employed by Textron, and will be reduced by the combined value of any benefit you are eligible to receive under (1) a tax-qualified defined benefit plan maintained by General Electric, (2) a tax-qualified defined benefit plan maintained by Textron (before any reduction in your tax-qualified defined benefit to reflect an offset for your account under the Textron Retirement Account Plan), and (3) the Textron Spillover Pension Plan (or any successor nonqualified defined benefit plan maintained by Textron). The forms of payment and other terms of your nonqualified pension benefit will be as determined by the Board and reflected in a separate document or an appendix to the Textron Spillover Pension Plan.

- Eligibility to participate in the Deferred Income Plan for Textron Executives, or any successor elective deferred compensation plan offered to Textron's senior executives. You would participate in the Deferred Income Plan as a "Schedule A" participant, which is the participation level that applies to Textron's other senior executives. The Deferred Income Plan currently provides a matching contribution equal to 10% of any elective deferred income (not including deferrals of base salary) that a Schedule A participant allocates to the Textron stock unit account in the plan. You would be eligible to receive this matching contribution to the same extent as other Schedule A participants.

- Eligibility to participate in Textron's health, disability, life insurance, annual physical, and other welfare benefit programs at the same level as Textron's other senior executives.

- Eligibility for four weeks of paid vacation, and for relocation benefits consistent with (and subject to the same tax treatment as) the benefits under Textron's relocation policy for senior executives.

In recognition of the substantial long-term incentive awards you will forfeit when you leave your current position with General Electric, the Organization and Compensation Committee has approved the following in addition to the compensation described above:

- A cash payment of $4,100,000, payable in two installments. The first installment of $2,100,000 is to be paid no later than September 30, 2008. The remaining balance of

$2,000,000 is to be paid no later than February 28, 2009, provided that you are still employed by Textron on December 31, 2008.

- Effective on the later of July 1, 2008, and three business days after your first day of employment with Textron, an award of restricted stock units with a value of $7,500,000, with 75% of the units vesting ratably on the first business day of the month on or after the anniversary of the grant date in each of 2009, 2010, and 2011, and with the remaining 25% of the units vesting ratably on the first business day of the month on or after the anniversary of the grant date in each of 2012, 2013, and 2016; provided that you are, in each case, still employed by Textron on the vesting date. The award will be paid to you in shares of Textron stock within 2½ months after the restricted stock units vest. You will be eligible to receive dividend equivalents paid currently in cash on the entire award.

All equity awards described in this letter will be made under the Textron Inc. 2007 Long-Term Incentive Plan (or under a successor plan), and will be subject to the terms and conditions of the plan and award agreement under which they are granted. Where the letter specifies a value for an award, the number of shares (or equivalent cash) necessary to provide the specified value will be determined by Towers Perrin, the independent compensation consultant to the Organization and Compensation Committee (or any successor independent compensation consultant to the Committee), using its standard methodology for valuing equity awards.

I am confident that you will have a long and successful career with Textron. However, in the event that Textron should terminate your employment involuntarily (without Cause), or in the event that you should terminate for Good Reason, you would be entitled to the separation benefits described in Appendix A , which are the same as the separation benefits provided under my employment agreement on the date of this letter.

For purposes of this letter, including determining your entitlement to separation benefits, the terms “Cause,” “Good Reason,” and “Change in Control” have the meanings set forth in Appendix B . All separation benefits (other than those required by law or vested before your separation) will be subject to your signing a release of claims reasonably acceptable to Textron, an agreement to cooperate in any proceedings relating to matters in which you were involved before your separation, and an agreement to abide by the same covenants (non-competition, non-solicitation, maintaining confidentiality, etc.) that appear in my employment agreement on the date of this letter.

You will be covered by the indemnification provisions of Textron’s By-Laws to the same extent as Textron’s other senior officers. Textron will cover you under directors and officers liability insurance for bona fide claims based on your actions or failure to act in your capacity as a Textron officer in the same amount and to the same extent as Textron covers its other officers and directors.

If you accept this offer of employment with Textron, Textron agrees to pay your reasonable legal fees and costs (before tax) associated with your reviewing the terms of this offer.

All of the payments and benefits described in this letter are subject to applicable tax withholding, to the terms and conditions of the Textron plans under which they are provided (as amended from time to time), and to the requirements of applicable law. The dollar amounts and values described in this letter are gross amounts, before any applicable tax or tax withholding.

This offer of at-will employment is subject to Textron’s normal pre-employment requirements, which include verification of employment and a mandatory drug test. The terms of the offer will be governed by the laws of Delaware. This offer remains in effect until August 1, 2008. We anticipate that you will start work on or before August 1, 2008.

I am pleased to offer you this opportunity to join the Textron team and look forward to hearing from you soon. I assure you of a very warm welcome to Textron.

Sincerely,

/s/ Lewis B. Campbell Date: June 30, 2008
Lewis B. Campbell

I have read the foregoing offer of at-will employment. I understand that this offer is the complete agreement between me and Textron concerning the terms of my employment, and that it replaces any prior agreements or understandings between me and Textron or offers or promises made by Textron. I agree with, and accept, this offer of employment subject to the terms and conditions detailed in this letter and the attachments.

Signed: /s/ Scott C. Donnelly Date: June 26, 2008
Scott C. Donnelly

APPENDIX A

SEPARATION BENEFITS

The separation benefits referred to in your offer letter are listed in this appendix. “Regular Separation Benefits” are available if your involuntary termination (not for Cause) or termination for Good Reason occurs at any time other than the Change in Control period described in the following sentence. “Change in Control Separation Benefits” are available if your involuntary termination (not for Cause) or termination for Good Reason occurs during the period beginning within 180 days before a Change in Control and ending on the second anniversary of the Change in Control. In all cases, your “separation” means your separation from service within the meaning of section 409A of the Internal Revenue Code.

All of your separation benefits shall be paid at the time and in the form specified for the corresponding benefit in the employment agreement between Textron Inc. and Lewis B. Campbell dated February 26, 2008, which is the version of my employment agreement in effect on the date of this letter.

You are not entitled to receive the separation benefits described in this appendix upon your death while employed by Textron, your total disability, or your voluntary or mandatory retirement at or after reaching age 65. If your termination occurs for any of these reasons, Textron will pay you (or your designated beneficiary in the event of your death) any compensation you have earned but have not yet received at the time of your death, disability, or retirement, in accordance with Textron’s normal payroll practices and the terms of any benefit plan or program in which you participate.

In addition to the separation benefits summarized below, in the event that you become entitled to payments or benefits that would constitute “parachute payments” within the meaning of section 280G(b)(2) of the Internal Revenue Code, and the value of the parachute payments exceeds 110% of an amount equal to 2.99 times your “base amount” (within the meaning of section 280G(b)(3) of the Internal Revenue Code), you will be entitled to a gross up of any excise tax imposed by section 4999 of the Internal Revenue Code on your parachute payments (and any excise, income, or payroll tax imposed on the initial gross-up payment), calculated and paid as provided in Exhibit A of my employment agreement as in effect on the date of this letter. If the value of your parachute payments does not exceed 110% of an amount equal to 2.99 times your “base amount,” your parachute payments will be reduced so that they are equal to 2.99 times your “base amount,” as provided in Exhibit A of my employment agreement as in effect on the date of this letter.

Regular Separation Benefits	Change in Control Separation Benefits
Accrued obligations Compensation previously earned but not yet paid, such as unpaid base salary, unpaid amount of previous year’s annual incentive compensation, and amounts accrued and vested under other benefit plans and programs.	**Accrued obligations** Compensation previously earned but not yet paid, such as unpaid base salary, unpaid amount of previous year’s annual incentive compensation, and amounts accrued and vested under other benefit plans and programs.

Regular Separation Benefits	Change in Control Separation Benefits
Pro- rata bonus A pro-rata portion (based on days employed in the bonus year divided by 365) of the annual bonus for the year of separation (to the extent that applicable corporate performance goals are achieved).	**Pro-rata bonus** A pro-rata portion (based on days employed in the bonus year divided by 365) of the greater of (1) your target annual incentive compensation for the year of separation and (2) your actual incentive compensation award for the year ending before the earlier of your separation and the change in control.
Severance pay Severance pay equal to two times the sum of (1) your annual base salary and (2) the greater of (a) your target annual incentive compensation for the year of your separation and (b) the average of your actual incentive compensation awards for the three most recent years.	**S everance pay** Severance pay equal to three times the sum of (1) your highest base salary in effect at any time before your separation, and (2) the greater of (a) your target annual incentive compensation for the year of your separation and (b) the average of your actual incentive compensation awards for the three years ending before the earlier of your separation and the change in control.
Insurance coverage To the extent eligible at separation, continued participation, at no greater cost (before tax) than you paid as an employee, in Textron’s accidental death and dismemberment coverage and dependent life insurance coverage. Reimbursement for the cost (before tax) of purchasing the level of company-paid term life insurance and long-term disability insurance coverage you received at your separation. The continued insurance coverage or reimbursement described in this section will end two years after your separation (or, if earlier, when you become eligible for comparable or better benefits under the plan of a successor employer).	**Insurance coverage** To the extent eligible at your separation or the change in control, continued participation, at no greater cost (before tax) than you paid as an employee, in Textron’s accidental death and dismemberment coverage and dependent life insurance coverage. Reimbursement for the cost (before tax) of purchasing the level of company-paid term life insurance and long-term disability insurance coverage you received at the earlier of your separation and the change in control. The continued insurance coverage or reimbursement described in this section will end three years after your separation (or, if earlier, when you become eligible for comparable or better benefits under the plan of a successor employer).
Additional pension credit 2½ additional years of age, service, and compensation credit for benefit computation purposes, and 2½ additional years of age credit for purposes of determining eligibility to receive benefits, under any nonqualified defined benefit pension plan in which you participate at your separation.	**Additional pension credit** Full vesting and 3 additional years of age, service, and compensation credit for benefit computation purposes under any nonqualified defined benefit pension plan in which you participate at your separation.

Regular Separation Benefits	Change in Control Separation Benefits
Contribution replacement 2 times the maximum annual Textron contribution or match to any defined contribution plan in which you participate at your separation.	**Contribution replacement** 3 times the maximum annual Textron contribution or match to any defined contribution plan in which you participate at your separation.
Stock option vesting Immediate full vesting of any outstanding stock options that would have vested if you had remained employed for 2 years after your separation.	**Equity award vesting** Immediate full vesting of any outstanding stock options, restricted stock units, and other equity awards.
Pro-rata payment of performance share units Subject to the provisions of the 2007 LTIP or successor plan, a pro-rata portion (based on days employed in the performance period divided by total days in the performance period) of any performance share units outstanding at your separation (to the extent that applicable corporate performance goals are achieved). In determining the pro-rata portion of your initial performance share unit awards granted for the award cycles ending in 2008, 2009, and 2010, the number of days constituting the performance period will be measured from the grant date to the last day of the applicable performance period.	**Full pay ment of performance share units** Full vesting and payment of outstanding performance share units, based on actual performance through the change in control and assuming target performance after the change in control.
Vesting of deferred compensation Immediate full vesting of your accounts under Textron’s Deferred Income Plan.	**Vesting of deferred compensation** [No provision in employment agreement. However, Textron’s Deferred Income Plan currently provides for full vesting upon a change in control.]
	Outplacement services Outplacement services at a level commensurate with your position, including office and secretary, for 1 year after your separation (or, if earlier, until you commence a new full-time job).

APPENDIX B

DEFINITIONS

TERMINATION FOR CAUSE

The executive may be terminated immediately upon written notice by Textron to the executive of a termination for Cause, provided such notice is given within ninety (90) days after the discovery by the Board of the Cause event and has been approved by at least two-thirds of the Board at a meeting at which the Executive and his counsel had the right to appear and address such meeting after receiving at least five (5) business days written notice of the meeting and reasonable detail of the facts and circumstances claimed to provide a basis for such termination. The term "Cause" shall mean, for purposes of this letter: (i) an act or acts of willful misrepresentation, fraud or willful dishonesty (other than good faith expense account disputes) by the executive which in any case is intended to result in his or another person or entity's substantial personal enrichment at the expense of Textron; (ii) any willful misconduct by the executive with regard to Textron, its business, assets or employees that has, or was intended to have, a material adverse impact (economic or otherwise) on Textron; (iii) any material, willful and knowing violation by the executive of (x) Textron's Business Conduct Guidelines, or (y) any of his fiduciary duties to Textron which in either case has, or was intended to have, a material adverse impact (economic or otherwise) on Textron; (iv) the willful or reckless behavior of the executive with regard to a matter of a material nature which has a material adverse impact (economic or otherwise) on Textron; (v) the executive's willful failure to attempt to perform his duties or his willful failure to attempt to follow the legal written direction of the Board, which in either case is not remedied within ten (10) days after receipt by the executive of a written notice from Textron specifying the details thereof; or (vi) the executive's conviction of, or pleading nolo contendere or guilty to, a felony (other than (x) a traffic infraction or (y) vicarious liability solely as a result of his position provided the executive did not have actual knowledge of the actions or inactions creating the violation of the law or the executive relied in good faith on the advice of counsel with regard to the legality of such action or inaction (or the advice of other specifically qualified professionals as to the appropriate or proper action or inaction to take with regard to matters which are not matters of legal interpretation)). No action or inaction should be deemed willful if not demonstrably willful and if taken or not taken by the executive in good faith as not being adverse to the best interests of Textron. Reference in this paragraph to Textron shall also include direct and indirect subsidiaries of Textron, and materiality and material adverse impact shall be measured based on the action or inaction and the impact upon, and not the size of, Textron taken as a whole, provided that after a change in control, the size of Textron, taken as a whole, shall be a relevant factor in determining materiality and material adverse impact.

TERMINATION FOR GOOD REASON

The executive may terminate for Good Reason upon twenty (20) days written notice by the executive to Textron of a termination for Good Reason (which notice sets forth in reasonable detail the facts and circumstances claimed to provide a basis for such termination) unless the Good Reason event is cured within such twenty (20) day period. The term "Good Reason" shall mean, for purposes of this letter, without the executive's express written consent, the occurrence of any one or more of the following: (i) the assignment to the executive of duties materially inconsistent with the executive's then authorities, duties, responsibilities, and status (including offices, titles, and reporting requirements), or any reduction in the executive's then title, position, reporting lines or a material reduction (other than temporarily while disabled or otherwise incapacitated) in his then status, authorities, duties, or responsibilities including but not limited to holding his then position in Textron while Textron is a subsidiary of another entity (holding stock in Textron entitled to at least fifty percent (50%) of the vote for the election of directors) and not holding the same or equivalent position in the ultimate parent entity or, if then a director of Textron, failure to be nominated or reelected as a director of Textron or removal as such; (ii) relocation of the executive from the principal office of Textron (excluding reasonable travel on Textron's business to an extent substantially consistent with the executive's business obligations) or relocation of the principal office of Textron to a location which is at least fifty (50) miles from Textron's current headquarters, provided, however, if the executive at the time of the relocation is not located at the principal office, such relocation provision shall apply based on his then location; (iii) a reduction by Textron in the executive's base salary; (iv) a reduction in the executive's aggregate level of participation in any of Textron's short and/or long-term incentive compensation plans, or employee benefit or retirement plans, policies, practices, or arrangements in which the executive participated as of August 1, 2008, or, after a change in control, participated immediately prior to the change in control; (v) the failure of Textron to obtain and deliver to the executive a satisfactory written agreement from any successor to Textron to assume and agree to perform the obligations set forth in this letter; or (vi) any other material breach by Textron of this letter.

CHANGE IN CONTROL

A Change in Control of Textron Inc. (the "Company") shall be deemed to have occurred as of the first day any one or more of the following conditions shall have been satisfied:

(a) Any "person" or "group" (within the meaning of Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) other than the Company, any trustee or other fiduciary holding Company common stock under an employee benefit plan of the Company or a related company, or any corporation which is owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of the Company's common stock, is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of more than thirty percent (30%) of the then outstanding voting stock;

(b) During any period of two (2) consecutive years, individuals who at the beginning of such period constitute the Board and any new director whose election by the Board or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two year period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the Board;

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

(d) The approval of the stockholders of the Company of a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of its assets.