

TEXTRON INC

FORM 10-Q (Quarterly Report)

Filed 05/05/06 for the Period Ending 04/01/06

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

TEXTRON INC

FORM 10-Q (Quarterly Report)

Filed 5/5/2006 For Period Ending 4/1/2006

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

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal quarter ended April 1, 2006
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-5480

TEXTRON INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

05-0315468
(I.R.S. Employer Identification No.)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Common stock outstanding at April 22, 2006 - 130,096,275 shares

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

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

	Three Months Ended	
	April 1, 2006	April 2, 2005
Revenues		
Manufacturing revenues	\$ 2,450	\$ 2,129
Finance revenues	182	141
Total revenues	2,632	2,270
Costs, expenses and other		
Cost of sales	1,955	1,667
Selling and administrative	361	340
Interest expense, net	94	68
Provision for losses on finance receivables	9	12
Special charges	-	54
Total costs, expenses and other	2,419	2,141
Income from continuing operations before income taxes	213	129
Income taxes	(55)	(45)
Income from continuing operations	158	84
Income from discontinued operations, net of income taxes	10	42
Net income	\$ 168	\$ 126
Per common share:		
Basic:		
Income from continuing operations	\$ 1.21	\$ 0.62
Income from discontinued operations, net of income taxes	0.08	0.31
Net income	\$ 1.29	\$ 0.93
Diluted:		
Income from continuing operations	\$ 1.19	\$ 0.61
Income from discontinued operations, net of income taxes	0.07	0.30
Net income	\$ 1.26	\$ 0.91
Average shares outstanding (in thousands):		
Basic	130,093	135,127
Diluted	132,856	138,283
Dividends per share:		
\$2.08 Preferred stock, Series A	\$.52	\$.52
\$1.40 Preferred stock, Series B	\$.35	\$.35
Common stock	\$.3875	\$.35

See Notes to the Consolidated Financial Statements.

TEXTRON INC.

Consolidated Balance Sheets (unaudited)
(Dollars in millions)

	April 1, 2006	December 31, 2005
Assets		
Textron Manufacturing		
Cash and cash equivalents	\$ 535	\$ 786
Accounts receivable, less allowance for doubtful accounts of \$41 and \$38	1,006	891
Inventories	1,925	1,712
Other current assets	444	464
Assets of discontinued operations	1,163	1,122
Total current assets	5,073	4,975
Property, plant and equipment, less accumulated depreciation and amortization of \$2,032 and \$1,999	1,577	1,574
Goodwill	980	979
Other intangible assets, net	31	32
Other assets	1,517	1,498
Total Textron Manufacturing assets	9,178	9,058
Textron Finance		
Cash	10	10
Finance receivables, less allowance for losses of \$100 and \$96	7,105	6,667
Goodwill	169	169
Other assets	588	595
Total Textron Finance assets	7,872	7,441
Total assets	\$ 17,050	\$ 16,499
Liabilities and Shareholders' Equity		
Liabilities		
Textron Manufacturing		
Current portion of long-term debt and short-term debt	\$ 202	\$ 275
Accounts payable	854	677
Accrued liabilities	1,599	1,749
Liabilities of discontinued operations	495	446
Total current liabilities	3,150	3,147
Accrued postretirement benefits other than pensions	517	515
Other liabilities	1,543	1,511
Long-term debt	1,663	1,659
Total Textron Manufacturing liabilities	6,873	6,832
Textron Finance		
Other liabilities	548	510
Deferred income taxes	460	461
Debt	5,842	5,420
Total Textron Finance liabilities	6,850	6,391
Total liabilities	13,723	13,223
Shareholders' equity		
Capital stock:		
Preferred stock	10	10

Common stock	26	26
Capital surplus	1,677	1,533
Retained earnings	5,924	5,808
Accumulated other comprehensive loss	(77)	(78)
	7,560	7,299
Less cost of treasury shares	4,233	4,023
Total shareholders' equity	3,327	3,276
Total liabilities and shareholders' equity	\$ 17,050	\$ 16,499
Common shares outstanding (in thousands)	129,892	130,185

See Notes to the Consolidated Financial Statements.

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Item 1 . FINANCIAL STATEMENTS (Continued)

TEXTRON INC.
Consolidated Statements of Cash Flows (unaudited)
For the Three Months Ended April 1, 2006 and April 2, 2005

(Dollars in millions)

	Consolidated	
	2006	2005 Revised- See Note 1
Cash flows from operating activities:		
Net income	\$ 168	\$ 126
Income from discontinued operations	(10)	(42)
Income from continuing operations	158	84
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Earnings of Textron Finance, net of distributions	-	-
Depreciation	62	67
Amortization	4	4
Provision for losses on finance receivables	9	12
Special charges	-	54
Collections in excess of non-cash gains on securitizations	3	2
Deferred income taxes	(5)	(1)
Changes in assets and liabilities:		
Accounts receivable, net	(104)	(106)
Inventories	(233)	(91)
Other assets	15	69
Accounts payable	177	191
Accrued liabilities	41	(169)
Captive finance receivables, net	(73)	(52)
Other operating activities, net	23	15
Net cash provided by operating activities of continuing operations	77	79
Net cash used in operating activities of discontinued operations	(8)	(39)
Net cash provided by operating activities	69	40
Cash flows from investing activities:		
Finance receivables:		
Originated or purchased	(2,472)	(2,278)
Repaid	2,046	1,902
Proceeds on receivables sales and securitization sales	-	32
Capital expenditures	(60)	(58)
Proceeds on sale of property, plant and equipment	2	-
Other investing activities, net	26	6
Net cash used in investing activities of continuing operations	(458)	(396)
Net cash (used in) provided by investing activities of discontinued operations	(20)	9
Net cash used in investing activities	(478)	(387)
Cash flows from financing activities:		

(Decrease) increase in short-term debt	(131)	287
Proceeds from issuance of long-term debt	556	799
Principal payments and retirements of long-term debt	(52)	(737)
Proceeds from employee stock ownership plans	107	47
Purchases of Textron common stock	(226)	(117)
Dividends paid	(97)	(95)
Dividends paid to Textron Manufacturing	-	-
Net cash provided by (used in) financing activities of continuing operations	157	184
Net cash used in financing activities of discontinued operations	(1)	(1)
Net cash provided by (used in) financing activities	156	183
Effect of exchange rate changes on cash and cash equivalents	2	(9)
Net decrease in cash and cash equivalents	(251)	(173)
Cash and cash equivalents at beginning of year	796	697
Cash and cash equivalents at end of quarter	\$ 545	\$ 524
Supplemental schedule of non-cash investing and financing activities from continuing operations:		
Capital expenditures financed through capital leases	\$ 5	\$ 1

See Notes to the Consolidated Financial Statements.

5.

Item 1 . FINANCIAL STATEMENTS (Continued)

TEXTRON INC.
Consolidated Statements of Cash Flows (unaudited) (continued)
For the Three Months Ended April 1, 2006 and April 2, 2005, respectively
(Dollars in millions)

	Textron Manufacturing*		Textron Finance*	
	2006	2005 Revised- See Note 1	2006	2005 Revised- See Note 1
Cash flows from operating activities:				
Net income	\$ 168	\$ 126	\$ 31	\$ 22
Income from discontinued operations	(10)	(42)	-	-
Income from continuing operations	158	84	31	22
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:				
Earnings of Textron Finance, net of distributions	31	75	-	-
Depreciation	55	59	7	8
Amortization	1	2	3	2
Provision for losses on finance receivables	-	-	9	12
Special charges	-	54	-	-
Collections in excess of non-cash gains on securitizations	-	-	3	2
Deferred income taxes	(4)	1	(1)	(2)
Changes in assets and liabilities:				
Accounts receivable, net	(104)	(106)	-	-
Inventories	(214)	(78)	-	-
Other assets	14	56	(2)	6
Accounts payable	177	182	-	9
Accrued liabilities	(9)	(185)	50	16
Captive finance receivables, net	-	-	-	-
Other operating activities, net	23	15	-	-
Net cash provided by operating activities of continuing operations	128	159	100	75
Net cash used in operating activities of discontinued operations	(8)	(39)	-	-
Net cash provided by operating activities	120	120	100	75
Cash flows from investing activities:				
Finance receivables:				
Originated or purchased	-	-	(2,700)	(2,456)
Repaid	-	-	2,201	2,028
Proceeds on receivables sales and securitization sales	-	-	-	32
Capital expenditures	(57)	(55)	(3)	(3)
Proceeds on sale of property, plant and equipment	2	2	-	-
Other investing activities, net	(4)	2	14	(4)
Net cash used in investing activities of continuing operations	(59)	(51)	(488)	(403)
Net cash (used in) provided by investing activities of discontinued operations	(20)	9	-	-

Net cash used in investing activities	(79)	(42)	(488)	(403)
Cash flows from financing activities:				
(Decrease) increase in short-term debt	(75)	(1)	(56)	288
Proceeds from issuance of long-term debt	-	401	556	398
Principal payments and retirements of long-term debt	(2)	(413)	(50)	(324)
Proceeds from employee stock ownership plans	107	47	-	-
Purchases of Textron common stock	(226)	(117)	-	-
Dividends paid	(97)	(95)	-	-
Dividends paid to Textron Manufacturing	-	-	(62)	(97)
Net cash provided by (used in) financing activities of continuing operations	(293)	(178)	388	265
Net cash used in financing activities of discontinued operations	(1)	(1)	-	-
Net cash provided by (used in) financing activities	(294)	(179)	388	265
Effect of exchange rate changes on cash and cash equivalents	2	(9)	-	-
Net decrease in cash and cash equivalents	(251)	(110)	-	(63)
Cash and cash equivalents at beginning of year	786	570	10	127
Cash and cash equivalents at end of quarter	\$ 535	\$ 460	\$ 10	\$ 64
Supplemental schedule of non-cash investing and financing activities from continuing operations:				
Capital expenditures financed through capital leases	\$ 5	\$ 1	\$ -	\$ -

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

See Notes to the Consolidated Financial Statements.

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Item 1. FINANCIAL STATEMENTS (Continued)

TEXTRON INC.

Notes to the Consolidated Financial Statements (unaudited)

Note 1: Basis of Presentation

The consolidated financial statements should be read in conjunction with the financial statements included in Textron's Annual Report on Form 10-K for the year ended December 31, 2005. The consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for the fair presentation of Textron's consolidated financial position at April 1, 2006, and its consolidated results of operations and cash flows for the interim period presented. The results of operations for the interim period is not necessarily indicative of the results to be expected for the full year.

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

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

Note 2: Inventories

<i>(In millions)</i>	April 1, 2006	December 31, 2005
Finished goods	\$ 596	\$ 527
Work in process	1,544	1,410
Raw materials	281	267
	2,421	2,204
Less progress/milestone payments	496	492
	\$ 1,925	\$ 1,712

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Item 1. FINANCIAL STATEMENTS (Continued)

Note 3: Comprehensive Income and Accumulated Other Comprehensive Loss

Comprehensive income is summarized below:

<i>(In millions)</i>	Three Months Ended	
	April 1, 2006	April 2, 2005
Net income	\$ 168	\$ 126
Other comprehensive income (loss)	1	(38)
Comprehensive income (see below)	\$ 169	\$ 88

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

<i>(In millions)</i>	Three Months Ended	
	April 1, 2006	April 2, 2005
Beginning of period	\$ (78)	\$ (97)
Currency translation adjustment	(3)	(38)
Net deferred gain (loss) on hedge contracts	2	(1)
Net deferred gain on interest-only securities	2	1
Other comprehensive income (loss)	1	(38)
End of period	\$ (77)	\$ (135)

Other comprehensive loss includes a net income tax benefit of \$1 million for the three months ended April 1, 2006. There was no net income tax impact included in other comprehensive loss for the three months ended April 2, 2005.

Note 4: Earnings per Share

The dilutive effect of stock options, restricted stock and convertible preferred shares was approximately 2,763,000 and 3,156,000 shares for the three months ended April 1, 2006 and April 2, 2005, respectively. Income available to common shareholders that was used to calculate both basic and diluted earnings per share approximated net income for both periods.

Note 5: Share-based Compensation

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

<i>(In millions)</i>	Three Months Ended	
	April 1,	April 2,
	2006	2005
Compensation expense, net of hedge income or expense	\$ 22	\$ 13
Income tax benefit	(13)	(4)
Net compensation cost	\$ 9	\$ 9

Included in the table above are net compensation costs recorded in discontinued operations of approximately \$1 million in each of 2006 and 2005.

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Item 1. FINANCIAL STATEMENTS (Continued)

Stock Options

The stock option compensation cost calculated under the fair value approach is recognized over the vesting period of the stock options. The weighted-average fair value of options granted per share was \$25 and \$20 in the first quarter of 2006 and 2005, respectively. The fair values of options granted are estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatilities are based on implied volatilities from traded options on Textron common stock, historical volatilities and other factors. Textron uses historical data to estimate option exercise behavior, adjusted to reflect anticipated increases in expected life.

The weighted-average assumptions used in Textron's Black-Scholes option-pricing model for awards issued during the respective periods are as follows:

	Three Months Ended	
	April 1, 2006	April 2, 2005
Dividend yield	2%	2%
Expected volatility	25%	25%
Risk-free interest rate	4%	4%
Expected lives (In years)	6.0	6.0

The following table summarizes information related to stock option activity for the respective periods:

<i>(In millions)</i>	Three Months Ended	
	April 1, 2006	April 2, 2005
Intrinsic value of options exercised	\$ 71	\$ 25
Cash received from option exercises	\$ 107	\$ 47
Actual tax benefit realized for tax deductions from option exercises	\$ 22	\$ 8

Stock option activity under the 1999 Long-Term Incentive Plan during the three months ended April 1, 2006 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 year	8,146	\$ 56.23		
Granted	991	87.95		
Exercised	(2,104)	52.57		
Canceled, expired or forfeited	(122)	55.41		
Outstanding at end of quarter	6,911	\$ 61.90	6.58	\$ 218
Exercisable at end of quarter	4,768	\$ 54.59	5.41	\$ 185

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Item 1. FINANCIAL STATEMENTS (Continued)

Restricted Stock

The fair value of restricted stock is based on the trading price of Textron common stock on the date of grant, less required adjustments to reflect the fair value of the award as dividends are not paid or accrued until the restricted stock vests. The weighted-average grant-date fair value of restricted stock granted in the three months ended April 1, 2006 and April 2, 2005 was approximately \$82 and \$71 per share, respectively.

Restricted stock activity under the Plan during the three months ended April 1, 2006 is as follows:

<i>(Shares in thousands)</i>	Number of Shares	Weighted-Average Grant-Date Fair Value
Outstanding at beginning of year, nonvested	1,156	\$ 55.99
Granted	325	82.18
Vested	(6)	49.91
Forfeited	(42)	52.60
Outstanding at end of quarter, nonvested	1,433	\$ 62.06

Note 6: Pension Benefits and Postretirement Benefits Other Than Pensions

The components of net periodic benefit cost for the three months ended April 1, 2006 and April 2, 2005 are as follows:

<i>(In millions)</i>	Pension Benefits		Postretirement Benefits Other Than Pensions	
	2006	2005	2006	2005
Service cost	\$ 35	\$ 33	\$ 2	\$ 2
Interest cost	69	67	10	9
Expected return on plan assets	(96)	(97)	-	-
Amortization of prior service cost	5	4	(1)	(1)
Amortization of net loss	12	9	6	4
Net periodic benefit cost	\$ 25	\$ 16	\$ 17	\$ 14

Note 7: Special Charges

Special charges for the first quarter of 2005 include a \$52 million impairment charge related to preferred shares in Collins & Aikman Products Co. and \$2 million in restructuring costs related to Textron's company-wide restructuring program that was completed as of the end of 2005. There were no special charges for the first quarter of 2006.

Textron continues to make payments against the restructuring reserves previously established. During the first quarter of 2006, \$1 million of severance payments were made leaving \$2 million of reserves for severance as of April 1, 2006. An additional \$34 million of reserves for contract terminations also remain at April 1, 2006.

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Item 1. FINANCIAL STATEMENTS (Continued)

Note 8: Commitments and Contingencies

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

During 2002, the Lycoming aircraft engine business, in conjunction with the U.S. Federal Aviation Administration ("FAA"), recalled approximately 950 turbocharged airplane engines and mandated the inspection of another 736 engines to replace potentially faulty crankshafts manufactured by a former third-party supplier. Lycoming initiated a comprehensive customer care program to replace the defective crankshafts, make any necessary related repairs, and compensate its customers for the loss of use of their aircraft during the recall. This program has been completed. Textron has continued to monitor the performance of the crankshafts previously supplied by the former supplier to ensure their continued suitability for their intended use and to ensure that the existing reserves are adequate to cover the costs directly related to potential crankshaft issues that may not specifically be a part of the prior recall program. In 2005, Lycoming issued a service bulletin covering certain non-turbocharged aircraft engines, amended later in 2005 to include additional engines, to replace crankshafts manufactured by the former supplier with new FAA-certified crankshafts. Including the amendment, the service bulletin covers approximately 1,425 crankshafts and requires the affected crankshafts to be replaced within the earlier of the next 50 hours of operation or six months. An additional \$8 million was accrued in 2005 to increase existing reserves.

During the fourth quarter of 2005, Lycoming developed a plan to institute a retirement program for approximately 5,100 crankshafts, representing the remaining crankshafts manufactured by the former supplier using the same forging technique as the crankshafts covered by prior service bulletins. A service bulletin was issued in the first quarter of 2006 implementing this plan, which requires the retirement of an affected crankshaft at the next crankshaft access or scheduled overhaul, whichever occurs first, but not to exceed three calendar years from the issuance of the service bulletin. There have been no accidents involving these crankshafts, and they have not been the subject of a recall. An additional reserve of \$10 million was recorded in the fourth quarter of 2005 to cover the expected cost of this planned retirement program. As of April 1, 2006, reserves to cover costs directly related to crankshafts provided by the former supplier totaled \$21 million.

In connection with the recall, the former supplier filed a lawsuit against Lycoming claiming that the former supplier had been wrongly blamed for aircraft engine failures resulting from its crankshaft forging process and that Lycoming's design was the cause of the engine failures. In February 2005, a jury returned a verdict against Lycoming for \$86 million in punitive damages, \$2.7 million in expert fees and \$1.7 million in increased insurance costs. The jury also found that the former supplier's claim that it had incurred \$5.3 million in attorneys' fees was reasonable. Judgment was entered on the verdict on March 29, 2005, awarding the former supplier \$9.7 million in alleged compensatory damages

and attorneys' fees and \$86 million in alleged punitive damages. While the ultimate outcome of the litigation cannot be assured, management strongly disagrees with the verdict and believes that it is probable that the verdict will be reversed through the appellate process.

11.

Item 1. FINANCIAL STATEMENTS (Continued)

Note 9: Arrangements with Off-Balance Sheet Risk

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

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

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

In connection with the disposition of Trim, certain operating leases were transferred and assigned to Collins & Aikman Corporation ("C&A"). Textron has guaranteed C&A's payments under these operating leases and an environmental matter up to an aggregate remaining amount of approximately \$24 million. Textron would be required to make payments under the guarantees upon default by C&A. The original purchase and sale agreement provided an indemnification agreement with C&A for Textron's guarantees of the leases and the environmental matter. In May 2005, C&A and substantially all of its subsidiaries filed for Chapter 11 bankruptcy protection, and in July 2005, C&A's European subsidiaries filed a group-wide administration order in the United Kingdom. These filings effectively reduced Textron's ability to seek recourse from C&A under the indemnity provisions of the purchase and sale agreement, should a default occur. Textron has not received any significant default notices related to these leases, and management believes C&A will continue to make payments. As part of C&A's announced plan to sell its European operations, Textron has reached a tentative agreement to settle its guarantee related to C&A's lease of certain European facilities. To the extent possible, Textron will seek reimbursement from C&A for any amounts it is required to pay for these matters. Management will continue to monitor C&A's performance and Textron's reserves related to these matters. Textron's reserves totaled \$9 million at April 1, 2006 based on management's best estimate of Textron's exposure under these guarantees.

As disclosed under the caption "Guarantees" in Note 18 to the Consolidated Financial Statements in Textron's 2005 Annual Report on Form 10-K, Textron has issued or is party to certain other guarantees. As of April 1, 2006, there has been no material change to these other guarantees.

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Item 1. FINANCIAL STATEMENTS (Continued)

Note 10: Segment Information

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

A summary of continuing operations by segment for the three-month periods ended April 1, 2006 and April 2, 2005 is as follows:

<i>(In millions)</i>	Three Months Ended	
	April 1, 2006	April 2, 2005
REVENUES		
MANUFACTURING:		
Bell	\$ 783	\$ 616
Cessna	869	713
Industrial	798	800
	2,450	2,129
FINANCE	182	141
Total revenues	\$ 2,632	\$ 2,270
SEGMENT OPERATING PROFIT		
MANUFACTURING:		
Bell	\$ 69	\$ 75
Cessna	117	87
Industrial	49	55
	235	217
FINANCE	49	33
Segment profit	284	250
Special charges	\$ -	(54)
Segment operating income	284	196
Corporate expenses and other, net	(49)	(43)
Interest expense, net	(22)	(24)
Income from continuing operations before income taxes	\$ 213	\$ 129

Note 11: Subsequent Events

In December 2005, Textron's Board of Directors authorized the divestiture of the Textron Fastening Systems business. With this approval, Textron committed to actively market the segment and expected to complete the sale within 12 months. Beginning in the fourth quarter of 2005, the Fastening Systems segment was reported as a discontinued operation.

In the first quarter of 2006, Textron's management commenced its marketing efforts including establishing the proposed deal structure and identifying potential buyers. Formal negotiations have been commenced with a number of potential purchasers and specific terms and conditions have been discussed including the impact on the sales price of depreciation, currency exchange fluctuation, the assumption of liabilities, as well as the transfer of pension related obligations and assets.

On May 4, 2006, as a result of the offers received from potential purchasers of substantially all of the business of the segment, and the additional obligations that Textron now estimates will need to be settled as part of the sale, Textron determined that the net assets of discontinued operations related to the Textron Fastening Systems business may exceed the fair value less costs to sell. Consequently, Textron determined that it will incur a non-cash impairment charge in the second quarter of 2006 in the range of \$75 million to \$150 million.

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

Business Overview

Textron Inc. is a multi-industry company that leverages its global network of businesses to provide customers with innovative solutions and services in four business segments: Bell, Cessna, Industrial and Finance. Textron is known around the world for its powerful brands spanning the business jet, aerospace and defense, plastic fuel systems, golf car and turf-care markets, among others.

We had a strong start to the year as we were able to deliver organic growth (sales from existing business, excluding the effects of foreign exchange and mergers and acquisition activity) of 18%, which is the result of our commitment to bring new products and services to our customers and strong end markets. Backlog in the aircraft businesses grew to nearly \$10 billion in the first quarter. Industrial business volume increased as a result of improvements in end markets. Additionally, the Finance segment's average finance receivables increased.

During the first quarter of 2006, the higher manufacturing sales volume and increased pricing more than offset inflation, higher pension costs and the impact of increased costs on the H-1 contract at Bell. At Textron Systems, production of armored vehicles is on track to reach our production goal of approximately 450 units this year.

Consolidated Results of Operations

Revenues

Revenues increased \$362 million in the first quarter of 2006, compared to 2005, primarily due to higher volume of \$315 million across all the manufacturing segments, especially in the aircraft businesses and higher pricing of \$52 million. Higher Finance revenues also contributed \$41 million to the increase. These increases were partially offset by unfavorable foreign exchange of \$28 million and the 2005 divestiture of non-core product lines in the Industrial segment of \$28 million.

Segment Profit

Segment profit increased \$34 million. Major drivers included a \$67 million contribution from higher manufacturing sales volume, increased manufacturing pricing of \$52 million and higher profit in the Finance segment of \$16 million, partially offset by inflation of \$62 million, an unfavorable mix of \$16 million and the impact of the H-1 program of \$13 million.

Special Charges

Special charges for the first quarter of 2005 included a \$52 million impairment charge of preferred shares in Collins & Aikman Products Co. and \$2 million in restructuring costs related to Textron's company-wide restructuring program that was completed as of the end of 2005. There were no special charges for the first quarter of 2006.

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

Income Taxes

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

	Q1 2006	Q1 2005
Federal statutory income tax rate	35.0%	35.0%
Increase (decrease) in taxes resulting from:		
State income taxes	1.6	1.4
C&A impairment valuation allowance	-	6.9
Foreign tax rate differential	(3.1)	(4.3)
Favorable tax settlements	(5.6)	-
ESOP dividends	(0.7)	(0.9)
Export sales benefit	(1.1)	(1.0)
Other, net	(0.3)	(2.2)
Effective income tax rate	25.8%	34.9%

The effective tax rate for the first quarter of 2006 was lower primarily due to a \$12 million benefit as a result of a favorable tax settlement of a prior year tax dispute. The effective tax rate for the full year is expected to be approximately 29% to 30%.

Discontinued Operations

Discontinued operations include the Textron Fastening Systems business in the first quarter of 2006 and 2005, and the InteSys business in the first quarter of 2005. In the first quarter of 2006, Textron Fastening Systems' net income increased \$15 million, compared to 2005, primarily due to the \$10 million after-tax impact of suspending depreciation and amortization of assets held for sale and an after-tax foreign exchange translation gain of \$5 million. In the first quarter of 2005, Textron recorded an after-tax gain of approximately \$47 million associated with the sale of the InteSys business.

Outlook

We expect continued revenue growth for the balance of 2006 and overall segment profit for the year is expected to increase over 2005 as we continue to implement our transformation strategy. At Cessna, we anticipate another strong year of business jet deliveries in 2006 resulting in increases in total revenues and profits. At the Industrial segment, our outlook on profit margins has improved with higher margins expected in 2006 compared with 2005, while revenues remain essentially flat. At Bell, we expect revenues for the full year to increase over 2005, while profit margins are expected to decrease primarily due to certain nonrecurring items that benefited the 2005 results as well as higher estimated costs on Lot 1 of the H-1 Low Rate Initial Production contract ("H-1 LRIP"). Finance segment revenues and profits are expected to increase with growth in the managed Finance receivable portfolio and relative stability in credit quality.

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

Segment Analysis

Bell

	Three Months Ended	
(In millions)	April 1, 2006	April 2, 2005
Revenue	\$ 783	\$ 616
Segment profit	69	75

Bell Revenues

U.S. Government Business

U.S. Government revenues increased \$177 million in the first quarter of 2006, compared to 2005, primarily due to higher volume of \$86 million from the V-22 program, increased deliveries of armored security vehicles ("ASV") worth \$53 million and \$28 million in revenue for the Armed Reconnaissance Helicopter ("ARH") program.

Commercial Business

Commercial revenues decreased \$10 million in the first quarter of 2006, compared to 2005, primarily due to lower international military sales of \$73 million, partially offset by higher other commercial aircraft volume of \$67 million.

Bell Segment Profit

U.S. Government Business

Profit in the U.S. Government business increased \$10 million in the first quarter of 2006, compared to 2005. The increase was primarily due to higher profit on the V-22 program resulting from the \$6 million impact of higher volume and \$6 million of favorable performance, and the \$5 million impact of higher ASV volume. These increases were partially offset by \$13 million to reflect the impact of estimated incremental costs for resources added to the H-1 LRIP contract to meet customer schedule requirements. While the related costs will be expended over the next several quarters, the full impact was recorded in the first quarter as the H-1 LRIP contract is in a loss position. Operational Evaluation of the H-1 aircraft is scheduled to begin in early May and a Defense Acquisition Board meeting is scheduled at the end of May to assess overall performance of the H-1 program. As with any government contract, the U. S. Government can terminate or modify the contract for its convenience, however management believes that Bell will meet the contract and customer requirements.

The ARH contract did not have a significant profit impact in the first quarter and is not expected to significantly affect profit during the System Development and Demonstration phase.

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

During the first quarter, the U.S. Government completed a review of Bell Helicopter's earned value management system. This review identified deficiencies in certain areas. As a result, Bell Helicopter is not allowed to claim it has a compliant earned value management system in proposals, and it also is subject to increased withholding on progress payments. Textron does not expect this issue to have a material financial impact on Textron's financial position or results of operations, and is working with the U.S. Government to develop a corrective action plan that will address all the deficiencies identified in this review.

Commercial Business

Commercial profit decreased \$16 million in the first quarter of 2006, compared to 2005, primarily due to the \$29 million impact of lower international military sales volume and higher net research and development expense of \$5 million, partially offset by the \$23 million impact from higher volume in other commercial aircraft and mix.

Bell Helicopter Backlog

Bell Helicopter's backlog was \$3.0 billion at the end of the first quarter of 2006, compared to \$2.8 billion as of year-end 2005.

Cessna

<i>(In millions)</i>	Three Months Ended	
	April 1, 2006	April 2, 2005
Revenue	\$ 869	\$ 713
Segment profit	117	87

Cessna Revenues

Cessna revenue increased \$156 million in the first quarter of 2006, compared to 2005, primarily due to higher Citation business jet and used aircraft volume of \$85 million and \$22 million, respectively, and favorable pricing of \$35 million.

Cessna Segment Profit

Segment profit increased \$30 million in the first quarter of 2006, compared to 2005, primarily due to higher pricing of \$35 million and impact of higher volume of \$26 million. These increases were partially offset by inflation of \$23 million and capabilities investment of \$8 million, including higher start-up costs for new models, increased infrastructure costs and Lean initiatives. During the first quarter, Cessna recorded a benefit of \$9 million reflecting favorable warranty performance compared to a benefit of \$8 million recorded in 2005.

Cessna Backlog

Cessna's backlog was \$6.9 billion at the end of the first quarter of 2006, compared to \$6.3 billion as of year-end 2005.

Industrial

<i>(In millions)</i>	Three Months Ended	
	April 1, 2006	April 2, 2005
Revenue	\$ 798	\$ 800
Segment profit	49	55

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

Industrial Revenues

The Industrial segment's revenues decreased \$2 million in the first quarter of 2006, compared to 2005, primarily due to the unfavorable foreign exchange impact of \$28 million and the divestiture of non-core product lines of \$28 million, partially offset by higher volume of \$48 million and higher pricing of \$6 million.

Industrial Segment Profit

Segment profit decreased \$6 million in the first quarter of 2006, compared to 2005, mainly due to \$ 22 million of inflation, offset by the impact of higher volume of \$16 million and higher pricing of \$6 million.

Finance

<i>(In millions)</i>	Three Months Ended	
	April 1, 2006	April 2, 2005
Revenue	\$ 182	\$ 141
Segment profit	49	33

Finance Revenues

The Finance segment's revenues increased \$41 million in the first quarter of 2006, compared with 2005. The increase was due to a higher interest rate environment, which accounted for \$24 million of the increase, and \$17 million related to \$948 million in higher average finance receivables. The increase in average finance receivables was related to core portfolio growth, partially offset by a \$98 million reduction in the liquidating portfolios.

Finance Segment Profit

Segment profit increased \$16 million in the first quarter of 2006, compared with 2005, primarily due to a \$13 million increase in net interest margin, primarily attributable to the growth in core receivables, and a \$3 million decrease in the provision for loan losses as a result of sustained improvements in portfolio quality. Operating expenses were unchanged, reflecting an improvement in operating expenses as a percentage of average managed and serviced receivables to 1.91% from 2.03% in the corresponding period of 2005. This improvement in operating performance reflects continued process improvement initiatives, which have enabled us to leverage our infrastructure while we grow our Finance receivable portfolio.

Finance Portfolio Quality

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

<i>(In millions, except for ratios)</i>	April 1, 2006	December 31, 2005
Nonperforming assets as a percentage of finance assets	1.55%	1.53%
Allowance for losses on finance receivables as a percentage of finance receivables	1.39%	1.43%
Allowance for losses on finance receivables as a percentage of nonaccrual finance receivables	102.1%	108.6%
60+ days contractual delinquency as a percentage of finance receivables	0.67%	0.79%

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

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

<i>(In millions)</i>	April 1, 2006	December 31, 2005
Resort finance	\$ 28	\$ 31
Asset-based lending	23	6
Golf finance	13	13
Aircraft finance	11	14
Distribution finance	2	2
Other	43	45
Total nonperforming assets	\$ 120	\$ 111

We believe that nonperforming assets will generally be in the range of 1% to 4% of finance assets depending on

economic conditions. Nonperforming asset levels remained relatively unchanged from the end of 2005 in most of the businesses, with the exception of Asset-based lending. The increase in this business is primarily attributable to two loans, which we do not believe represents a trend.

Share-Based Compensation

During the first quarter of 2005, Textron elected to adopt the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (Revised 2004), "Share-Based Payments" ("SFAS No. 123-R"), using the modified prospective method. The adoption of SFAS No. 123-R resulted in recognition of stock option expense for continuing operations of approximately \$4 million and \$3 million for the three months ended April 1, 2006 and April 2, 2005, respectively.

Textron granted approximately 991,000 and 1,201,000 options in the first quarter of 2006 and 2005, respectively, at weighted average grant date fair values per option of \$25 and \$20. The valuation of stock options requires numerous assumptions. Textron determines the fair value of each option as of the date of the grant using the Black-Scholes option-pricing model. This model requires inputs for the expected volatility of Textron's common stock price, expected life of the option, and expected dividend yield, among others. In addition, we estimate the number of options expected to eventually vest. Expected volatility estimates are based on implied volatilities from traded options on Textron common stock, historical volatilities and other factors. Textron uses historical data to estimate option exercise behavior, adjusted to reflect anticipated increases in expected life.

Liquidity and Capital Resources

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

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

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

Textron Manufacturing's debt (net of cash)-to-capital ratio as of April 1, 2006 was 29%, compared with 26% at December 31, 2005. Textron Manufacturing's gross debt-to-capital ratio as of April 1, 2006 was 36%, compared with 37% at December 31, 2005. Textron Manufacturing has established a gross debt-to-capital ratio target in the mid-thirties.

For liquidity purposes, Textron Manufacturing and Textron Finance have a policy of maintaining sufficient unused lines of credit to support their outstanding commercial paper. Textron Manufacturing has a primary revolving credit facility of \$1.3 billion that was set to expire in 2010. In April 2006, the facility was amended to extend the expiration

date to 2011. Textron Finance is permitted to borrow under this facility. Textron Finance also has bank lines of credit of \$1.5 billion, of which \$500 million was set to expire in July 2006 and \$1.0 billion in 2010. In April 2006, these facilities were combined into a single facility expiring in 2011, and the amount of available credit was increased to \$1.75 billion. None of these lines of credit were drawn at April 1, 2006 or at December 31, 2005. At April 1, 2006, the lines of credit not reserved as support for commercial paper or letters of credit were \$1.2 billion for Textron Manufacturing and \$354 million for Textron Finance, compared with \$1.2 billion and \$300 million, respectively, at December 31, 2005.

At April 1, 2006, Textron Finance had \$2.2 billion in debt and \$453 million in other liabilities that are due within the next twelve months.

Operating Cash Flows of Continuing Operations <i>(In millions)</i>	Three Months Ended	
	April 1, 2006	April 2, 2005
Consolidated	\$ 77	\$ 79
Textron Manufacturing	\$ 128	\$ 159
Textron Finance	\$ 100	\$ 75

In the first quarter of 2006, operating cash flows of continuing operations on a consolidated basis were consistent with the first quarter of 2005. These consolidated cash flows exclude net captive financing activity (cash outflows from finance receivable originations, net of cash inflows from repayments, sales and securitizations) between Textron Manufacturing and Textron Finance. Textron Manufacturing's cash flows included \$73 million in the first quarter of 2006, compared to \$52 million in the first quarter of 2005, of cash received as a result of Textron Finance financing sales of Textron Manufacturing products. The decrease in Textron Manufacturing's cash flows was attributed largely to a decrease in dividends from Textron Finance that was only partially offset by an increase in income from operations.

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

Investing Cash Flows of Continuing Operations <i>(In millions)</i>	Three Months Ended	
	April 1, 2006	April 2, 2005
Consolidated	\$ (458)	\$ (396)
Textron Manufacturing	\$ (59)	\$ (51)
Textron Finance	\$ (488)	\$ (403)

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

The consolidated cash flows used for investing activities increased largely due to finance receivable originations, net of cash collections from repayments, sales and securitizations at Textron Finance.

The consolidated investing cash flows include the reclassification of net captive financing activities to operating cash flows of \$73 million in the first quarter of 2006 and \$52 million in the first quarter of 2005.

Financing Cash Flows of Continuing Operations <i>(In millions)</i>	Three Months Ended	
	April 1, 2006	April 2, 2005
Consolidated	\$ 157	\$ 184
Textron Manufacturing	\$ (293)	\$ (178)

The consolidated cash flows provided by financing activities in 2006 decreased primarily due to additional purchases of Textron common stock, offset by an increase in proceeds from employee stock ownership plans. In 2005, long-term debt issuances were primarily utilized to retire maturing long-term debt. In 2006 long-term debt issuances at Textron Finance were used to fund receivable growth.

Principal Payments on Long-Term Debt

In the first quarter of 2006 and 2005, Textron Manufacturing made principal payments of \$2 million and \$413 million, respectively. In the first quarter of 2006 and 2005, Textron Finance made principal payments of \$50 million and \$324 million, respectively.

Stock Repurchases and Proceeds from Stock Option Exercises

In the first quarter of 2006 and 2005, Textron repurchased 2,576,572 and 1,671,428 shares of common stock, respectively, under its Board authorized share repurchase programs for an aggregate cost of \$219 million and \$124 million, respectively. Proceeds from the exercise of stock options increased \$60 million to \$107 million in the first quarter of 2006 as more options were exercised.

Dividends

On January 26, 2006, the Board of Directors authorized a \$0.15 per share increase in Textron's annualized common stock dividend to \$1.55 per share and, accordingly, approved a quarterly dividend of \$0.3875 for holders of record at the close of business on March 10, 2006. Dividend payments to shareholders totaled \$97 million in the first quarter of 2006 and \$95 million in the first quarter of 2005.

Discontinued Operations Cash Flows <i>(In millions)</i>	Three Months Ended	
	April 1, 2006	April 2, 2005
Operating activities	\$ (8)	\$ (39)
Investing activities	\$ (20)	\$ 9
Financing activities	\$ (1)	\$ (1)

Cash flows from discontinued operations include Textron Manufacturing's Fastening Systems, Omniquip, and InteSys businesses. The change in operating cash flow is primarily attributable to Textron Fastening Systems. In the first quarter of 2005, investing cash flows include the receipt of \$15 million related to the sale of the remainder of the InteSys operations.

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

Capital Resources

Under a shelf registration statement filed with the Securities and Exchange Commission, Textron Finance may issue public debt securities in one or more offerings up to a total maximum offering of \$4 billion. Under this registration statement, Textron Finance issued \$470 million of term debt and CAD 87 million of term debt during the first quarter of 2006. The proceeds of these issuances were used to fund receivable growth and repay short-term debt. At April 1, 2006, Textron Finance had \$1.2 billion available under this registration statement. Under a shelf registration statement filed with the Securities and Exchange Commission, Textron Manufacturing may issue public debt securities in one or more offerings up to a total maximum offering of \$2.0 billion. At April 1, 2006, Textron Manufacturing had \$1.6 billion available under this registration statement.

Off-Balance Sheet Arrangements

Textron Manufacturing enters into a forward contract in Textron common stock on an annual basis. The contract is intended to hedge the cash volatility of stock-based incentive compensation indexed to Textron common stock. The forward contract requires an annual cash settlement between the counter parties based upon a number of shares multiplied by the difference between the strike price and the prevailing Textron common stock price. A cash payment of approximately \$12 million was received in January 2006 upon the settlement of the contract held at year-end. As of April 1, 2006, the contract was for approximately 1.6 million shares with a strike price of \$77.62. The market price of Textron's common stock was \$93.39 at April 1, 2006, resulting in a receivable of \$25 million.

Textron Finance sells finance receivables utilizing both securitizations and whole-loan sales. As a result of these transactions, finance receivables are removed from the balance sheet and the proceeds received are used to reduce the recorded debt levels. Despite the reduction in the recorded balance sheet position, Textron Finance generally retains a subordinated interest in the finance receivables sold through securitizations, which may affect operating results through periodic fair value adjustments. Textron Finance utilizes these off-balance sheet financing arrangements (primarily asset-backed securitizations) to further diversify funding alternatives. These arrangements are an important source of funding that provided net proceeds from continuing operations of \$26 million in the first quarter of 2005. Textron Finance did not increase its utilization of these arrangements in the first quarter of 2006.

Guarantees

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

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

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

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

As disclosed under the caption "Guarantees" in Note 18 to the Consolidated Financial Statements in Textron's 2005 Annual Report on Form 10-K, Textron has issued or is party to certain other guarantees. As of April 1, 2006, there has been no material change to these other guarantees.

Recently Announced Accounting Pronouncements

In the first quarter of 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155 "Accounting for Certain Hybrid Financial Instruments-An amendment of FASB Statements No. 133 and 140" ("SFAS 155"). SFAS 155 requires evaluation of all interests in securitized financial assets to determine whether they represent either freestanding derivatives or contain embedded derivatives. These interests were previously exempted from such evaluation in Statement No. 133. The statement permits any hybrid instrument, such as an interest in securitized financial assets

containing an embedded derivative, to be accounted for at fair value as opposed to bifurcating and accounting for the embedded derivative separately from the host instrument. The statement also amends Statement No. 140 by eliminating restrictions on a qualifying special purpose entity's ability to hold passive derivative financial instruments pertaining to beneficial interests that are, or contain, a derivative financial instrument. Textron will adopt SFAS 155 effective January 1, 2007. At April 1, 2006, Textron has not completed its evaluation of the impact of this statement on its interests in securitized financial assets.

The FASB also issued SFAS No. 156 "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140" ("SFAS 156") in the first quarter of 2006. SFAS 156 requires all separately recognized servicing assets and liabilities to be initially measured at fair value and permits entities to choose to either subsequently measure servicing rights at fair value and report changes in fair value in earnings, or amortize servicing rights in proportion to, and over, the estimated net servicing income or loss and assess the rights for impairment or the need for an increased obligation. The option to subsequently measure servicing rights at fair value will allow entities which utilize derivative instruments to hedge their servicing rights to account for such hedging relationships at fair value and avoid the complications of hedge accounting under Statement No. 133. Textron does not utilize derivative instruments to hedge its servicing rights as of April 1, 2006. Textron will adopt SFAS 156 effective January 1, 2007 and will likely utilize the amortization method to subsequently measure its servicing rights. The adoption of this statement is not expected to have a material impact on Textron's financial position or results of operations as the consolidated balance sheets do not contain a significant balance of servicing assets at April 1, 2006.

Foreign Exchange Risks

Textron's financial results are affected by changes in foreign currency exchange rates and economic conditions in the foreign markets in which products are manufactured and/or sold. For the first quarter of 2006, the impact of foreign exchange rate changes from the first quarter of 2005 decreased revenues by approximately \$28 million (1.2%) and decreased segment profit by approximately \$2 million (0.9%).

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

Forward-Looking Information

Certain statements in this Quarterly Report on Form 10-Q and other oral and written statements made by Textron from time to time are forward-looking statements, including those that discuss strategies, goals, outlook or other non-historical matters; or project revenues, income, returns or other financial measures. These forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update or revise any forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements, including the following: (a) changes in worldwide economic and political conditions that impact interest and foreign exchange rates; (b) the interruption of production at Textron facilities or Textron's customers or suppliers; (c) Textron's ability to perform as anticipated and to control costs under contracts with the U.S. Government; (d) the U.S. Government's ability to unilaterally modify or terminate its contracts with Textron for the Government's convenience or for Textron's failure to perform, to change applicable procurement and accounting policies, and, under certain circumstances, to suspend or debar Textron as a contractor eligible to receive future contract awards; (e) changes in national or international funding priorities and government policies on the export and import of military and commercial products; (f) the adequacy of cost estimates for various customer care programs, including servicing warranties; (g) the ability to control costs and successful implementation of various cost reduction programs; (h) the timing of certifications of new aircraft products; (i) the occurrence of slowdowns or downturns in customer markets in which Textron products are sold or supplied or where Textron Financial offers financing; (j) changes in aircraft delivery schedules or cancellation of orders; (k) the impact of changes in tax legislation; (l) the extent to which Textron is able to pass raw material price increases through to customers or offset such price increases by reducing other costs; (m) Textron's ability to offset, through cost reductions, pricing pressure brought by original equipment manufacturer customers; (n) Textron's ability to realize full value of receivables and investments in securities; (o) the availability and cost of insurance; (p) increases in pension expenses related to lower than expected asset performance or changes in discount rates; (q) Textron Financial's ability

to maintain portfolio credit quality; (r) Textron Financial's access to debt financing at competitive rates; (s) uncertainty in estimating contingent liabilities and establishing reserves to address such contingencies; (t) performance of acquisitions; (u) the efficacy of research and development investments to develop new products; (v) bankruptcy or other financial problems at major suppliers or customers that could cause disruptions in Textron's supply chain or difficulty in collecting amounts owed by such customers; and (w) Textron's ability to execute planned dispositions.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES

We have carried out an evaluation, under the supervision and with the participation of our manager 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 our 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, communicated to our management, including our CEO and CFO, as appropriate to allow timely decision regarding required disclosure.

There were no changes in Textron's internal control over financial reporting during the fiscal quarter ended April 1, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

As previously reported in Textron's Annual Report on Form 10-K for the fiscal year ended December 31, 2005, two identical lawsuits, purporting to be class actions on behalf of Textron benefit plans and participants and beneficiaries of those plans during 2000 and 2001, were filed in 2002 in the United States District Court in Rhode Island against Textron, the Textron Savings Plan and the Plan's trustee. A consolidated amended complaint alleges breach of certain fiduciary duties under ERISA, based on the amount of Plan assets invested in Textron stock during 2000 and 2001. The complaint seeks equitable relief and compensatory damages on behalf of various Textron benefit plans and the participants and beneficiaries of those plans during 2000 and 2001 to compensate for alleged losses relating to Textron stock held as an asset of those plans. Textron's Motion to Dismiss the consolidated amended complaint was granted on June 24, 2003. On May 7, 2004, the United States Court of Appeals for the First Circuit affirmed dismissal of all claims against the Plan's trustee and against the Plan itself, and also affirmed dismissal of certain other claims against Textron. However, the Court of Appeals ruled that plaintiffs should be permitted to attempt to develop their breach of fiduciary duty claims, and remanded those claims to the District Court. On March 1, 2006, the District Court entered summary judgment for Textron. The plaintiff has subsequently filed a notice of appeal to the United States Court of Appeals for the First Circuit. Textron believes this lawsuit is without merit and will defend the appeal vigorously.

Item 1A. RISK FACTORS

Our business, financial condition and results of operations are subject to various risks, including those discussed below, which may affect the value of our securities. The risks discussed below are those that we believe are currently the most

significant, although additional risks not presently known to us or that we currently deem less significant may also impact our business, financial condition and results of operations, perhaps materially.

We may be unable to effectively mitigate pricing pressures.

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

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

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

27.

PART II. OTHER INFORMATION (continued)

Developing new products and technologies entails significant risks and uncertainties.

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

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

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

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

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

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

In addition to unfavorable termination provisions, our U.S. Government contracts contain provisions that allow the U.S. Government to unilaterally suspend us from receiving new contracts pending resolution of alleged violations of

procurement laws or regulations, reduce the value of existing contracts, issue modifications to a contract, and control and potentially prohibit the export of our products, services and associated materials.

28.

PART II. OTHER INFORMATION (continued)

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

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

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

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

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

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

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

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

29.

PART II. OTHER INFORMATION (continued)

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

Approximately 18,500 of our employees are unionized, which represented approximately 40% of our employees at December 31, 2005, including employees of the discontinued business of Textron Fastening Systems. As a result, we may experience work stoppages, which could negatively impact our ability to manufacture our products on a timely basis, resulting in strain on our relationships with our customers and a loss of revenues. In addition, the presence of unions may limit our flexibility in responding to competitive pressures in the marketplace, which could have an adverse effect on our financial results of operations.

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

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

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

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

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

30.

PART II. OTHER INFORMATION (continued)

We are subject to legal proceedings and other claims.

We are subject to legal proceedings and other claims arising out of the conduct of our business, including proceedings and claims relating to private sector transactions; government contracts; production partners; product liability; employment; and environmental contamination. Under federal government procurement regulations, certain claims brought by the U.S. Government could result in our being suspended or debarred from U.S. Government contracting for a period of time. On the basis of information presently available, we do not believe that existing proceedings and claims will have a material effect on our financial position or results of operations. However, litigation is inherently unpredictable, and we could incur judgments or enter into settlements for current or future claims that could adversely affect our financial position or our results of operations in any particular period.

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

In addition to reserves at Textron Finance, we establish reserves in our manufacturing segments to cover uncollectible

accounts receivable, excess or obsolete inventory, fair market value writedowns on used aircraft and golf cars, recall campaigns, warranty costs and litigation. These reserves are subject to adjustment from time to time depending on actual experience and are subject to many uncertainties, including bankruptcy or other financial problems at key customers.

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

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

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

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

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

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

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

31.

PART II. OTHER INFORMATION (continued)

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

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

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	Total Number of Shares Purchased as	Maximum Number of Shares that May Yet Be Purchased
--	--	--	---

		Commissions)	Part of Publicly Announced Plan	Under the Plan
Month 1 (January 1, 2006 - February 4, 2006)	961,972	\$77.53	961,972**	12,000,000***
Month 2 (February 5, 2006 - March 4, 2006)	689,600	\$87.01	689,600	11,310,400
Month 3 (March 5, 2006 - April 1, 2006)	927,271*	\$91.44	925,000*	10,385,400
Total	2,578,843	\$85.06	2,576,572	

* On March 7, 2006, Textron received 2,271 shares as payment for the exercise price of employee stock options, which are not included in publicly announced repurchase plans.

** 961,972 shares were purchased in January 2006, fully exhausting the October 21, 2004 plan authorizing repurchase of up to 12 million shares of common stock.

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

Item 5. OTHER INFORMATION

(a) Because this Quarterly Report on Form 10-Q is being filed within four business days from the date of the reportable events, we have elected to make the following disclosures in this Quarterly Report on Form 10-Q instead of in a Current Report on Form 8-K under Item 1.01 Entry into a Material Definitive Agreement and Item 2.06 Material Impairments.

Entry into a Material Definitive Agreement

On May 4, 2006, Textron and Mary L. Howell, John D. Butler and Terrence O'Donnell entered into Amended and Restated Employment Agreements, amending the Employment Agreements dated July 23, 1998, July 23, 1998 and March 10, 2000, respectively. The intent of these Amended and Restated Employment Agreements, which was mutually agreed upon by the executives and the Board of Directors, was to eliminate the inclusion of any performance share units granted after 2005 from the calculation of the executives' benefits under the Supplemental Retirement Plan for Textron Key Executives (the "SERP").

32.

PART II. OTHER INFORMATION (continued)

In consideration of this elimination of performance share units granted after 2005 from the calculation of SERP benefits, the Amended and Restated Employment Agreements for Ms. Howell and Mr. Butler each provide that, in the event of the executive's death, disability, termination without "cause" or resignation for "good reason," the executive will become fully vested in the maximum annual benefit payable under the SERP (i.e., 50% of highest consecutive five-year compensation reduced by benefits payable under other plans). Except in the case of death or a termination following a change of control, the SERP benefits so calculated, to the extent they exceed the benefits calculated without regard to such accelerated vesting provision, will not be payable until two and one-half years following termination.

In the case of Mr. O'Donnell, in consideration for the elimination of performance share units granted after 2005 from the calculation of SERP benefits, Textron has agreed to credit Mr. O'Donnell's account under the Deferred Income Plan for Textron Key Executives with an additional \$157,465 as of January 1, 2006, and as of each anniversary of such date ending with January 1, 2009. Such amounts will be credited only if Mr. O'Donnell remains employed on the relevant dates, or if his employment is terminated without cause or he resigns for good reason, in which case the discounted

present value of any installment not yet credited to Mr. O'Donnell's account will be accelerated and paid to Mr. O'Donnell in cash.

The Amended and Restated Employment Agreements also clarify certain language to reflect historic interpretations of the provisions so to avoid any future ambiguity, supply a previously absent definition of compensation for purposes of post-termination deemed years of service under Textron's pension plans and add a provision to make adjustments necessary to bring the Amended and Restated Employment Agreements in compliance with the new requirements with regard to deferred compensation under Section 409A of the Internal Revenue Code.

Also on May 4, 2006, Textron entered into a Second Amendment to the Employment Agreement with Lewis B. Campbell entered into as of July 23, 1998 (as amended by the First Amendment dated as of May 6, 2005). This Amendment implements clarifying changes substantially identical to those referred to above in the description of the Amended and Restated Employment Agreements with Ms. Howell and Messrs. Butler and O'Donnell.

Copies of the Amended and Restated Employment Agreements with Ms. Howell and Messrs. Butler and O'Donnell are attached hereto as Exhibits 10.1, 10.2 and 10.3, respectively. A copy of the Campbell Second Amendment is attached hereto as Exhibit 10.4.

Material Impairments

In December 2005, Textron's Board of Directors authorized the divestiture of the Textron Fastening Systems business. With this approval, Textron committed to actively market the segment and expected to complete the sale within 12 months. Beginning in the fourth quarter of 2005, the Fastening Systems segment was reported as a discontinued operation.

In the first quarter of 2006, Textron's management commenced its marketing efforts including establishing the proposed deal structure and identifying potential buyers. Formal negotiations commenced with a number of potential purchasers and specific terms and conditions have been discussed including the impact on the sales price of depreciation, currency exchange fluctuation, the assumption of liabilities, as well as the transfer of pension related obligations and assets.

On May 4, 2006, as a result of the offers received from potential purchasers of substantially all of the business of the segment, and the additional obligations that Textron now estimates will need to be settled as part of the sale, Textron determined that the net assets of discontinued operations related to the Textron Fastening Systems business may exceed the fair value less costs to sell. Consequently, Textron determined that it will incur a non-cash impairment charge in the second quarter of 2006 in the range of \$75 million to \$150 million.

33.

PART II. OTHER INFORMATION (continued)

Item 6. EXHIBITS

- 10.1 Amended and Restated Employment Agreement between Textron and Mary L. Howell dated May 4, 2006.
- 10.2 Amended and Restated Employment Agreement between Textron and John D. Butler dated May 4, 2006.
- 10.3 Amended and Restated Employment Agreement between Textron and Terrence O'Donnell dated May 4, 2006.
- 10.4 Second Amendment dated May 4, 2006, to the Employment Agreement with Lewis B. Campbell entered into as of July 23, 1998 (as amended by the First Amendment dated as of May 6, 2005).
- 12.1 Computation of ratio of income to fixed charges of Textron Manufacturing
- 12.2 Computation of ratio of income to fixed charges of Textron Inc. including all majority-owned subsidiaries
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

SIGNATURES

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

Date: May 5, 2006

TEXTRON INC.
s/R. L. Yates
R. L. Yates
Senior Vice President and Corporate Controller

(principal accounting officer)

LIST OF EXHIBITS

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

Name of Exhibit

- | | |
|------|--|
| 10.1 | Amended and Restated Employment Agreement between Textron and Mary L. Howell dated May 4, 2006. |
| 10.2 | Amended and Restated Employment Agreement between Textron and John D. Butler dated May 4, 2006. |
| 10.3 | Amended and Restated Employment Agreement between Textron and Terrence O'Donnell dated May 4, 2006. |
| 10.4 | Second Amendment dated May 4, 2006, to the Employment Agreement with Lewis B. Campbell entered into as of July 23, 1998 (as amended by the First Amendment dated as of May 6, 2005). |
| 12.1 | Computation of ratio of income to fixed charges of Textron Manufacturing |
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| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) |
| 32.1 | Certification of Chief Executive Officer Pursuant to Rule 18 U.S.C. Section 1350 |
| 32.2 | Certification of Chief Financial Officer Pursuant to Rule 18 U.S.C. Section 1350 |

AMENDED AND RESTATED**EMPLOYMENT AGREEMENT**

THIS EMPLOYMENT AGREEMENT, is entered into as of this 4th day of May, 2006 by and between Textron Inc. (the "Company"), a Delaware corporation having its principal office at 40 Westminister Street, Providence, Rhode Island 02903 and Mary L. Howell residing at 4605 Rock Spring Road, Arlington, Virginia 22207 (the "Executive").

WITNESSETH:

WHEREAS, the Executive is presently employed by the Company;

WHEREAS, the Company desires to continue to employ the Executive and the Executive is willing to continue to be employed by the Company;

WHEREAS, the Company and the Executive entered into an employment agreement as of July 23, 1998 (the "Employment Agreement"); and

WHEREAS, the Company and the Executive desire to set forth the terms and conditions of such continued employment in this Amended and Restated Employment Agreement (the "Agreement").

NOW THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements of the parties set forth in this Agreement, and of other good and valuable consideration, the adequacy and receipt of which is acknowledged, the parties hereto agree as follows:

1. Term of Employment

The Company hereby agrees to continue to employ the Executive and the Executive hereby accepts continued employment, in accordance with the terms and conditions set forth herein, for a term (the "Employment Term") commencing on the date hereof (the "Effective Date") and terminating, unless otherwise terminated earlier in accordance with Section 5 hereof, on the third anniversary of the Effective Date (the "Original Employment Term"), provided that the Employment Term shall be automatically extended, subject to earlier termination as provided in Section 5 hereof, for successive additional one (1) year periods (the "Additional Terms"), unless, at least ninety (90) days prior to the end of the Original Employment Term or the then Additional Term, the Company or the Executive has notified the other in writing that the Employment Term shall terminate at the end of the then current term.

2. Position and Responsibilities

During the Employment Term, the Executive shall serve as the Executive Vice President - Government and International of the Company or in such higher capacity as agreed by the Company and the Executive. The Executive shall report exclusively to the Chief Executive Officer and the Board of Directors of the Company (the "Board"). The Executive shall, to the extent appointed or elected, serve on the Board as a director and as a member of any committee of the Board, in each case, without additional compensation. The Executive shall, to the extent appointed or elected, serve as a director or as a member of any committee of the board (or the equivalent bodies in a non-corporate subsidiary or affiliate) of any of the Company's subsidiaries or affiliates and as an officer or employee (in a capacity commensurate with her position with the Company) of any such subsidiaries or affiliates, in all cases, without additional compensation or benefits and any compensation paid to the Executive, or benefits provided to the Executive, in such capacities shall be a credit with regard to the amounts due hereunder from the Company. The Executive 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 the By-laws of the Company and the organizational structure of the Company. The Executive shall devote substantially all of her business time, attention and energies to the performance of her duties hereunder, provided the foregoing will not prevent the Executive from participating in charitable, community or industry affairs, from managing her and her family's personal passive investments, and (with the consent of the Chief Executive Officer or the Organization and Compensation Committee (or its successor) of the Board (the "O&C Committee"), which consent will not be unreasonably withheld, conditioned or delayed) serving on the board of directors of other companies, provided that these activities do not materially interfere with the performance of her duties hereunder or create a potential business conflict or the appearance thereof. The Company has consented to the Executive's services on the boards of directors, if any, on which the Executive currently serves, which boards the Executive has disclosed in writing to the O&C Committee. The Executive may retain any compensation or benefits received as a result of consented to service as a director of entities not related to the Company.

3. Compensation and Benefits

During the Employment Term, the Company shall pay and provide the Executive the following:

3.1 Base Salary. The Company shall pay the Executive a base salary (the "Base Salary") in an amount which shall be established from time to time by the O&C Committee (or as otherwise designated by the Board), provided, however, that such base salary rate shall not be less than her current rate of base salary. Base Salary shall be paid to the Executive in accordance with the Company's normal payroll practices for executives. Base Salary shall be reviewed at least annually to ascertain whether, in the judgment of the reviewing committee, such Base Salary should be increased. If so increased, Base Salary shall not be thereafter decreased and shall thereafter, as increased, be the Base Salary hereunder.

3.2 Annual Bonus. The Company shall provide the Executive with the opportunity to earn an annual cash bonus under the Company's current annual incentive compensation plan for executives or a replacement plan therefor at a level commensurate with her position, provided that the minimum annual target award payable upon the achievement of reasonably attainable objective performance goals shall be at least fifty percent (50%) of Base Salary.

3.3 Long-Term Incentives. The Company shall provide the Executive the opportunity to earn long-term incentive awards under the current equity and cash based plans and programs or replacements therefor at a level commensurate with the current aggregate opportunity being provided to the Executive.

3.4 Employee Benefits. The Executive shall, to the extent eligible, be entitled to participate at a level commensurate with her position in all employee benefit welfare and retirement plans and programs, as well as equity plans, generally provided by the Company to its senior executives in accordance with the terms thereof as in effect from time to time. Such plans and programs currently include, without limitation, the Amended and Restated Supplemental Retirement Plan for Textron Inc. Key Executives (the "SERP"), the 1994 Long-Term Incentive Plan, the Key Executive Program (including the Deferred Income Plan, the Supplemental Benefits Plan (the "SBP") and the Survivor Benefit Plan), group term life insurance plan, comprehensive health, major medical, vision and dental insurance plans and short-term and long-term disability plans. Notwithstanding anything in the SERP, Performance Share Units granted after 2005 shall not be considered when determining the benefit under the SERP.

3.5 Vacation. The Executive shall be entitled to paid vacation in accordance with the standard written policies of the Company with regard to vacations of executives, but in no event less than four (4) weeks per calendar year.

3.6 Perquisites. The Company shall provide to the Executive, at the Company's cost, all perquisites to which other senior executives of the Company are generally entitled to receive and such other perquisites which are suitable to the character of the Executive's position with the Company and adequate for the performance of her duties hereunder but not less than the level being provided on the date hereof except as otherwise required because of changes in law. To the extent legally permissible, the Company shall not treat such amounts as income to the Executive.

3.7 Right to Change Plans. The Company shall not be obligated by reason of this Section 3 to institute, maintain, or refrain from changing, amending, or discontinuing any benefit plan, program, or perquisite, so long as such changes are similarly applicable to executive employees generally and provided that the benefits or additional credit specifically as set forth in Section 3.8 below shall not be diminished.

4. Expenses

Upon submission of appropriate documentation, in accordance with its policies in effect from time to time, the Company shall pay, or reimburse, the Executive for all ordinary and necessary expenses, in a reasonable amount, which the Executive incurs in performing her duties under this Agreement including, but not limited to, travel, entertainment, professional dues and subscriptions, and all dues, fees, and expenses associated with membership in various professional, business, and civic associations and societies in which the Executive participates in accordance with the Company's policies in effect from time to time.

5. Termination of Employment

The Executive's employment with the Company (including but not limited to any subsidiary or affiliate or the Company) and the Employment Term shall terminate upon the occurrence of the first of the following events:

(a) Automatically on the date of the Executive's death.

(b) Upon thirty (30) days' written notice by the Company to the Executive of a termination due to Disability, provided such notice is delivered during the period of Disability. The term "Disability" shall mean, for purposes of this Agreement, the inability of the Executive, due to injury, illness, disease or bodily or mental infirmity, to engage in the performance of her material duties of employment with the Company as contemplated by Section 2 herein for a period of more than one hundred eighty (180) consecutive days or for a period that is reasonably expected to exist for a period of more than one hundred eighty (180) consecutive days, provided that interim returns to work of less than ten (10) consecutive business days in duration shall not be deemed to interfere with a determination of consecutive absent days if the reason for absence before and after the interim return are the same. The existence or non-existence of a Disability shall be determined by a physician agreed upon in good faith by the Executive (or her representatives) and the Company. It is expressly understood that the Disability of the Executive for a period of one hundred eighty (180) consecutive days or less shall not constitute a failure by her to perform her duties hereunder and shall not be deemed a breach or default and the Executive shall receive full compensation for any such period of Disability or for any other temporary illness or incapacity during the term of this Agreement.

(c) Immediately upon written notice by the Company to the Executive of a termination due to her retirement at or after the Executive's attainment of age sixty-five (65).

(d) Immediately upon written notice by the Company to the Executive of a termination for Cause, provided such notice is given within ninety (90) days after the discovery by the Board or the Chief Executive Officer of the Cause event and has been approved by the O&C Committee at a meeting at which the Executive and her 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 Agreement: (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 her or another person or entity's substantial personal enrichment at the expense of the Company; (ii) any willful misconduct by the Executive with regard to the Company, its business, assets or employees that has, or was intended to have, a material adverse impact (economic or otherwise) on the Company; (iii) any material, willful and knowing violation by the Executive of (x) the Company's Business Conduct Guidelines, or (y) any of her fiduciary duties to the Company which in either case has, or was intended to have, a material adverse impact (economic or otherwise) on the Company; (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 the Company; (v) the Executive's willful failure to attempt to perform her duties under Section 2 hereof or her willful failure to attempt to follow the legal written direction of the Board, which in either case is not remedied within ten (10) days after receipt by the Executive of a written notice from the Company specifying the details thereof; (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 her 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)); or (vii) any other material breach by the Executive of this Agreement that is not cured by the Executive within twenty (20) days after receipt by the Executive of a written notice from the Company of such breach specifying the details thereof. 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 the Company. Reference in this paragraph (d) to the Company shall also include direct and indirect subsidiaries of the Company, and materiality and material adverse impact shall be measured based on the action or inaction and the impact upon, and not the size of, the Company taken as a whole, provided that after a Change in Control, the size of the Company, taken as a whole, shall be a relevant factor in determining materiality and material adverse impact.

(e) Upon written notice by the Company to the Executive of an involuntary termination without Cause. A notice by the Company of non-renewal of the Employment Term pursuant to Section 1 above shall be deemed an involuntary termination of the Executive by the Company without Cause as of the end of the Employment Term, but the Executive may terminate at any time after the receipt of such notice and shall be treated as if she was terminated without Cause as of such date.

(f) Upon twenty (20) days' written notice by the Executive to the Company 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 Agreement, 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 (including but not limited to as a member of the Management Committee or any functional replacement thereof), reporting lines or a material reduction (other than temporarily while Disabled or otherwise incapacitated) in her then status, authorities, duties, or responsibilities or, if then a director of the Company, failure to be nominated or reelected as a director of the Company or removal as such; (ii) relocation of the Executive from the principal office of the Company (excluding reasonable travel on the Company's business to an extent substantially consistent with the Executive's business obligations) or relocation of the principal office of the Company to a location which is at least fifty (50) miles from the Company'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 her then location; (iii) a reduction by the Company in the Executive's Base Salary; (iv) a reduction in the Executive's aggregate level of participation in any of the Company'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 the Effective Date, or, after a Change in Control, participated immediately prior to the Change in Control; (v) the failure of the Company to obtain and deliver to the Executive a satisfactory written agreement from any successor to the Company to assume and agree to perform this Agreement; or (vi) any other material breach by the Company of this Agreement. The Executive waives as a Good Reason event the change in the SERP made by the last sentence of Section 3.4 hereof.

(g) Upon written notice by the Executive to the Company of the Executive's voluntary termination of employment without Good Reason (which the Company may, in its sole discretion, make effective earlier than any notice date). A notice by the Executive of non-renewal of the Employment Term pursuant to Section 1 above shall be deemed a voluntary termination by the Executive without Good Reason as of the end of the Employment Term.

6. Consequences of a Termination of Employment

6.1 Termination Due to Death or Retirement. If the Employment Term ends on account of the Executive's termination due to death pursuant to Section 5(a) above or retirement pursuant to Section 5(c) above, the Executive (or the Executive's surviving spouse, or other beneficiary as so designated by the Executive during her lifetime, or to the Executive's estate, as appropriate) shall be entitled, in lieu of any other payments or benefits, subject to Section 7(e), to (i) payment promptly of any unpaid Base Salary, unpaid annual incentive compensation (for the preceding fiscal year) and any accrued vacation, (ii) reimbursement for any unreimbursed business expenses incurred prior to the date of termination, and (iii) any amounts, benefits or fringes due under any equity, benefit or fringe plan, grant or program in accordance with the terms of said plan, grant or program but without duplication (collectively, the "Accrued Obligations"). In addition, in the event the termination

is as a result of Executive's death, the early retirement factor under Section 2.03 of the SERP shall be one hundred percent (100%) and the age requirement in Section 2.05 of the SERP shall not apply and a death benefit shall be paid in accordance with such Section in all instances.

6.2 Termination Due To Disability. If the Employment Term ends as a result of Disability pursuant to Section 5(b) above, the Executive shall be entitled, in lieu of any other payments or benefits, subject to Section 7(b) and Section 7(e) hereof, to any Accrued Obligations and the following:

- (a) Payment, during January of the calendar year following the date of the Executive's termination, of an amount equal to three hundred percent (300%) of the Executive's target annual incentive compensation award established for the fiscal year during which the Executive's termination occurs (the "Termination Year Target Bonus").
- (b) Continued monthly payment for two and one half (2 1/2) years of an amount equal to the Executive's monthly Base Salary rate reduced by any disability benefits received by the Executive under the Company's long term disability plan for the corresponding period.
- (c) Payments and benefits as set forth in Section 6.3(c)-(j) hereof.
- (d) The Executive shall be deemed to have satisfied the definition of "total disability" under the 1994 Long-Term Incentive Plan or the equivalent definition under any successor plan thereto.
- (e) The Executive's early retirement factor under Section 2.03 of the Company's SERP shall be one hundred percent (100%) (i.e. providing a fifty percent (50%) of Final Average Compensation benefit) under the Company's SERP, provided that the benefits payable under the SERP that are in excess of the benefits that the Executive would receive thereunder without such increased early retirement factor shall not commence to be paid until two and one half (2 1/2) years after the date of the termination of employment.

6.3 Involuntary Termination by the Company Without Cause or Termination by the Executive for Good Reason. If the Executive is involuntarily terminated by the Company without Cause in accordance with Section 5(e) above or the Executive terminates her employment for Good Reason in accordance with Section 5(f) above, the Executive shall be entitled, in lieu of any other payments or benefits, subject to Section 7(b) hereof, to any Accrued Obligations and the following:

- (a) Payment, during January of the calendar year following the date of the Executive's termination, of an amount equal to the Executive's Termination Year Target Bonus multiplied by a fraction, the numerator of which is the number of days during the fiscal year of the Executive's termination that the Executive was employed by the Company and the denominator is three hundred sixty-five (365), provided that in no event shall such payment exceed fifty percent (50%) of the Termination Year Target Bonus.
- (b) Continued payment off payroll for two and one-half (2 1/2) years (in approximately equal monthly installments) of an amount equal to two and one-half (2 1/2) times the sum of: (i) the Executive's Base Salary, and (ii) the greater of: (x) the Termination Year Target Bonus, or (y) the Executive's highest annual incentive compensation award earned during the last three (3) fiscal years ending prior to the fiscal year of termination (whether or not deferred) (the sum of (i) and (ii) being hereinafter referred to as "Final Annual Compensation").
- (c) To the extent eligible at such time or, if the Executive would be eligible with credit for an additional two and one half (2 1/2) years of age and service credit, coverage under all applicable retiree health and other retiree welfare plans for the Executive and her dependents (including, if she is only eligible because of the extra age and service credit, an adjustment, to the extent necessary, to put the Executive in the same after-tax position as if she had been eligible for such coverage) and, if not eligible for continued health coverage under the retiree health plan, payment of the Executive's and Executive's eligible dependents' COBRA continuation health coverage premiums for the Company's health insurance plan that generally applies to senior executives for the two and one-half (2 1/2) year period following the date of termination or, if earlier, until the Executive and Executive's dependents cease to be eligible for such coverage, provided that, if COBRA coverage cannot be provided for the full period, any excess period shall be covered under (d) below (and further provided that, if such premiums are taxable to the Executive, an adjustment such that the Executive has no after tax cost for the providing of such COBRA coverage).
- (d) To the extent eligible on the date of termination, continued participation, at no additional after tax cost to the Executive than the Executive would have as an employee, in all welfare plans (other than medical plans covered under (c) above), until two and one-half (2 1/2) years after the date of termination; provided, however, that in the event the Executive obtains other employment that offers substantially similar or improved benefits, as to any particular welfare plan, such continuation of coverage by the Company for such benefits under such plan shall immediately cease. To the extent such coverage cannot be provided under the Company's welfare benefit plans without jeopardizing the tax status of such plans, for underwriting reasons or because of the tax impact on the Executive, the Company shall pay the Executive an amount such that the Executive can purchase such benefits separately at no greater after tax cost to the Executive than the Executive would have had if the benefits were provided to the Executive as an employee.
- (e) Two and one-half (2 1/2) additional years of service (including age as if such service was completed) and compensation credit (at the Executive's "Then Compensation Level") for benefit purposes under any defined benefit type retirement plan, including but not limited to the SERP and the SBP if then in effect, and, if the Executive is not eligible to receive benefits under any such plan on the date of termination, two and one-half (2 1/2) additional years of age for determining eligibility to receive such benefits, provided that benefits under any such plan will not commence until the Executive actually attains the required distribution age under the plan or the Executive's spouse qualifies for death benefits under such plan and further provided that, with regard to any plan qualified under Section 401(a) of the Internal Revenue Code of

1986, as amended (the "Code"), the additional amounts may be provided on a nonqualified plan basis. In addition, and notwithstanding the foregoing, with regard to the SERP the Executive's early retirement factor under Section 2.03 shall be one hundred percent (100%) (i.e. providing a fifty percent (50%) of Final Average Compensation benefit) upon such termination of employment, provided that the benefits payable under the SERP that are in excess of the benefits that would be received thereunder without the increased early retirement factor provided for in this sentence shall not commence to be paid until two and one-half (2 1/2) years after such termination of employment and all benefits under the SERP (which have not yet then commenced to be paid) shall be paid at such time notwithstanding the proviso in the prior sentence. "Then Compensation Level" shall mean an annual rate of compensation equal to the sum of (i) Final Annual Compensation and (ii) the performance units and performance share units earned with respect to the measurement periods ending at or about the end of the fiscal year immediately preceding the year of termination (to the extent recognized in the definition of "Compensation" under the applicable plan; in the case of the SERP as provided in Section 3.4 above such that no amounts deemed earned in respect of performance share units in 2008 (i.e. any grant after the 2005 grant) or later years shall be included in Compensation for purposes of the SERP); provided, however, that with respect to the year of termination, in lieu of utilization of the amount in clause (ii) above, the Executive will be deemed to have received in the year of termination the full amount of performance units and performance share units earned with regard to the measuring periods ending on or about the end of the fiscal year immediately preceding the year of termination (whether or not such amount is actually paid to the Executive prior to the date of termination); provided, further, that, other than as set forth in the immediately preceding proviso, the amounts described in clause (ii) above shall be included in "Compensation" under the plans referred to in this Section 6.3(e) in lieu of any amounts actually paid to the Executive in respect of performance units and performance share units in the year of termination and thereafter.

(f) Payment promptly after termination of two and one-half (2 1/2) times the amount of the maximum Company annual contribution or match to any defined contribution type plan in which the Executive participates.

(g) Immediate full vesting of any outstanding stock options that would vest within two and one half (2 1/2) years after such termination of employment as if the Executive had continued employment for such two and one half (2 1/2) year period, to the extent permitted under the plan or grant, or if such vesting is not permitted, a cash payment equal to the difference between the fair market value of the shares covered by the unvested options and the exercise price of such unvested options (the "Spread") on the date of termination, and, in both cases, to the extent such options are exercisable for less than two and three quarters (2 3/4) years after termination (or, if less, the remainder of the respective terms), a cash payment equal to the Black-Scholes (based on the same methodology used for the Company's then latest distributed proxy statement or, if not so used, for internal valuation of the last stock option grants made by the Company prior to the termination) future value of such options for the lesser of two and three quarters (2 3/4) years or the remainder of such terms (any such payments shall be made promptly after such termination). The terms of the Executive's outstanding options are deemed to be modified to the extent required by this Section 6.3 (g).

(h) Payment when it would otherwise be paid in accordance with the 1994 Long-Term Incentive Plan of any amount due with regard to performance share units outstanding on the date of termination to the extent permitted under such plan, plus, outside of such plan, when it would otherwise have been paid, an amount equal to the amount the Executive would have received with regard to any performance share units outstanding at the time of termination that could not be so paid. For purposes of calculating the foregoing amounts, all discretionary performance targets relating to the Executive's individual performance will be deemed to be fully achieved and the actual level of achievement of all financial performance targets will be determined as if the Executive continued to be employed through the end of the applicable measuring period.

(i) Immediate full vesting of the Executive's accounts under the Deferred Income Plan, and to the extent not permitted under such plan, a cash payment outside of the plan equal to the value of the amount that would have vested under the plan.

(j) Continuation of participation for two and one-half (2 1/2) additional years in the Company's programs with regard to tax preparation assistance and financial planning assistance, club dues and automobile (but based on the automobile then being used and no new one), in accordance with the Company's programs in effect at the time of the termination.

6.4 Termination by the Company for Cause or Termination by the Executive without Good Reason. If the Executive is terminated by the Company for Cause or the Executive terminates her employment without Good Reason, the Executive shall be entitled to receive all Accrued Obligations.

7. No Mitigation/No Offset/Release

(a) In the event of any termination of employment hereunder, the Executive shall be under no obligation to seek other employment and there shall be no offset against any amounts due the Executive under this Agreement on account of any remuneration attributable to any subsequent employment that the Executive may obtain. The amounts payable hereunder shall not be subject to setoff, counterclaim, recoupment, defense or other right which the Company may have against the Executive or others, except as specifically set forth in Section 9 hereof or upon obtaining by the Company of a final unappealable judgment against the Executive.

(b) Any amounts payable and benefits or additional rights provided pursuant to Section 6.2 (other than Section 6.2(e)), Section 6.3 (other than Section 6.3(k)) and Section 8.1 (other than Section 8.1(m)) beyond Accrued Obligations and amounts or rights due under law, and, in the case of Section 6.3 and Section 8.1, beyond the sum of any amounts due (without execution of a release) under the Company severance program then in effect, or, if greater, three (3) months Base Salary as severance, shall only be payable if the Executive delivers to the Company a release of all claims of the Executive (other than those specifically payable or providable hereunder on or upon the applicable type of termination and any rights of indemnification under the Company's organizational documents) with regard to the Company, its subsidiaries and related entities and their respective past or present officers, directors and employees in such form as reasonably requested by the Company.

(c) Upon any termination of employment, upon the request of the Company, the Executive shall deliver to the Company a resignation from all offices and directorships and fiduciary positions of the Executive in which the Executive is serving with, or at the request of, the Company or its subsidiaries, affiliates or benefit plans.

(d) The amounts and benefits provided under Sections 6 and 8 hereof are intended to be inclusive and not duplicative of the amounts and benefits due under the Company's employee benefit plans and programs to the extent they are duplicative.

(e) The intent of the parties is that all payments hereunder shall be in accordance with Section 409A of the Internal Revenue Code ("Section 409A") and this Agreement shall be interpreted accordingly. The parties shall modify this Agreement as necessary to assure such compliance. To the extent that the Executive is a "Specified Employee," within the meaning of Section 409A, any payments paid as a result of separation from service (within the meaning of Section 409A), other than upon death, shall not be paid until the earlier of six (6) months after such separation from service and Executive's death (the "Delay Period") and all payments that otherwise become due during such Delay Period shall be promptly paid in a lump sum after it has expired. Furthermore in such situation, to the extent required by Section 409A, the Executive shall pay the premiums of all benefits to be provided during the Delay Period and shall promptly after the end of the Delay Period be reimbursed by the Company therefor.

8. Change in Control

8.1 Employment Termination in Connection with a Change in Control. In the event of a Qualifying Termination (as defined below) during the period commencing one-hundred eighty (180) days prior to the effective date of a Change in Control and terminating on the second anniversary of the effective date of a Change in Control (the "Change in Control Protection Period"), then in lieu of the benefits provided to the Executive under Section 6.3 of this Agreement, subject to Section 7(e), the Company shall pay the Executive the following amounts within (except as otherwise provided) thirty (30) business days of the Qualifying Termination (or, if later, the effective date of the Change in Control; in which case any amounts or benefits previously paid pursuant to Section 6 shall be setoff against those under this Section 8) and provide the following benefits:

(a) Any Accrued Obligations.

(b) A lump-sum cash payment equal to three (3) times the highest rate of the Executive's Base Salary rate in effect at any time up to and including the date of the Executive's termination.

(c) A lump-sum cash payment equal to the Prorated Portion (as determined in the next sentence) of the greater of: (i) the Executive's Termination Year Target Bonus or (ii) the Executive's earned annual incentive award for the fiscal year prior to the fiscal year in which the earlier of the Change in Control or the Qualifying Termination occurs (whether or not deferred). The "Prorated Portion" of the foregoing amount shall be determined by multiplying such amount by a fraction, the numerator of which is the number of days during the fiscal year of termination that the Executive is employed by the Company, and the denominator of which is, three hundred sixty-five (365).

(d) A lump-sum cash payment equal to three (3) times the greater of: (i) the Executive's highest annual incentive compensation earned over the three (3) fiscal years ending prior to the earlier of the Change in Control or the Qualifying Termination (whether or not deferred); or (ii) the Executive's target incentive compensation established for the fiscal year in which the Executive's date of termination occurs.

(e) To the extent the Executive is eligible, was eligible prior or after the Change in Control (or, if earlier, the Qualifying Termination) or if the Executive would be eligible with credit for an additional three (3) years of age and service credit, coverage under all applicable retiree health and other retiree welfare plans for the Executive and the Executive's eligible dependents (including an adjustment to the extent necessary to put the Executive on the same after tax basis as if the Executive had been eligible for such coverage).

(f) To the extent eligible prior or after the Change in Control (or, if earlier, the Qualifying Termination), continued participation, (coordinated with (e) above to the extent duplicative), at no additional after tax cost to the Executive than the Executive would have as an employee, in all welfare plans, until three (3) years after the date of termination, provided, however, that in the event the Executive obtains other employment that offers substantially similar or improved benefits, as to any particular welfare plan, such continuation of coverage by the Company for such similar or improved benefit under such plan shall immediately cease. To the extent such coverage cannot be provided under the Company's welfare benefit plans without jeopardizing the tax status of such plans, for underwriting reasons or because of the tax impact on the Executive, the Company shall pay the Executive an amount such that the Executive can purchase such benefits separately at no greater after tax cost to her than she would have had if the benefits were provided to her as an employee.

(g) A lump-sum cash payment of the actuarial present value equivalent (as determined in accordance with the most favorable (to the Executive) overall actuarial assumptions and subsidies in any of the Company's tax-qualified or nonqualified type defined benefit pension plans in which the Executive then participates) of the accrued benefits accrued by the Executive as of the date of termination under the terms of any nonqualified defined benefit type retirement plan, including but not limited to, the SERP and the SBP, and assuming the benefit was fully vested (and commenced immediately on such termination) without regard to any minimum age or service requirements. For this purpose, such benefits shall be calculated with an early retirement factor under Section 2.03 of the SERP of one hundred percent (100%) and under the assumption that the Executive's employment continued following the date of termination for three (3) full years (i.e., three (3) additional years of age (including, but not limited to, for purposes of determining the actuarial present value, but not the commencement date of benefits for calculation purposes (all of which shall be deemed to commence on the date of termination)), compensation (at the Executive's Then Compensation Level) and service credits shall be added).

- (h) Three (3) times the amount of the maximum Company contribution or match to any defined contribution type plan in which the Executive participates.
- (i) A lump-sum cash payment of the product of (i) the Interest Factor (as determined in the next sentence) multiplied by (ii) the Executive's entire account balance under the Deferred Income Plan (or any replacement therefor), plus an additional amount equal to three (3) times the match which the Company made for the Executive to such plan for the fiscal year ending immediately prior to the earlier of the Change in Control or the Qualifying Termination. The "Interest Factor" shall be equal to one (1) plus three (3) times the rate of earnings of the Executive's account under such plan for the fiscal year ending immediately prior to her termination.
- (j) Immediate full vesting of any outstanding stock options, performance share units (at maximum level) and other equity awards (and lapse of any forfeiture provisions) to the extent permitted under the plan or grant, or if full vesting is not permitted with regard to stock options, a cash payment equal to the Spread on such unvested options on the date of termination (or, if later, the date of the Change in Control) plus, in both cases, if options are exercisable for less than three (3) years after termination (or, if less, the remainder of the respective terms, including any termination of exercisability of all Company stock options in connection with the Change in Control or a merger related thereto), a cash payment equal to the Black-Scholes (based on the same methodology used for the Company's then latest distributed proxy statement or, if not so used, for internal valuation of the last stock option grants made by the Company prior to the earlier of the Qualifying Termination or the Change in Control) future value of such outstanding options for the lesser of three (3) years or the remainder of such terms.
- (k) Outplacement services at a level commensurate with the Executive's position, including use of an executive office and secretary, for a period of one (1) year commencing on the date of termination but in no event extending beyond the date on which the Executive commences other full time employment.
- (l) Continuation of participation for three (3) additional years in the Company's programs with regard to tax preparation assistance and financial planning assistance, club dues and automobile (but based on the automobile then being used and no new one), in accordance with the Company's programs in effect at the time of the Change in Control.

For purposes of this Section 8, a Qualifying Termination shall mean any termination of the Executive's employment (i) by the Company without Cause, or (ii) by the Executive for Good Reason.

8.2 Definition of "Change in Control." A Change in Control of 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.

8.3 Excise Tax Equalization Payment. In the event that the Executive becomes entitled to payments and/or benefits which would constitute "parachute payments" within the meaning of Section 280G(b)(2) of the Code, the provisions of Exhibit A will apply.

9. Noncompetition, Confidentiality and Nondisparagement

9.1 Agreement Not to Compete.

- (a) The Executive agrees that for a period of two (2) years after the termination of the Executive's employment, the Executive will not engage in Competition with the Company with the Listed Companies, provided that after the Executive's termination of employment the Listed Companies shall be limited to those effectively listed at the time of her termination and still on such list at the time of any alleged activity of the Executive, including, but not limited to, (i) soliciting customers, business or orders for, or selling any products and services in, Competition with the Company for such Listed Companies or (ii) diverting, enticing, or otherwise taking away customers, business or orders of the Company, or attempting to do so, in either case in Competition with the Company for such Listed Companies.

(b) The Executive agrees that if, while she is receiving severance pay from the Company pursuant to Section 6.2(b) or Section 6.3(b), the Executive: (i) violates (a) above, or (ii) otherwise engages in Competition in the Restricted Territory, whether or not with the Listed Companies, Section 9.6(b) hereof shall apply.

(c) The Executive agrees that the restrictions contained in this Section 9 are necessary for the protection of the business and goodwill of the Company because of the trade secrets within the Executive's knowledge and are considered by the Executive to be reasonable for such purpose.

9.2 Definitions.

(a) "Competition" shall mean engaging in, as an employee, director, partner, principal, shareholder, consultant, advisor, independent contractor or similar capacity, with (a) the Listed Companies or (b) in any business, activity or conduct which directly competes with the business of the Company, provided that, with regard to the period after termination of the Executive's employment, Section 9.1(b)(ii) shall only apply to business lines in which the Company is engaged both at the time of termination of employment and at the time of the determination and which during the last fiscal year ending prior to the date of such termination represented at least five percent (5%) of the Company's revenues (the "Prohibited Lines"). Notwithstanding anything else in this Section 9, Competition shall not include: (A) (i) holding five percent (5%) or less of an interest in the equity or debt of any publicly traded company, (ii) engaging in any activity with the prior written approval of the Chief Executive Officer or the O&C Committee, (iii) the practice of law in a law firm that represents entities in Competition with the Company, provided that the Executive does not personally represent such entities, or (iv) the employment by, or provision of services to, an investment banking firm or consulting firm that provides services to entities that are in Competition with the Company provided that the Executive does not personally represent or provide services to such entities that are Listed Companies or otherwise with regard to businesses in Competition with the Prohibited Lines, or (B) with regard to Section 9.1(b)(ii), (i) being employed by, or consulting for, a non-Competitive division or business unit of an entity which is in Competition with the Company (and participating in such entity's employee equity plans), (ii) being employed by, or consulting for, an entity which had annual revenues in the last fiscal year prior to the Executive being employed by, or consulting for, the entity generated through business lines in Competition with the Prohibited Lines of the Company that do not exceed five percent (5%) of such entity's total annual revenues, provided that revenues within the Executive's area of responsibility or authority are not more than ten percent (10%) composed of the revenues from the businesses in Competition with the Prohibited Lines, or (iii) any activities conducted after a Change in Control of the Company.

(b) The Restricted Territory shall mean any geographic area in which the Company with regard to the Prohibited Lines did more than nominal business.

(c) Listed Companies shall mean those entities which are within the "peer group" established by the Company for the performance graphs in its proxy statement pursuant to Item 402(1) of Regulation S-K under the Exchange Act and which are in a list of no more than five (5) entities established by the Company from time to time and available from the Chief Human Resources Officer, provided that the addition of any entity to the list shall not be effective until sixty (60) days after it is so listed.

(d) For purposes of this Section 9, "Company" shall mean the Company and its subsidiaries and affiliates.

9.3 Agreement Not to Engage in Certain Solicitation. The Executive agrees that the Executive will not, during the Executive's employment with the Company or during the two (2) year period thereafter, directly or indirectly, solicit or induce, or attempt to solicit or induce, any non-clerical employee(s), sales representative(s), agent(s), or consultant(s) of the Company to terminate such person's employment, representation or other association with the Company for the purpose of affiliating with any entity with which the Executive is associated ("Solicitation").

9.4 Confidential Information.

(a) The Executive specifically acknowledges that any trade secrets or confidential business and technical information of the Company or its vendors, suppliers or customers, whether reduced to writing, maintained on any form of electronic media, or maintained in mind or memory and whether compiled by the Executive or the Company (collectively, "Confidential Information"), derives independent economic value from not being readily known to or ascertainable by proper means by others; that reasonable efforts have been made by the Company to maintain the secrecy of such information; that such information is the sole property of the Company or its vendors, suppliers, or customers and that any retention, use or disclosure of such information by the Executive during the Employment Term (except in the course of performing duties and obligations of employment with the Company) or any time after termination thereof, shall constitute misappropriation of the trade secrets of the Company or its vendors, suppliers, or customers, provided that Confidential Information shall not include: (i) information that is at the time of disclosure public knowledge or generally known within the industry, (ii) information deemed in good faith by the Executive, while employed by the Company, desirable to disclose in the course of performing the Executive's duties, (iii) information the disclosure of which the Executive in good faith deems necessary in defense of the Executive's rights provided such disclosure by the Executive is limited to only disclose as necessary for such purpose, or (iv) information disclosed by the Executive to comply with a court, or other lawful compulsory, order compelling her to do so, provided the Executive gives the Company prompt notice of the receipt of such order and the disclosure by the Executive is limited to only disclosure necessary for such purpose.

(b) The Executive acknowledges that the Company from time to time may have agreements with other persons or with the United States Government, or agencies thereof, that impose obligations or restrictions on the Company regarding inventions made during the course of work under such agreements or regarding the confidential nature of such work. If the Executive's duties hereunder will require disclosures to be made to her subject to such obligations and restrictions, the Executive agrees to be bound by them.

9.5 Scope of Restrictions. If, at the time of enforcement of this Section 9, a court holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period, scope or geographical area reasonable under such circumstances shall be substituted for the stated period, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law.

9.6 Remedies.

(a) In the event of a material breach or threatened material breach of Section 9.1(a), Section 9.3, Section 9.4 or Section 9.10, the Company, in addition to its other remedies at law or in equity, shall be entitled to injunctive or other equitable relief in order to enforce or prevent any violations of the provisions of this Section 9. Except as specifically provided with regard to Listed Companies, the Company agrees that it will not assert to enjoin or otherwise limit the Executive's activities based on an argument of inevitable disclosure of confidential information.

(b) In the event Section 9.1(b) applies, the Company may immediately cease payment to the Executive of all future amounts due under Sections 6.2(a) or (b) or Sections 6.3(a) or (b), as well as otherwise specifically provided in any other plan, grant or program.

(c) Upon written request of the Executive, the Company shall within thirty (30) days notify the Executive in writing whether or not in good faith it believes any proposed activities would be in Competition and, if it so determines or does not reply within thirty (30) days, it shall be deemed to waive any right to treat such activities as Competition unless the facts are otherwise than as presented by the Executive or there is a change thereafter in such activities. The Executive shall promptly provide the Company with such information as it may reasonably request to evaluate whether or not such activities are in Competition.

9.7 Uniformity. In no event shall any definitions of Competition or Solicitation (or a similar provision) as it applies to the Executive with regard to any plan of program or grant of the Company be interpreted to be any broader than as set forth in this Section 9.

9.8 Delivery of Documents. Upon termination of this Agreement or at any other time upon request by the Company, the Executive shall promptly deliver to the Company all records, files, memoranda, notes, designs, data, reports, price lists, customer lists, drawings, plans, computer programs, software, software documentation, sketches, laboratory and research notebooks and other documents (and all copies or reproductions of such materials in her possession or control) belonging to the Company. Notwithstanding the foregoing, the Executive may retain her rolodex and similar phone directories (collectively, the "Rolodex") to the extent the Rolodex does not contain information other than name, address, telephone number and similar information, provided that, at the request of the Company, the Executive shall provide the Company with a copy of the Rolodex.

9.9 Nondisparagement.

(a) During the Employment Term and thereafter, the Executive shall not with willful intent to damage economically or as to reputation or vindictively disparage the Company, its subsidiaries or their respective past or present officers, directors or employees (the "Protected Group"), provided that the foregoing shall not apply to (i) actions or statements taken or made by the Executive while employed by the Company in good faith as fulfilling the Executive's duties with the Company or otherwise at the request of the Company, (ii) truthful statements made in compliance with legal process or governmental inquiry, (iii) as the Executive in good faith deems necessary to rebut any untrue or misleading public statements made about her or any other member of the Protected Group, (iv) statements made in good faith by the Executive to rebut untrue or misleading statements made about her or any other member of the Protected Group by any member of the Protected Group, and (v) normal commercial puffery in a competitive business situation. No member of the Protected Group shall be a third party beneficiary of this Section 9.9(a).

(b) During the Employment Term and thereafter, neither the Company officially nor any then member of the Executive Leadership Team (or the equivalent) of the Company, as such term is currently used within the Company, shall with willful intent to damage the Executive economically or as to reputation or otherwise vindictively disparage the Executive, provided the foregoing shall not apply to (i) actions or statements taken or made in good faith within the Company in fulfilling duties with the Company, (ii) truthful statements made in compliance with legal process, governmental inquiry or as required by legal filing or disclosure requirements, (iii) as in good faith deemed necessary to rebut any untrue or misleading statements by the Executive as to any member of the Protected Group or (iv) normal commercial puffery in a competitive business situation.

(c) In the event of a material breach or threatened material breach of clauses (a) or (b) above, the Company or the Executive, as the case may be, in addition to its or the Executive's other remedies at law or in equity, shall be entitled to injunctive or other equitable relief in order to enforce or prevent any violations of this Section 9.9.

9.10 Pooling of Interests. If the Company is involved in any proposed business combination that is contemplated to be accounted for as a pooling of interests, the Executive agrees to cooperate with the reasonable requests of the Company with regard to the exercise of stock options, the sale of Company stock or other matters that could affect the ability of the combination to be accounted for as a pooling of interests.

10. Liability Insurance

The Company shall cover the Executive under directors and officers liability insurance both during and, while potential liability exists, after the Employment Term in the same amount and to the same extent, if any, as the Company covers its other officers and directors.

11. Assignment

11.1 Assignment by the Company. This Agreement may and shall be assigned or transferred to, and shall be binding upon and shall inure to the benefit of, any successor of the Company, and any such successor shall be deemed substituted for all purposes of the "Company" under the terms of this Agreement. As used in this Agreement, the term "successor" shall mean any person, firm, corporation or business entity which at any time, whether by merger, purchase, or otherwise, acquires all or substantially all of the assets of the Company. Notwithstanding such assignment, the Company shall remain, with such successor, jointly and severally liable for all its obligations hereunder. Except as herein provided, this Agreement may not otherwise be assigned by the Company.

11.2 Assignment by the Executive. This Agreement is not assignable by the Executive. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, and administrators, successors, heirs, distributees, devisees, and legatees. If the Executive should die while any amounts payable to the Executive hereunder remain outstanding, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee, or other designee or, in the absence of such designee, to the Executive's estate.

12. Legal Remedies

12.1 Payment of Legal Fees. The Company shall pay the Executive's reasonable legal fees and costs associated with entering into this Agreement. To the fullest extent permitted by law, the Company shall promptly pay upon submission of statements all legal and other professional fees, costs of litigation, prejudgment interest, and other expenses incurred in connection with any dispute arising hereunder; provided, however, the Company shall be reimbursed by the Executive for (i) the fees and expenses advanced in the event the Executive's claim is in a material manner in bad faith or frivolous and the arbitrator or court, as applicable, determines that the reimbursement of such fees and expenses is appropriate, or (ii) to the extent that the arbitrator or court, as appropriate, determines that such legal and other professional fees are clearly and demonstrably unreasonable.

12.2 Arbitration. All disputes and controversies arising under or in connection with this Agreement, other than the seeking of injunctive or other equitable relief pursuant to Section 9 hereof, shall be settled by arbitration conducted before a panel of three (3) arbitrators sitting in New York City, New York, or such other location agreed by the parties hereto, in accordance with the rules for expedited resolution of commercial disputes of the American Arbitration Association then in effect. The determination of the majority of the arbitrators shall be final and binding on the parties. Judgment may be entered on the award of the arbitrator in any court having proper jurisdiction. All expenses of such arbitration, including the fees and expenses of the counsel of the Executive, shall be borne by the Company and the Executive shall be entitled to reimbursement of her expenses as provided in Section 12.1 hereof.

12.3 Notice. Any notices, requests, demands, or other communications provided for by this Agreement shall be sufficient if in writing and if delivered personally, sent by telecopier, sent by an overnight service or sent by registered or certified mail. Notice to the Executive not delivered personally (or by telecopy where the Executive is known to be) shall be sent to the last address on the books of the Company, and notice to the Company not delivered personally (or by telecopy to the known personal telecopy of the person it is being sent to) shall be sent to it at its principal office. All notices to the Company shall be delivered to the Chief Executive Officer with a copy to the senior legal officer. Delivery shall be deemed to occur on the earlier of actual receipt or tender and rejection by the intended recipient.

12.4 Continued Payments. In the event after a Change in Control either party files for arbitration to resolve any dispute as to whether a termination is for Cause or Good Reason, until such dispute is determined by the arbitrators, the Executive shall continue to be treated economically and benefit wise in the manner asserted by her in the arbitration effective as of the date of the filing of the arbitration, subject to the Executive promptly refunding any amounts paid to her, paying the cost of any benefits provided to her and paying to the Company the profits in any stock option or other equity awards exercised or otherwise realized by her during the pendency of the arbitration which she is ultimately held not to be entitled to; provided the arbitrators may terminate such payments and benefits in the event that they determine at any point that the Executive is intentionally delaying conclusion of the arbitration.

13. Miscellaneous

13.1 Entire Agreement. This Agreement, except to the extent specifically provided otherwise herein, supersedes any prior agreements or understandings, oral or written, between the parties hereto or between the Executive and the Company, with respect to the subject matter hereof and constitutes the entire Agreement of the parties with respect to the subject matter hereof. To the extent any severance plan or program of the Company that would apply to the Executive is more generous to the Executive than the provisions hereof, the Executive shall be entitled to any additional payments or benefits which are not duplicative, but shall otherwise not be eligible for such plan or program.

13.2 Modification. This Agreement shall not be varied, altered, modified, canceled, changed, or in any way amended, nor any provision hereof waived, except by mutual agreement of the parties in a written instrument executed by the parties hereto or their legal representatives.

13.3 Severability. In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect.

13.4 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

13.5 Tax Withholding. The Company may withhold from any benefits payable under this Agreement all federal, state, city, or other taxes as may be required pursuant to any law or governmental regulation or ruling.

13.6 Beneficiaries. The Executive may designate one or more persons or entities as the primary and/or contingent beneficiaries of any amounts to be received under this Agreement. Such designation must be in the form of a signed writing acceptable to the Board or the Board's designee. The Executive may make or change such designation at any time.

13.7 Representation. The Executive represents that the Executive's employment by the Company and the performance by the Executive of her obligations under this Agreement do not, and shall not, breach any agreement that obligates her to keep in confidence any trade secrets or confidential or proprietary information of her or of any other party, to write or consult to any other party or to refrain from competing, directly or indirectly, with the business of any other party. The Executive shall not disclose to the Company, and the Company shall not request that the Executive disclose, any trade secrets or confidential or proprietary information of any other party.

14. Governing Law

The provisions of this Agreement shall be construed and enforced in accordance with the laws of the state of Delaware, without regard to any otherwise applicable principles of conflicts of laws.

IN WITNESS WHEREOF, the Executive and the Company have executed this Agreement, as of the day and year first above written.

/s/Mary L. Howell
Mary L. Howell

TEXTRON INC.

By: /s/Terrence O'Donnell
Name: Terrence O'Donnell
Title: EVP, General Counsel

Exhibit A **Parachute Gross Up**

(a) In the event that the Executive shall become entitled to payments and/or benefits provided by this Agreement or any other amounts in the "nature of compensation" (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a change of ownership or effective control covered by Section 280G(b)(2) of the Code or any person affiliated with the Company or such person) as a result of such change in ownership or effective control (collectively the "Company Payments"), and such Company Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code (and any similar tax that may hereafter be imposed by any taxing authority) the Company shall pay to the Executive at the time specified in subsection (d) below an additional amount (the "Gross-up Payment") such that the net amount retained by the Executive, after deduction of any Excise Tax on the Company Payments and any U.S. federal, state, and for local income or payroll tax upon the Gross-up Payment provided for by this paragraph (a), but before deduction for any U.S. federal, state, and local income or payroll tax on the Company Payments, shall be equal to the Company Payments.

(b) For purposes of determining whether any of the Company Payments and Gross-up Payments (collectively the "Total Payments") will be subject to the Excise Tax and the amount of such Excise Tax, (x) the Total Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "parachute payments" in excess of the "base amount" (as defined under Code Section 280G(b)(3) of the Code) shall be treated as subject to the Excise Tax, unless and except to the extent that, in the opinion of the Company's independent certified public accountants appointed prior to any change in ownership (as defined under Code Section 280G(b)(2)) or tax counsel selected by such accountants (the "Accountants") such Total Payments (in whole or in part) either do not constitute "parachute payments," represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the "base amount" or are otherwise not subject to the Excise Tax, and (y) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Accountants in accordance with the principles of Section 280G of the Code.

(c) For purposes of determining the amount of the Gross-up Payment, the Executive shall be deemed to pay U.S. federal income taxes at the highest marginal rate of U.S. federal income taxation in the calendar year in which the Gross-up Payment is to be made and state and local

income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence for the calendar year in which the Company Payment is to be made, net of the maximum reduction in U.S. federal income taxes which could be obtained from deduction of such state and local taxes if paid in such year. In the event that the Excise Tax is subsequently determined by the Accountants to be less than the amount taken into account hereunder at the time the Gross-up Payment is made, the Executive shall repay to the Company, at the time that the amount of such reduction in Excise Tax is finally determined, the portion of the prior Gross-up Payment attributable to such reduction (plus the portion of the Gross-up Payment attributable to the Excise Tax and U.S. federal, state and local income tax imposed on the portion of the Gross-up Payment being repaid by the Executive if such repayment results in a reduction in Excise Tax or a U.S. federal, state and local income tax deduction), plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. Notwithstanding the foregoing, in the event any portion of the Gross-up Payment to be refunded to the Company has been paid to any U.S. federal, state and local tax authority, repayment thereof (and related amounts) shall not be required until actual refund or credit of such portion has been made to the Executive, and interest payable to the Company shall not exceed the interest received or credited to the Executive by such tax authority for the period it held such portion. The Executive and the Company shall mutually agree upon the course of action to be pursued (and the method of allocating the expense thereof) if the Executive's claim for refund or credit is denied.

In the event that the Excise Tax is later determined by the Accountant or the Internal Revenue Service to exceed the amount taken into account hereunder at the time the Gross-up Payment is made (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-up Payment), the Company shall make an additional Gross-up Payment in respect of such excess (plus any interest or penalties payable with respect to such excess) at the time that the amount of such excess is finally determined.

(d) The Gross-up Payment or portion thereof provided for in subsection (c) above shall be paid not later than the thirtieth (30th) day following an event occurring which subjects the Executive to the Excise Tax; provided, however, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Accountant, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), subject to further payments pursuant to subsection (c) hereof, as soon as the amount thereof can reasonably be determined, but in no event later than the ninetieth day after the occurrence of the event subjecting the Executive to the Excise Tax. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

(e) In the event of any controversy with the Internal Revenue Service (or other taxing authority) with regard to the Excise Tax, the Executive shall permit the Company to control issues related to the Excise Tax (at its expense), provided that such issues do not potentially materially adversely affect the Executive, but the Executive shall control any other issues. In the event the issues are interrelated, the Executive and the Company shall in good faith cooperate so as not to jeopardize resolution of either issue, but if the parties cannot agree the Executive shall make the final determination with regard to the issues. In the event of any conference with any taxing authority as to the Excise Tax or associated income taxes, the Executive shall permit the representative of the Company to accompany the Executive, and the Executive and the Executive's representative shall cooperate with the Company and its representative.

(f) The Company shall be responsible for all charges of the Accountant.

(g) The Company and the Executive shall promptly deliver to each other copies of any written communications, and summaries of any verbal communications, with any taxing authority regarding the Excise Tax covered by this Exhibit B.

AMENDED AND RESTATED

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT, is entered into as of this 4th day of May, 2006 by and between Textron Inc. (the "Company"), a Delaware corporation having its principal office at 40 Westminister Street, Providence, Rhode Island 02903 and John D. Butler (the "Executive").

WITNESSETH:

WHEREAS, the Executive is presently employed by the Company;

WHEREAS, the Company desires to continue to employ the Executive and the Executive is willing to continue to be employed by the Company;

WHEREAS, the Company and the Executive entered into an employment agreement as of July 23, 1998 (the "Employment Agreement"); and

WHEREAS, the Company and the Executive desire to set forth the terms and conditions of such continued employment in this Amended and Restated Employment Agreement (the "Agreement").

NOW THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements of the parties set forth in this Agreement, and of other good and valuable consideration, the adequacy and receipt of which is acknowledged, the parties hereto agree as follows:

1. *Term of Employment*

The Company hereby agrees to continue to employ the Executive and the Executive hereby accepts continued employment, in accordance with the terms and conditions set forth herein, for a term (the "Employment Term") commencing on the date hereof (the "Effective Date") and terminating, unless otherwise terminated earlier in accordance with Section 5 hereof, on the third anniversary of the Effective Date (the "Original Employment Term"), provided that the Employment Term shall be automatically extended, subject to earlier termination as provided in Section 5 hereof, for successive additional one (1) year periods (the "Additional Terms"), unless, at least ninety (90) days prior to the end of the Original Employment Term or the then Additional Term, the Company or the Executive has notified the other in writing that the Employment Term shall terminate at the end of the then current term.

2. *Position and Responsibilities*

During the Employment Term, the Executive shall serve as the Executive Vice President and Chief Human Resources Officer of the Company or in such higher capacity as agreed by the Company and the Executive. The Executive shall report exclusively to the Chief Executive Officer and the Board of Directors of the Company (the "Board"). The Executive shall, to the extent appointed or elected, serve on the Board as a director and as a member of any committee of the Board, in each case, without additional compensation. The Executive shall, to the extent appointed or elected, serve as a director or as a member of any committee of the board (or the equivalent bodies in a non-corporate subsidiary or affiliate) of any of the Company's subsidiaries or affiliates and as an officer or employee (in a capacity commensurate with his position with the Company) of any such subsidiaries or affiliates, in all cases, without additional compensation or benefits and any compensation paid to the Executive, or benefits provided to the Executive, in such capacities shall be a credit with regard to the amounts due hereunder from the Company. The Executive 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 the By-laws of the Company and the organizational structure of the Company. The Executive shall devote substantially all of his business time, attention and energies to the performance of his duties hereunder, provided the foregoing will not prevent the Executive from participating in charitable, community or industry affairs, from managing his and his family's personal passive investments, and (with the consent of the Chief Executive Officer or the Organization and Compensation Committee (or its successor) of the Board (the "O&C Committee"), which consent will not be unreasonably withheld, conditioned or delayed) serving on the board of directors of other companies, provided that these activities do not materially interfere with the performance of his duties hereunder or create a potential business conflict or the appearance thereof. The Company has consented to the Executive's services on the boards of directors, if any, on which the Executive currently serves, which boards the Executive has disclosed in writing to the O&C Committee. The Executive may retain any compensation or benefits received as a result of consented to service as a director of entities not related to the Company.

3. *Compensation and Benefits*

During the Employment Term, the Company shall pay and provide the Executive the following:

3.1 **Base Salary.** The Company shall pay the Executive a base salary (the "Base Salary") in an amount which shall be established from time to time by the O&C Committee (or as otherwise designated by the Board), provided, however, that such base salary rate shall not be less than his current rate of base salary. Base Salary shall be paid to the Executive in accordance with the Company's normal payroll practices for executives. Base Salary shall be reviewed at least annually to ascertain whether, in the judgment of the reviewing committee, such Base Salary should be increased. If so increased, Base Salary shall not be thereafter decreased and shall thereafter, as increased, be the Base Salary hereunder.

3.2 **Annual Bonus.** The Company shall provide the Executive with the opportunity to earn an annual cash bonus under the Company's current annual incentive compensation plan for executives or a replacement plan therefor at a level commensurate with his position, provided that the minimum annual target award payable upon the achievement of reasonably attainable objective performance goals shall be at least fifty percent (50%) of Base Salary.

3.3 **Long-Term Incentives.** The Company shall provide the Executive the opportunity to earn long-term incentive awards under the current equity and cash based plans and programs or replacements therefor at a level commensurate with the current aggregate opportunity being provided to the Executive.

3.4 **Employee Benefits.** The Executive shall, to the extent eligible, be entitled to participate at a level commensurate with his position in all employee benefit welfare and retirement plans and programs, as well as equity plans, generally provided by the Company to its senior executives in accordance with the terms thereof as in effect from time to time. Such plans and programs currently include, without limitation, the Amended and Restated Supplemental Retirement Plan for Tectra Inc. Key Executives (the "SERP"), the 1994 Long-Term Incentive Plan, the Key Executive Program (including the Deferred Income Plan, the Supplemental Benefits Plan (the "SBP") and the Survivor Benefit Plan), group term life insurance plan, comprehensive health, major medical, vision and dental insurance plans and short-term and long-term disability plans. Notwithstanding anything in the SERP, Performance Share Units granted after 2005 shall not be considered when determining the benefit under the SERP.

3.5 **Vacation.** The Executive shall be entitled to paid vacation in accordance with the standard written policies of the Company with regard to vacations of executives, but in no event less than four (4) weeks per calendar year.

3.6 **Perquisites.** The Company shall provide to the Executive, at the Company's cost, all perquisites to which other senior executives of the Company are generally entitled to receive and such other perquisites which are suitable to the character of the Executive's position with the Company and adequate for the performance of his duties hereunder but not less than the level being provided on the date hereof except as otherwise required because of changes in law. To the extent legally permissible, the Company shall not treat such amounts as income to the Executive.

3.7 **Right to Change Plans.** The Company shall not be obligated by reason of this Section 3 to institute, maintain, or refrain from changing, amending, or discontinuing any benefit plan, program, or perquisite, so long as such changes are similarly applicable to executive employees generally and provided that the benefits or additional credit specifically as set forth in Section 3.8 below shall not be diminished.

4. Expenses

Upon submission of appropriate documentation, in accordance with its policies in effect from time to time, the Company shall pay, or reimburse, the Executive for all ordinary and necessary expenses, in a reasonable amount, which the Executive incurs in performing his duties under this Agreement including, but not limited to, travel, entertainment, professional dues and subscriptions, and all dues, fees, and expenses associated with membership in various professional, business, and civic associations and societies in which the Executive participates in accordance with the Company's policies in effect from time to time.

5. Termination of Employment

The Executive's employment with the Company (including but not limited to any subsidiary or affiliate or the Company) and the Employment Term shall terminate upon the occurrence of the first of the following events:

(a) Automatically on the date of the Executive's death.

(b) Upon thirty (30) days' written notice by the Company to the Executive of a termination due to Disability, provided such notice is delivered during the period of Disability. The term "Disability" shall mean, for purposes of this Agreement, the inability of the Executive, due to injury, illness, disease or bodily or mental infirmity, to engage in the performance of his material duties of employment with the Company as contemplated by Section 2 herein for a period of more than one hundred eighty (180) consecutive days or for a period that is reasonably expected to exist for a period of more than one hundred eighty (180) consecutive days, provided that interim returns to work of less than ten (10) consecutive business days in duration shall not be deemed to interfere with a determination of consecutive absent days if the reason for absence before and after the interim return are the same. The existence or non-existence of a Disability shall be determined by a physician agreed upon in good faith by the Executive (or his representatives) and the Company. It is expressly understood that the Disability of the Executive for a period of one hundred eighty (180) consecutive days or less shall not constitute a failure by him to perform his duties hereunder and shall not be deemed a breach or default and the Executive shall receive full compensation for any such period of Disability or for any other temporary illness or incapacity during the term of this Agreement.

(c) Immediately upon written notice by the Company to the Executive of a termination due to his retirement at or after the Executive's attainment of age sixty-five (65).

(d) Immediately upon written notice by the Company to the Executive of a termination for Cause, provided such notice is given within ninety (90) days after the discovery by the Board or the Chief Executive Officer of the Cause event and has been approved by the O&C Committee 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 Agreement: (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 the Company; (ii) any willful misconduct by the Executive with regard to the Company, its business, assets or employees that has, or was intended to have, a material adverse impact (economic or otherwise) on the Company; (iii) any material, willful and knowing violation by the Executive of (x) the Company's Business Conduct Guidelines, or (y) any of his fiduciary duties to the Company which in either case has, or was intended to have, a material adverse impact (economic or otherwise) on the Company; (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 the Company; (v) the Executive's willful failure to attempt to perform his duties under Section 2 hereof 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 the Company specifying the details thereof; (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)); or (vii) any other material breach by the Executive of this Agreement that is not cured by the Executive within twenty (20) days after receipt by the Executive of a written notice from the Company of such breach specifying the details thereof. 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 the Company. Reference in this paragraph (d) to the Company shall also include direct and indirect subsidiaries of the Company, and materiality and material adverse impact shall be measured based on the action or inaction and the impact upon, and not the size of, the Company taken as a whole, provided that after a Change in Control, the size of the Company, taken as a whole, shall be a relevant factor in determining materiality and material adverse impact.

(e) Upon written notice by the Company to the Executive of an involuntary termination without Cause. A notice by the Company of non-renewal of the Employment Term pursuant to Section 1 above shall be deemed an involuntary termination of the Executive by the Company without Cause as of the end of the Employment Term, but the Executive may terminate at any time after the receipt of such notice and shall be treated as if he was terminated without Cause as of such date.

(f) Upon twenty (20) days' written notice by the Executive to the Company 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 Agreement, 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 (including but not limited to as a member of the Management Committee or any functional replacement thereof), reporting lines or a material reduction (other than temporarily while Disabled or otherwise incapacitated) in his then status, authorities, duties, or responsibilities or, if then a director of the Company, failure to be nominated or reelected as a director of the Company or removal as such; (ii) relocation of the Executive from the principal office of the Company (excluding reasonable travel on the Company's business to an extent substantially consistent with the Executive's business obligations) or relocation of the principal office of the Company to a location which is at least fifty (50) miles from the Company'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 the Company in the Executive's Base Salary; (iv) a reduction in the Executive's aggregate level of participation in any of the Company'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 the Effective Date, or, after a Change in Control, participated immediately prior to the Change in Control; (v) the failure of the Company to obtain and deliver to the Executive a satisfactory written agreement from any successor to the Company to assume and agree to perform this Agreement; or (vi) any other material breach by the Company of this Agreement. The Executive waives as a Good Reason event the change in the SERP made by the last sentence of Section 3.4 hereof.

(g) Upon written notice by the Executive to the Company of the Executive's voluntary termination of employment without Good Reason (which the Company may, in its sole discretion, make effective earlier than any notice date). A notice by the Executive of non-renewal of the Employment Term pursuant to Section 1 above shall be deemed a voluntary termination by the Executive without Good Reason as of the end of the Employment Term.

6. Consequences of a Termination of Employment

6.1 Termination Due to Death or Retirement. If the Employment Term ends on account of the Executive's termination due to death pursuant to Section 5(a) above or retirement pursuant to Section 5(c) above, the Executive (or the Executive's surviving spouse, or other beneficiary as so designated by the Executive during his lifetime, or to the Executive's estate, as appropriate) shall be entitled, in lieu of any other payments or benefits, subject to Section 7(e), to (i) payment promptly of any unpaid Base Salary, unpaid annual incentive compensation (for the preceding fiscal year) and any accrued vacation, (ii) reimbursement for any unreimbursed business expenses incurred prior to the date of termination, and (iii) any amounts, benefits or fringes due under any equity, benefit or fringe plan, grant or program in accordance with the terms of said plan, grant or program but without duplication (collectively, the "Accrued Obligations"). In addition, in the event the termination

is as a result of Executive's death, the early retirement factor under Section 2.03 of the SERP shall be one hundred percent (100%) and the age requirement in Section 2.05 of the SERP shall not apply and a death benefit shall be paid in accordance with such Section in all instances.

6.2 Termination Due To Disability. If the Employment Term ends as a result of Disability pursuant to Section 5(b) above, the Executive shall be entitled, in lieu of any other payments or benefits, subject to Section 7(b) and Section 7(e) hereof, to any Accrued Obligations and the following:

(a) Payment, during January of the calendar year following the date of the Executive's termination, of an amount equal to three hundred percent (300%) of the Executive's target annual incentive compensation award established for the fiscal year during which the Executive's termination occurs (the "Termination Year Target Bonus").

(b) Continued monthly payment for two and one half (2 1/2) years of an amount equal to the Executive's monthly Base Salary rate reduced by any disability benefits received by the Executive under the Company's long term disability plan for the corresponding period.

(c) Payments and benefits as set forth in Section 6.3(c)-(j) hereof.

(d) The Executive shall be deemed to have satisfied the definition of "total disability" under the 1994 Long-Term Incentive Plan or the equivalent definition under any successor plan thereto.

(e) The Executive's early retirement factor under Section 2.03 of the Company's SERP shall be one hundred percent (100%) (i.e. providing a fifty percent (50%) of Final Average Compensation benefit) under the Company's SERP, provided that the benefits payable under the SERP that are in excess of the benefits that the Executive would receive thereunder without such increased early retirement factor shall not commence to be paid until two and one half (2 1/2) years after the date of the termination of employment.

6.3 Involuntary Termination by the Company Without Cause or Termination by the Executive for Good Reason. If the Executive is involuntarily terminated by the Company without Cause in accordance with Section 5(e) above or the Executive terminates his employment for Good Reason in accordance with Section 5(f) above, the Executive shall be entitled, in lieu of any other payments or benefits, subject to Section 7(b) hereof, to any Accrued Obligations and the following:

(a) Payment, during January of the calendar year following the date of the Executive's termination, of an amount equal to the Executive's Termination Year Target Bonus multiplied by a fraction, the numerator of which is the number of days during the fiscal year of the Executive's termination that the Executive was employed by the Company and the denominator is three hundred sixty-five (365), provided that in no event shall such payment exceed fifty percent (50%) of the Termination Year Target Bonus.

(b) Continued payment off payroll for two and one-half (2 1/2) years (in approximately equal monthly installments) of an amount equal to two and one-half (2 1/2) times the sum of: (i) the Executive's Base Salary, and (ii) the greater of: (x) the Termination Year Target Bonus, or (y) the Executive's highest annual incentive compensation award earned during the last three (3) fiscal years ending prior to the fiscal year of termination (whether or not deferred) (the sum of (i) and (ii) being hereinafter referred to as "Final Annual Compensation").

(c) To the extent eligible at such time or, if the Executive would be eligible with credit for an additional two and one half (2 1/2) years of age and service credit, coverage under all applicable retiree health and other retiree welfare plans for the Executive and his dependents (including, if he is only eligible because of the extra age and service credit, an adjustment, to the extent necessary, to put the Executive in the same after-tax position as if he had been eligible for such coverage) and, if not eligible for continued health coverage under the retiree health plan, payment of the Executive's and Executive's eligible dependents' COBRA continuation health coverage premiums for the Company's health insurance plan that generally applies to senior executives for the two and one-half (2 1/2) year period following the date of termination or, if earlier, until the Executive and Executive's dependents cease to be eligible for such coverage, provided that, if COBRA coverage cannot be provided for the full period, any excess period shall be covered under (d) below (and further provided that, if such premiums are taxable to the Executive, an adjustment such that the Executive has no after tax cost for the providing of such COBRA coverage).

(d) To the extent eligible on the date of termination, continued participation, at no additional after tax cost to the Executive than the Executive would have as an employee, in all welfare plans (other than medical plans covered under (c) above), until two and one-half (2 1/2) years after the date of termination; provided, however, that in the event the Executive obtains other employment that offers substantially similar or improved benefits, as to any particular welfare plan, such continuation of coverage by the Company for such benefits under such plan shall immediately cease. To the extent such coverage cannot be provided under the Company's welfare benefit plans without jeopardizing the tax status of such plans, for underwriting reasons or because of the tax impact on the Executive, the Company shall pay the Executive an amount such that the Executive can purchase such benefits separately at no greater after tax cost to the Executive than the Executive would have had if the benefits were provided to the Executive as an employee.

(e) Two and one-half (2 1/2) additional years of service (including age as if such service was completed) and compensation credit (at the Executive's "Then Compensation Level") for benefit purposes under any defined benefit type retirement plan, including but not limited to the SERP and the SBP if then in effect, and, if the Executive is not eligible to receive benefits under any such plan on the date of termination, two and one-half (2 1/2) additional years of age for determining eligibility to receive such benefits, provided that benefits under any such plan will not commence until the Executive actually attains the required distribution age under the plan or the Executive's spouse qualifies for death benefits under such plan and further provided that, with regard to any plan qualified under Section 401(a) of the Internal Revenue Code of

1986, as amended (the "Code"), the additional amounts may be provided on a nonqualified plan basis. In addition, and notwithstanding the foregoing, with regard to the SERP the Executive's early retirement factor under Section 2.03 shall be one hundred percent (100%) (i.e. providing a fifty percent (50%) of Final Average Compensation benefit) upon such termination of employment, provided that the benefits payable under the SERP that are in excess of the benefits that would be received thereunder without the increased early retirement factor provided for in this sentence shall not commence to be paid until two and one-half (2 1/2) years after such termination of employment and all benefits under the SERP (which have not yet then commenced to be paid) shall be paid at such time notwithstanding the proviso in the prior sentence. "Then Compensation Level" shall mean an annual rate of compensation equal to the sum of (i) Final Annual Compensation and (ii) the performance units and performance share units earned with respect to the measurement periods ending at or about the end the fiscal year immediately preceding the year of termination (to the extent recognized in the definition of "Compensation" under the applicable plan; in the case of the SERP as provided in Section 3.4 above such that no amounts deemed earned in respect of performance share units in 2008 (i.e. any grant after the 2005 grant) or later years shall be included in Compensation for purposes of the SERP); provided, however, that with respect to the year of termination, in lieu of utilization of the amount in clause (ii) above, the Executive will be deemed to have received in the year of termination the full amount of performance units and performance share units earned with regard to the measuring periods ending on or about the end of the fiscal year immediately preceding the year of termination (whether or not such amount is actually paid to the Executive prior to the date of termination); provided, further, that, other than as set forth in the immediately preceding proviso, the amounts described in clause (ii) above shall be included in "Compensation" under the plans referred to in this Section 6.3(e) in lieu of any amounts actually paid to the Executive in respect of performance units and performance share units in the year of termination and thereafter.

(f) Payment promptly after termination of two and one-half (2 1/2) times the amount of the maximum Company annual contribution or match to any defined contribution type plan in which the Executive participates.

(g) Immediate full vesting of any outstanding stock options that would vest within two and one half (2 1/2) years after such termination of employment as if the Executive had continued employment for such two and one half (2 1/2) year period, to the extent permitted under the plan or grant, or if such vesting is not permitted, a cash payment equal to the difference between the fair market value of the shares covered by the unvested options and the exercise price of such unvested options (the "Spread") on the date of termination, and, in both cases, to the extent such options are exercisable for less than two and three quarters (2 3/4) years after termination (or, if less, the remainder of the respective terms), a cash payment equal to the Black-Scholes (based on the same methodology used for the Company's then latest distributed proxy statement or, if not so used, for internal valuation of the last stock option grants made by the Company prior to the termination) future value of such options for the lesser of two and three quarters (2 3/4) years or the remainder of such terms (any such payments shall be made promptly after such termination). The terms of the Executive's outstanding options are deemed to be modified to the extent required by this Section 6.3 (g).

(h) Payment when it would otherwise be paid in accordance with the 1994 Long-Term Incentive Plan of any amount due with regard to performance share units outstanding on the date of termination to the extent permitted under such plan, plus, outside of such plan, when it would otherwise have been paid, an amount equal to the amount the Executive would have received with regard to any performance share units outstanding at the time of termination that could not be so paid. For purposes of calculating the foregoing amounts, all discretionary performance targets relating to the Executive's individual performance will be deemed to be fully achieved and the actual level of achievement of all financial performance targets will be determined as if the Executive continued to be employed through the end of the applicable measuring period.

(i) Immediate full vesting of the Executive's accounts under the Deferred Income Plan, and to the extent not permitted under such plan, a cash payment outside of the plan equal to the value of the amount that would have vested under the plan.

(j) Continuation of participation for two and one-half (2 1/2) additional years in the Company's programs with regard to tax preparation assistance and financial planning assistance, club dues and automobile (but based on the automobile then being used and no new one), in accordance with the Company's programs in effect at the time of the termination.

6.4 Termination by the Company for Cause or Termination by the Executive without Good Reason. If the Executive is terminated by the Company for Cause or the Executive terminates his employment without Good Reason, the Executive shall be entitled to receive all Accrued Obligations.

7. No Mitigation/No Offset/Release

(a) In the event of any termination of employment hereunder, the Executive shall be under no obligation to seek other employment and there shall be no offset against any amounts due the Executive under this Agreement on account of any remuneration attributable to any subsequent employment that the Executive may obtain. The amounts payable hereunder shall not be subject to setoff, counterclaim, recoupment, defense or other right which the Company may have against the Executive or others, except as specifically set forth in Section 9 hereof or upon obtaining by the Company of a final unappealable judgment against the Executive.

(b) Any amounts payable and benefits or additional rights provided pursuant to Section 6.2 (other than Section 6.2(e)), Section 6.3 (other than Section 6.3(k)) and Section 8.1 (other than Section 8.1(m)) beyond Accrued Obligations and amounts or rights due under law, and, in the case of Section 6.3 and Section 8.1, beyond the sum of any amounts due (without execution of a release) under the Company severance program then in effect, or, if greater, three (3) months Base Salary as severance, shall only be payable if the Executive delivers to the Company a release of all claims of the Executive (other than those specifically payable or providable hereunder on or upon the applicable type of termination and any rights of indemnification under the Company's organizational documents) with regard to the Company, its subsidiaries and related entities and their respective past or present officers, directors and employees in such form as reasonably requested by the Company.

(c) Upon any termination of employment, upon the request of the Company, the Executive shall deliver to the Company a resignation from all offices and directorships and fiduciary positions of the Executive in which the Executive is serving with, or at the request of, the Company or its subsidiaries, affiliates or benefit plans.

(d) The amounts and benefits provided under Sections 6 and 8 hereof are intended to be inclusive and not duplicative of the amounts and benefits due under the Company's employee benefit plans and programs to the extent they are duplicative.

(e) The intent of the parties is that all payments hereunder shall be in accordance with Section 409A of the Internal Revenue Code ("Section 409A") and this Agreement shall be interpreted accordingly. The parties shall modify this Agreement as necessary to assure such compliance. To the extent that the Executive is a "Specified Employee," within the meaning of Section 409A, any payments paid as a result of separation from service (within the meaning of Section 409A), other than upon death, shall not be paid until the earlier of six (6) months after such separation from service and Executive's death (the "Delay Period") and all payments that otherwise become due during such Delay Period shall be promptly paid in a lump sum after it has expired. Furthermore in such situation, to the extent required by Section 409A, the Executive shall pay the premiums of all benefits to be provided during the Delay Period and shall promptly after the end of the Delay Period be reimbursed by the Company therefor.

8. Change in Control

8.1 Employment Termination in Connection with a Change in Control. In the event of a Qualifying Termination (as defined below) during the period commencing one-hundred eighty (180) days prior to the effective date of a Change in Control and terminating on the second anniversary of the effective date of a Change in Control (the "Change in Control Protection Period"), then in lieu of the benefits provided to the Executive under Section 6.3 of this Agreement, subject to Section 7(e), the Company shall pay the Executive the following amounts within (except as otherwise provided) thirty (30) business days of the Qualifying Termination (or, if later, the effective date of the Change in Control; in which case any amounts or benefits previously paid pursuant to Section 6 shall be setoff against those under this Section 8) and provide the following benefits:

(a) Any Accrued Obligations.

(b) A lump-sum cash payment equal to three (3) times the highest rate of the Executive's Base Salary rate in effect at any time up to and including the date of the Executive's termination.

(c) A lump-sum cash payment equal to the Prorated Portion (as determined in the next sentence) of the greater of: (i) the Executive's Termination Year Target Bonus or (ii) the Executive's earned annual incentive award for the fiscal year prior to the fiscal year in which the earlier of the Change in Control or the Qualifying Termination occurs (whether or not deferred). The "Prorated Portion" of the foregoing amount shall be determined by multiplying such amount by a fraction, the numerator of which is the number of days during the fiscal year of termination that the Executive is employed by the Company, and the denominator of which is, three hundred sixty-five (365).

(d) A lump-sum cash payment equal to three (3) times the greater of: (i) the Executive's highest annual incentive compensation earned over the three (3) fiscal years ending prior to the earlier of the Change in Control or the Qualifying Termination (whether or not deferred); or (ii) the Executive's target incentive compensation established for the fiscal year in which the Executive's date of termination occurs.

(e) To the extent the Executive is eligible, was eligible prior or after the Change in Control (or, if earlier, the Qualifying Termination) or if the Executive would be eligible with credit for an additional three (3) years of age and service credit, coverage under all applicable retiree health and other retiree welfare plans for the Executive and the Executive's eligible dependents (including an adjustment to the extent necessary to put the Executive on the same after tax basis as if the Executive had been eligible for such coverage).

(f) To the extent eligible prior or after the Change in Control (or, if earlier, the Qualifying Termination), continued participation, (coordinated with (e) above to the extent duplicative), at no additional after tax cost to the Executive than the Executive would have as an employee, in all welfare plans, until three (3) years after the date of termination, provided, however, that in the event the Executive obtains other employment that offers substantially similar or improved benefits, as to any particular welfare plan, such continuation of coverage by the Company for such similar or improved benefit under such plan shall immediately cease. To the extent such coverage cannot be provided under the Company's welfare benefit plans without jeopardizing the tax status of such plans, for underwriting reasons or because of the tax impact on the Executive, the Company shall pay the Executive an amount such that the Executive can purchase such benefits separately at no greater after tax cost to him than he would have had if the benefits were provided to him as an employee.

(g) A lump-sum cash payment of the actuarial present value equivalent (as determined in accordance with the most favorable (to the Executive) overall actuarial assumptions and subsidies in any of the Company's tax-qualified or nonqualified type defined benefit pension plans in which the Executive then participates) of the accrued benefits accrued by the Executive as of the date of termination under the terms of any nonqualified defined benefit type retirement plan, including but not limited to, the SERP and the SBP, and assuming the benefit was fully vested (and commenced immediately on such termination) without regard to any minimum age or service requirements. For this purpose, such benefits shall be calculated with an early retirement factor under Section 2.03 of the SERP of one hundred percent (100%) and under the assumption that the Executive's employment continued following the date of termination for three (3) full years (i.e., three (3) additional years of age (including, but not limited to, for purposes of determining the actuarial present value, but not the commencement date of benefits for calculation purposes (all of which shall be deemed to commence on the date of termination)), compensation (at the Executive's Then Compensation Level) and service credits shall be added).

(h) Three (3) times the amount of the maximum Company contribution or match to any defined contribution type plan in which the Executive participates.

(i) A lump-sum cash payment of the product of (i) the Interest Factor (as determined in the next sentence) multiplied by (ii) the Executive's entire account balance under the Deferred Income Plan (or any replacement thereof), plus an additional amount equal to three (3) times the match which the Company made for the Executive to such plan for the fiscal year ending immediately prior to the earlier of the Change in Control or the Qualifying Termination. The "Interest Factor" shall be equal to one (1) plus three (3) times the rate of earnings of the Executive's account under such plan for the fiscal year ending immediately prior to his termination.

(j) Immediate full vesting of any outstanding stock options, performance share units (at maximum level) and other equity awards (and lapse of any forfeiture provisions) to the extent permitted under the plan or grant, or if full vesting is not permitted with regard to stock options, a cash payment equal to the Spread on such unvested options on the date of termination (or, if later, the date of the Change in Control) plus, in both cases, if options are exercisable for less than three (3) years after termination (or, if less, the remainder of the respective terms, including any termination of exercisability of all Company stock options in connection with the Change in Control or a merger related thereto), a cash payment equal to the Black-Scholes (based on the same methodology used for the Company's then latest distributed proxy statement or, if not so used, for internal valuation of the last stock option grants made by the Company prior to the earlier of the Qualifying Termination or the Change in Control) future value of such outstanding options for the lesser of three (3) years or the remainder of such terms.

(k) Outplacement services at a level commensurate with the Executive's position, including use of an executive office and secretary, for a period of one (1) year commencing on the date of termination but in no event extending beyond the date on which the Executive commences other full time employment.

(l) Continuation of participation for three (3) additional years in the Company's programs with regard to tax preparation assistance and financial planning assistance, club dues and automobile (but based on the automobile then being used and no new one), in accordance with the Company's programs in effect at the time of the Change in Control.

For purposes of this Section 8, a Qualifying Termination shall mean any termination of the Executive's employment (i) by the Company without Cause, or (ii) by the Executive for Good Reason.

8.2 Definition of "Change in Control." A Change in Control of 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.

8.3 Excise Tax Equalization Payment. In the event that the Executive becomes entitled to payments and/or benefits which would constitute "parachute payments" within the meaning of Section 280G(b)(2) of the Code, the provisions of Exhibit A will apply.

9. *Noncompetition, Confidentiality and Nondisparagement*

9.1 Agreement Not to Compete.

(a) The Executive agrees that for a period of two (2) years after the termination of the Executive's employment, the Executive will not engage in Competition with the Company with the Listed Companies, provided that after the Executive's termination of employment the Listed Companies shall be limited to those effectively listed at the time of his termination and still on such list at the time of any alleged activity of the Executive, including, but not limited to, (i) soliciting customers, business or orders for, or selling any products and services in, Competition with the Company for such Listed Companies or (ii) diverting, enticing, or otherwise taking away customers, business or orders of the Company, or attempting to do so, in either case in Competition with the Company for such Listed Companies.

(b) The Executive agrees that if, while he is receiving severance pay from the Company pursuant to Section 6.2(b) or Section 6.3(b), the Executive: (i) violates (a) above, or (ii) otherwise engages in Competition in the Restricted Territory, whether or not with the Listed Companies, Section 9.6(b) hereof shall apply.

(c) The Executive agrees that the restrictions contained in this Section 9 are necessary for the protection of the business and goodwill of the Company because of the trade secrets within the Executive's knowledge and are considered by the Executive to be reasonable for such purpose.

9.2 Definitions.

(a) "Competition" shall mean engaging in, as an employee, director, partner, principal, shareholder, consultant, advisor, independent contractor or similar capacity, with (a) the Listed Companies or (b) in any business, activity or conduct which directly competes with the business of the Company, provided that, with regard to the period after termination of the Executive's employment, Section 9.1(b)(ii) shall only apply to business lines in which the Company is engaged both at the time of termination of employment and at the time of the determination and which during the last fiscal year ending prior to the date of such termination represented at least five percent (5%) of the Company's revenues (the "Prohibited Lines"). Notwithstanding anything else in this Section 9, Competition shall not include: (A) (i) holding five percent (5%) or less of an interest in the equity or debt of any publicly traded company, (ii) engaging in any activity with the prior written approval of the Chief Executive Officer or the O&C Committee, (iii) the practice of law in a law firm that represents entities in Competition with the Company, provided that the Executive does not personally represent such entities, or (iv) the employment by, or provision of services to, an investment banking firm or consulting firm that provides services to entities that are in Competition with the Company provided that the Executive does not personally represent or provide services to such entities that are Listed Companies or otherwise with regard to businesses in Competition with the Prohibited Lines, or (B) with regard to Section 9.1(b)(ii), (i) being employed by, or consulting for, a non-Competitive division or business unit of an entity which is in Competition with the Company (and participating in such entity's employee equity plans), (ii) being employed by, or consulting for, an entity which had annual revenues in the last fiscal year prior to the Executive being employed by, or consulting for, the entity generated through business lines in Competition with the Prohibited Lines of the Company that do not exceed five percent (5%) of such entity's total annual revenues, provided that revenues within the Executive's area of responsibility or authority are not more than ten percent (10%) composed of the revenues from the businesses in Competition with the Prohibited Lines, or (iii) any activities conducted after a Change in Control of the Company.

(b) The Restricted Territory shall mean any geographic area in which the Company with regard to the Prohibited Lines did more than nominal business.

(c) Listed Companies shall mean those entities which are within the "peer group" established by the Company for the performance graphs in its proxy statement pursuant to Item 402(l) of Regulation S-K under the Exchange Act and which are in a list of no more than five (5) entities established by the Company from time to time and available from the Chief Human Resources Officer, provided that the addition of any entity to the list shall not be effective until sixty (60) days after it is so listed.

(d) For purposes of this Section 9, "Company" shall mean the Company and its subsidiaries and affiliates.

9.3 Agreement Not to Engage in Certain Solicitation. The Executive agrees that the Executive will not, during the Executive's employment with the Company or during the two (2) year period thereafter, directly or indirectly, solicit or induce, or attempt to solicit or induce, any non-clerical employee(s), sales representative(s), agent(s), or consultant(s) of the Company to terminate such person's employment, representation or other association with the Company for the purpose of affiliating with any entity with which the Executive is associated ("Solicitation").

9.4 Confidential Information.

(a) The Executive specifically acknowledges that any trade secrets or confidential business and technical information of the Company or its vendors, suppliers or customers, whether reduced to writing, maintained on any form of electronic media, or maintained in mind or memory and whether compiled by the Executive or the Company (collectively, "Confidential Information"), derives independent economic value from not being readily known to or ascertainable by proper means by others; that reasonable efforts have been made by the Company to maintain the secrecy of such information; that such information is the sole property of the Company or its vendors, suppliers, or customers and that any retention, use or disclosure of such information by the Executive during the Employment Term (except in the course of performing duties and obligations of employment with the Company) or any time after termination thereof, shall constitute misappropriation of the trade secrets of the Company or its vendors, suppliers, or customers, provided that Confidential Information shall not include: (i) information that is at the time of disclosure public knowledge or generally known within the industry, (ii) information deemed in good faith by the Executive, while employed by the Company, desirable to disclose in the course of performing the Executive's duties, (iii) information the disclosure of which the Executive in good faith deems necessary in defense of the Executive's rights provided such disclosure by the Executive is limited to only disclose as necessary for such purpose, or (iv) information disclosed by the Executive to comply with a court, or other lawful compulsory, order compelling him to do so, provided the Executive gives the Company prompt notice of the receipt of such order and the disclosure by the Executive is limited to only disclosure necessary for such purpose.

(b) The Executive acknowledges that the Company from time to time may have agreements with other persons or with the United States Government, or agencies thereof, that impose obligations or restrictions on the Company regarding inventions made during the course of work under such agreements or regarding the confidential nature of such work. If the Executive's duties hereunder will require disclosures to be

made to him subject to such obligations and restrictions, the Executive agrees to be bound by them.

9.5 **Scope of Restrictions.** If, at the time of enforcement of this Section 9, a court holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period, scope or geographical area reasonable under such circumstances shall be substituted for the stated period, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law.

9.6 **Remedies.**

(a) In the event of a material breach or threatened material breach of Section 9.1(a), Section 9.3, Section 9.4 or Section 9.10, the Company, in addition to its other remedies at law or in equity, shall be entitled to injunctive or other equitable relief in order to enforce or prevent any violations of the provisions of this Section 9. Except as specifically provided with regard to Listed Companies, the Company agrees that it will not assert to enjoin or otherwise limit the Executive's activities based on an argument of inevitable disclosure of confidential information.

(b) In the event Section 9.1(b) applies, the Company may immediately cease payment to the Executive of all future amounts due under Sections 6.2(a) or (b) or Sections 6.3(a) or (b), as well as otherwise specifically provided in any other plan, grant or program.

(c) Upon written request of the Executive, the Company shall within thirty (30) days notify the Executive in writing whether or not in good faith it believes any proposed activities would be in Competition and, if it so determines or does not reply within thirty (30) days, it shall be deemed to waive any right to treat such activities as Competition unless the facts are otherwise than as presented by the Executive or there is a change thereafter in such activities. The Executive shall promptly provide the Company with such information as it may reasonably request to evaluate whether or not such activities are in Competition.

9.7 **Uniformity.** In no event shall any definitions of Competition or Solicitation (or a similar provision) as it applies to the Executive with regard to any plan of program or grant of the Company be interpreted to be any broader than as set forth in this Section 9.

9.8 **Delivery of Documents.** Upon termination of this Agreement or at any other time upon request by the Company, the Executive shall promptly deliver to the Company all records, files, memoranda, notes, designs, data, reports, price lists, customer lists, drawings, plans, computer programs, software, software documentation, sketches, laboratory and research notebooks and other documents (and all copies or reproductions of such materials in his possession or control) belonging to the Company. Notwithstanding the foregoing, the Executive may retain his rolodex and similar phone directories (collectively, the "Rolodex") to the extent the Rolodex does not contain information other than name, address, telephone number and similar information, provided that, at the request of the Company, the Executive shall provide the Company with a copy of the Rolodex.

9.9 **Nondisparagement.**

(a) During the Employment Term and thereafter, the Executive shall not with willful intent to damage economically or as to reputation or vindictively disparage the Company, its subsidiaries or their respective past or present officers, directors or employees (the "Protected Group"), provided that the foregoing shall not apply to (i) actions or statements taken or made by the Executive while employed by the Company in good faith as fulfilling the Executive's duties with the Company or otherwise at the request of the Company, (ii) truthful statements made in compliance with legal process or governmental inquiry, (iii) as the Executive in good faith deems necessary to rebut any untrue or misleading public statements made about him or any other member of the Protected Group, (iv) statements made in good faith by the Executive to rebut untrue or misleading statements made about him or any other member of the Protected Group by any member of the Protected Group, and (v) normal commercial puffery in a competitive business situation. No member of the Protected Group shall be a third party beneficiary of this Section 9.9(a).

(b) During the Employment Term and thereafter, neither the Company officially nor any then member of the Executive Leadership Team (or the equivalent) of the Company, as such term is currently used within the Company, shall with willful intent to damage the Executive economically or as to reputation or otherwise vindictively disparage the Executive, provided the foregoing shall not apply to (i) actions or statements taken or made in good faith within the Company in fulfilling duties with the Company, (ii) truthful statements made in compliance with legal process, governmental inquiry or as required by legal filing or disclosure requirements, (iii) as in good faith deemed necessary to rebut any untrue or misleading statements by the Executive as to any member of the Protected Group or (iv) normal commercial puffery in a competitive business situation.

(c) In the event of a material breach or threatened material breach of clauses (a) or (b) above, the Company or the Executive, as the case may be, in addition to its or the Executive's other remedies at law or in equity, shall be entitled to injunctive or other equitable relief in order to enforce or prevent any violations of this Section 9.9.

9. **10 Pooling of Interests.** If the Company is involved in any proposed business combination that is contemplated to be accounted for as a pooling of interests, the Executive agrees to cooperate with the reasonable requests of the Company with regard to the exercise of stock options, the sale of Company stock or other matters that could affect the ability of the combination to be accounted for as a pooling of interests.

10. *Liability Insurance*

The Company shall cover the Executive under directors and officers liability insurance both during and, while potential liability exists, after the Employment Term in the same amount and to the same extent, if any, as the Company covers its other officers and directors.

11. Assignment

11.1 Assignment by the Company. This Agreement may and shall be assigned or transferred to, and shall be binding upon and shall inure to the benefit of, any successor of the Company, and any such successor shall be deemed substituted for all purposes of the "Company" under the terms of this Agreement. As used in this Agreement, the term "successor" shall mean any person, firm, corporation or business entity which at any time, whether by merger, purchase, or otherwise, acquires all or substantially all of the assets of the Company. Notwithstanding such assignment, the Company shall remain, with such successor, jointly and severally liable for all its obligations hereunder. Except as herein provided, this Agreement may not otherwise be assigned by the Company.

11.2 Assignment by the Executive. This Agreement is not assignable by the Executive. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, and administrators, successors, heirs, distributees, devisees, and legatees. If the Executive should die while any amounts payable to the Executive hereunder remain outstanding, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee, or other designee or, in the absence of such designee, to the Executive's estate.

12. Legal Remedies

12.1 Payment of Legal Fees. The Company shall pay the Executive's reasonable legal fees and costs associated with entering into this Agreement. To the fullest extent permitted by law, the Company shall promptly pay upon submission of statements all legal and other professional fees, costs of litigation, prejudgment interest, and other expenses incurred in connection with any dispute arising hereunder; provided, however, the Company shall be reimbursed by the Executive for (i) the fees and expenses advanced in the event the Executive's claim is in a material manner in bad faith or frivolous and the arbitrator or court, as applicable, determines that the reimbursement of such fees and expenses is appropriate, or (ii) to the extent that the arbitrator or court, as appropriate, determines that such legal and other professional fees are clearly and demonstrably unreasonable.

12.2 Arbitration. All disputes and controversies arising under or in connection with this Agreement, other than the seeking of injunctive or other equitable relief pursuant to Section 9 hereof, shall be settled by arbitration conducted before a panel of three (3) arbitrators sitting in New York City, New York, or such other location agreed by the parties hereto, in accordance with the rules for expedited resolution of commercial disputes of the American Arbitration Association then in effect. The determination of the majority of the arbitrators shall be final and binding on the parties. Judgment may be entered on the award of the arbitrator in any court having proper jurisdiction. All expenses of such arbitration, including the fees and expenses of the counsel of the Executive, shall be borne by the Company and the Executive shall be entitled to reimbursement of his expenses as provided in Section 12.1 hereof.

12.3 Notice. Any notices, requests, demands, or other communications provided for by this Agreement shall be sufficient if in writing and if delivered personally, sent by telecopier, sent by an overnight service or sent by registered or certified mail. Notice to the Executive not delivered personally (or by telecopy where the Executive is known to be) shall be sent to the last address on the books of the Company, and notice to the Company not delivered personally (or by telecopy to the known personal telecopy of the person it is being sent to) shall be sent to it at its principal office. All notices to the Company shall be delivered to the Chief Executive Officer with a copy to the senior legal officer. Delivery shall be deemed to occur on the earlier of actual receipt or tender and rejection by the intended recipient.

12.4 Continued Payments. In the event after a Change in Control either party files for arbitration to resolve any dispute as to whether a termination is for Cause or Good Reason, until such dispute is determined by the arbitrators, the Executive shall continue to be treated economically and benefit wise in the manner asserted by him in the arbitration effective as of the date of the filing of the arbitration, subject to the Executive promptly refunding any amounts paid to him, paying the cost of any benefits provided to him and paying to the Company the profits in any stock option or other equity awards exercised or otherwise realized by him during the pendency of the arbitration which he is ultimately held not to be entitled to; provided the arbitrators may terminate such payments and benefits in the event that they determine at any point that the Executive is intentionally delaying conclusion of the arbitration.

13. Miscellaneous

13.1 Entire Agreement. This Agreement, except to the extent specifically provided otherwise herein, supersedes any prior agreements or understandings, oral or written, between the parties hereto or between the Executive and the Company, with respect to the subject matter hereof and constitutes the entire Agreement of the parties with respect to the subject matter hereof. To the extent any severance plan or program of the Company that would apply to the Executive is more generous to the Executive than the provisions hereof, the Executive shall be entitled to any additional payments or benefits which are not duplicative, but shall otherwise not be eligible for such plan or program.

13.2 Modification. This Agreement shall not be varied, altered, modified, canceled, changed, or in any way amended, nor any provision hereof waived, except by mutual agreement of the parties in a written instrument executed by the parties hereto or their legal representatives.

13.3 Severability. In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect.

13.4 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

13.5 Tax Withholding. The Company may withhold from any benefits payable under this Agreement all federal, state, city, or other taxes as may be required pursuant to any law or governmental regulation or ruling.

13.6 Beneficiaries. The Executive may designate one or more persons or entities as the primary and/or contingent beneficiaries of any amounts to be received under this Agreement. Such designation must be in the form of a signed writing acceptable to the Board or the Board's designee. The Executive may make or change such designation at any time.

13.7 Representation. The Executive represents that the Executive's employment by the Company and the performance by the Executive of his obligations under this Agreement do not, and shall not, breach any agreement that obligates him to keep in confidence any trade secrets or confidential or proprietary information of his or of any other party, to write or consult to any other party or to refrain from competing, directly or indirectly, with the business of any other party. The Executive shall not disclose to the Company, and the Company shall not request that the Executive disclose, any trade secrets or confidential or proprietary information of any other party.

14. Governing Law

The provisions of this Agreement shall be construed and enforced in accordance with the laws of the state of Delaware, without regard to any otherwise applicable principles of conflicts of laws.

IN WITNESS WHEREOF, the Executive and the Company have executed this Agreement, as of the day and year first above written.

/s/John D. Butler
John D. Butler

TEXTRON INC.

By: /s/Terrence O'Donnell
Name: Terrence O'Donnell
Title: EVP, General Counsel

Exhibit A **Parachute Gross Up**

(a) In the event that the Executive shall become entitled to payments and/or benefits provided by this Agreement or any other amounts in the "nature of compensation" (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a change of ownership or effective control covered by Section 280G(b)(2) of the Code or any person affiliated with the Company or such person) as a result of such change in ownership or effective control (collectively the "Company Payments"), and such Company Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code (and any similar tax that may hereafter be imposed by any taxing authority) the Company shall pay to the Executive at the time specified in subsection (d) below an additional amount (the "Gross-up Payment") such that the net amount retained by the Executive, after deduction of any Excise Tax on the Company Payments and any U.S. federal, state, and for local income or payroll tax upon the Gross-up Payment provided for by this paragraph (a), but before deduction for any U.S. federal, state, and local income or payroll tax on the Company Payments, shall be equal to the Company Payments.

(b) For purposes of determining whether any of the Company Payments and Gross-up Payments (collectively the "Total Payments") will be subject to the Excise Tax and the amount of such Excise Tax, (x) the Total Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "parachute payments" in excess of the "base amount" (as defined under Code Section 280G(b)(3) of the Code) shall be treated as subject to the Excise Tax, unless and except to the extent that, in the opinion of the Company's independent certified public accountants appointed prior to any change in ownership (as defined under Code Section 280G(b)(2)) or tax counsel selected by such accountants (the "Accountants") such Total Payments (in whole or in part) either do not constitute "parachute payments," represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the "base amount" or are otherwise not subject to the Excise Tax, and (y) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Accountants in accordance with the principles of Section 280G of the Code.

(c) For purposes of determining the amount of the Gross-up Payment, the Executive shall be deemed to pay U.S. federal income

taxes at the highest marginal rate of U.S. federal income taxation in the calendar year in which the Gross-up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence for the calendar year in which the Company Payment is to be made, net of the maximum reduction in U.S. federal income taxes which could be obtained from deduction of such state and local taxes if paid in such year. In the event that the Excise Tax is subsequently determined by the Accountants to be less than the amount taken into account hereunder at the time the Gross-up Payment is made, the Executive shall repay to the Company, at the time that the amount of such reduction in Excise Tax is finally determined, the portion of the prior Gross-up Payment attributable to such reduction (plus the portion of the Gross-up Payment attributable to the Excise Tax and U.S. federal, state and local income tax imposed on the portion of the Gross-up Payment being repaid by the Executive if such repayment results in a reduction in Excise Tax or a U.S. federal, state and local income tax deduction), plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. Notwithstanding the foregoing, in the event any portion of the Gross-up Payment to be refunded to the Company has been paid to any U.S. federal, state and local tax authority, repayment thereof (and related amounts) shall not be required until actual refund or credit of such portion has been made to the Executive, and interest payable to the Company shall not exceed the interest received or credited to the Executive by such tax authority for the period it held such portion. The Executive and the Company shall mutually agree upon the course of action to be pursued (and the method of allocating the expense thereof) if the Executive's claim for refund or credit is denied.

In the event that the Excise Tax is later determined by the Accountant or the Internal Revenue Service to exceed the amount taken into account hereunder at the time the Gross-up Payment is made (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-up Payment), the Company shall make an additional Gross-up Payment in respect of such excess (plus any interest or penalties payable with respect to such excess) at the time that the amount of such excess is finally determined.

(d) The Gross-up Payment or portion thereof provided for in subsection (c) above shall be paid not later than the thirtieth (30th) day following an event occurring which subjects the Executive to the Excise Tax; provided, however, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Accountant, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), subject to further payments pursuant to subsection (c) hereof, as soon as the amount thereof can reasonably be determined, but in no event later than the ninetieth day after the occurrence of the event subjecting the Executive to the Excise Tax. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

(e) In the event of any controversy with the Internal Revenue Service (or other taxing authority) with regard to the Excise Tax, the Executive shall permit the Company to control issues related to the Excise Tax (at its expense), provided that such issues do not potentially materially adversely affect the Executive, but the Executive shall control any other issues. In the event the issues are interrelated, the Executive and the Company shall in good faith cooperate so as not to jeopardize resolution of either issue, but if the parties cannot agree the Executive shall make the final determination with regard to the issues. In the event of any conference with any taxing authority as to the Excise Tax or associated income taxes, the Executive shall permit the representative of the Company to accompany the Executive, and the Executive and the Executive's representative shall cooperate with the Company and its representative.

(f) The Company shall be responsible for all charges of the Accountant.

(g) The Company and the Executive shall promptly deliver to each other copies of any written communications, and summaries of any verbal communications, with any taxing authority regarding the Excise Tax covered by this Exhibit B.

AMENDED AND RESTATED**EMPLOYMENT AGREEMENT**

THIS AMENDED AND RESTATED EMPLOYMENT AGREEMENT is entered into as of this 4th day of May, 2006, by and between Textron Inc. (the "Company"), a Delaware corporation having its principal office at 40 Westminister Street, Providence, Rhode Island 02903 and Terrence O'Donnell residing at 5133 Yuma Street, N.W., Washington, DC 20016 (the "Executive").

WITNESSETH:

WHEREAS, the Executive is presently employed by the Company;

WHEREAS, the Company desires to continue to employ the Executive and the Executive is willing to continue to be employed by the Company;

WHEREAS, the Company and the Executive entered into an employment agreement as of March 10, 2000 (the "Employment Agreement"); and

WHEREAS, the Company and the Executive desire to set forth the terms and conditions of such continued employment in this Amended and Restated Employment Agreement (the "Agreement").

NOW THEREFORE, in consideration of the foregoing and of the mutual covenants and agreements of the parties set forth in this Agreement, and of other good and valuable consideration, the adequacy and receipt of which is acknowledged, the parties hereto agree as follows:

1. Term of Employment

The Company hereby agrees to continue to employ the Executive and the Executive hereby accepts such continued employment, in accordance with the terms and conditions set forth herein, for a term (the "Employment Term") that commenced on March 10, 2000 (the "Effective Date") and terminating, unless otherwise terminated earlier in accordance with Section 5 hereof, on the next anniversary of the Effective Date (the "Original Employment Term"), provided that the Employment Term shall be automatically extended, subject to earlier termination as provided in Section 5 hereof, for successive additional one (1) year periods (the "Additional Terms"), unless, at least ninety (90) days prior to the end of the then Additional Term, the Company or the Executive has notified the other in writing that the Employment Term shall terminate at the end of the then current term.

2. Position and Responsibilities

During the Employment Term, the Executive shall serve as the Executive Vice President and General Counsel of the Company or in such higher capacity as agreed by the Company and the Executive. The Executive shall also serve as a member of the Management Committee (or any equivalent committee or group as may replace the Management Committee from time to time). The Executive shall report exclusively to the Chief Executive Officer and the Board of Directors of the Company (the "Board"). The Executive shall, to the extent appointed or elected, serve on the Board as a director and as a member of any committee of the Board, in each case, without additional compensation. The Executive shall, to the extent appointed or elected, serve as a director or as a member of any committee of the board (or the equivalent bodies in a non-corporate subsidiary or affiliate) of any of the Company's subsidiaries or affiliates and as an officer or employee (in a capacity commensurate with his position with the Company) of any such subsidiaries or affiliates, in all cases without additional compensation or benefits, and any compensation paid to the Executive, or benefits provided to the Executive, in such capacities shall be a credit with regard to the amounts due hereunder from the Company. The Executive 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 the By-laws of the Company and the organizational structure of the Company. Except as provided in the next succeeding sentence, the Executive shall devote substantially all of his business time, attention and energies to the performance of his duties hereunder, provided the foregoing will not prevent the Executive from participating in charitable, community or industry affairs, from managing his and his family's personal passive investments, and (with the consent of the Chief Executive Officer or the Organization and Compensation Committee (or its successor) of the Board (the "O&C Committee"), which consent will not be unreasonably withheld, conditioned or delayed) serving on the board of directors of other companies or as a partner in the law firm of Williams & Connolly LLP, provided in each case that these activities do not materially interfere with the performance of his duties hereunder or create a potential business conflict or the appearance thereof. In particular, Executive (a) may continue to serve as a part-time partner at Williams & Connolly LLP, and (b) may serve on the board of directors of each of (i) The Gerald R. Ford Foundation, (ii) the Air Force Academy Falcon Foundation, (iii) IGI, Inc. and (iv) ePlus, Inc., in each case retaining any compensation or emoluments therefrom.

3. Compensation and Benefits

During the Employment Term, the Company shall pay and provide the Executive the following:

3.1 Base Salary . The Company shall pay the Executive an initial base salary (the "Base Salary") at a rate of \$425,000.00. Base Salary shall be paid to the Executive in accordance with the Company's normal payroll practices for executives. Base Salary shall be reviewed at least annually by the O&C Committee (or as otherwise designated by the Board) to ascertain whether, in the judgment of the reviewing committee, such Base Salary should be increased. If so increased, Base Salary shall not be thereafter decreased and shall thereafter, as increased, be the Base Salary hereunder.

3.2 Annual Bonus . The Company shall provide the Executive with the opportunity to earn an annual cash bonus under the Company's current annual incentive compensation plan for executives or a replacement plan therefor at a level commensurate with his position, provided that the minimum annual target award payable upon the achievement of reasonably attainable objective performance goals shall be at least 55% of Base Salary.

3.3 Long-Term Incentives . The Company shall provide the Executive the opportunity to earn long-term incentive awards under the current equity and cash based plans and programs or replacements therefor.

3.4 Employee Benefits . The Executive shall, to the extent eligible, be entitled to participate at a level commensurate with his position in all employee benefit welfare and retirement plans and programs, as well as equity plans, generally provided by the Company to its senior executives in accordance with the terms thereof as in effect from time to time. Such plans and programs currently include, without limitation, the Amended and Restated Supplemental Retirement Plan for Textron Inc. Key Executives (the "SERP"), the 1994 Long-Term Incentive Plan, the Key Executive Program (including the Deferred Income Plan, the Supplemental Benefits Plan (the "SBP") and the Survivor Benefit Plan), group term life insurance plan, comprehensive health, major medical, vision and dental insurance plans and short-term and long-term disability plans. Notwithstanding anything in the SERP, Performance Share Units granted after 2005 shall not be considered when determining the benefit under the SERP

3.5 Vacation. The Executive shall be entitled to paid vacation in accordance with the standard written policies of the Company with regard to vacations of executives, but in no event less than four (4) weeks per calendar year.

3.6 Perquisites . The Company shall provide to the Executive, at the Company's cost, all perquisites to which other senior executives of the Company are generally entitled to receive and such other perquisites which are suitable to the character of the Executive's position with the Company and adequate for the performance of his duties hereunder. To the extent legally permissible, the Company shall not treat such amounts as income to the Executive.

3.7 Right to Change Plans . The Company shall not be obligated by reason of this Section 3 to institute, maintain, or refrain from changing, amending, or discontinuing any benefit plan, program, or perquisite, so long as such changes are similarly applicable to executive employees generally.

3.8 Special Provisions . The Company shall provide to the Executive the special provisions set forth on Amended and Restated Exhibit B hereto, which Amended and Restated Exhibit B is incorporated herein.

4. Expenses

Upon submission of appropriate documentation, in accordance with its policies in effect from time to time, the Company shall pay, or reimburse, the Executive for all ordinary and necessary expenses, in a reasonable amount, which the Executive incurs in performing his duties under this Agreement including, but not limited to, travel, entertainment, professional dues and subscriptions, and all dues, fees, and expenses associated with membership in various professional, business, and civic associations and societies in which the Executive participates in accordance with the Company's policies in effect from time to time.

5. Termination of Employment

The Executive's employment with the Company (including but not limited to any subsidiary or affiliate or the Company) and the Employment Term shall terminate upon the occurrence of the first of the following events:

- (a) Automatically on the date of the Executive's death.
- (b) Upon thirty (30) days written notice by the Company to the Executive of a termination due to Disability, provided such notice is delivered during the period of Disability. The term "Disability" shall mean, for purposes of this Agreement, the inability of the Executive, due to injury, illness, disease or bodily or mental infirmity, to engage in the performance of his material duties of employment with the Company as contemplated by Section 2 herein for a period of more than one hundred eighty (180) consecutive days or for a period that is reasonably expected to exist for a period of more than one hundred eighty (180) consecutive days, provided that interim returns to work of less than ten (10) consecutive business days in duration shall not be deemed to interfere with a determination of consecutive absent days if the reason for absence before and after the interim return are the same. The existence or non-existence of a Disability shall be determined by a physician agreed upon in good faith

by the Executive (or his representatives) and the Company. It is expressly understood that the Disability of the Executive for a period of one hundred eighty (180) consecutive days or less shall not constitute a failure by him to perform his duties hereunder and shall not be deemed a breach or default and the Executive shall receive full compensation for any such period of Disability or for any other temporary illness or incapacity during the term of this Agreement. In no event shall compensation cease by reason of a termination for Disability prior to that date on which the Executive shall commence his eligibility for payments pursuant to the Company's disability benefits program.

(c) Immediately upon written notice by the Company to the Executive of a termination due to his retirement at or after the Executive's attainment of age sixty-five (65).

(d) Immediately upon written notice by the Company to the Executive of a termination for Cause, provided such notice is given within ninety (90) days after the discovery by the Board or the Chief Executive Officer of the Cause event and has been approved by the O&C Committee 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 Agreement: (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 the Company; (ii) any willful misconduct by the Executive with regard to the Company, its business, assets or employees that has, or was intended to have, a material adverse impact (economic or otherwise) on the Company; (iii) any material, willful and knowing violation by the Executive of (x) the Company's Business Conduct Guidelines, or (y) any of his fiduciary duties to the Company which in either case has, or was intended to have, a material adverse impact (economic or otherwise) on the Company; (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 the Company; (v) the Executive's willful failure to attempt to perform his duties under Section 2 hereof 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 the Company specifying the details thereof; (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 that with respect to such vicarious liability 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)); or (vii) any other material breach by the Executive of this Agreement that is not cured by the Executive within twenty (20) days after receipt by the Executive of a written notice from the Company of such breach specifying the details thereof. 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 the Company. Reference in this paragraph (d) to the Company shall also include direct and indirect subsidiaries of the Company, and materiality and material adverse impact shall be measured based on the action or inaction and the impact upon, and not the size of, the Company taken as a whole, provided that after a Change in Control, the size of the Company, taken as a whole, shall be a relevant factor in determining materiality and material adverse impact.

(e) Upon written notice by the Company to the Executive of an involuntary termination without Cause. A notice by the Company of non-renewal of the Employment Term pursuant to Section 1 above shall be deemed an involuntary termination of the Executive by the Company without Cause as of the end of the Employment Term, but the Executive may terminate at any time after the receipt of such notice and shall be treated as if he was terminated without Cause as of such date.

(f) Upon twenty (20) days written notice by the Executive to the Company 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 Agreement, 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 (including membership on the Management Committee or its equivalent) or reporting lines or a material reduction (other than temporarily while Disabled or otherwise incapacitated) in his then status, authorities, duties or responsibilities (or, should the Company be reorganized such that it becomes a subsidiary or controlled party of any other entity, the Executive's not holding authorities, duties, responsibilities, status, offices, titles or reporting lines in such parent or controlling party at least commensurate with those held by him at the Company immediately prior to such reorganization) or, if then a director of the Company, failure to be nominated or reelected as a director of the Company or removal as such; (ii) relocation of the Executive from the principal office of the Company (excluding reasonable travel on the Company's business to an extent substantially consistent with the Executive's business obligations) or relocation of the principal office of the Company to a location which is at least fifty (50) miles from the Company'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 but shall not cover a relocation to the

principal office prior to a Change in Control; (iii) a reduction by the Company in the Executive's Base Salary; (iv) a reduction in the Executive's aggregate level of participation in any of the Company'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 the Effective Date, or, after a Change in Control, participated immediately prior to the Change in Control; (v) the failure of the Company to obtain and deliver to the Executive a satisfactory written agreement from any successor to the Company to assume and agree to perform this Agreement; or (vi) any other material breach by the Company of this Agreement. The Executive waives as a Good Reason event the change in the determination of his SERP benefits made by the last sentence of Section 3.4 and the last sentence of Section 4(a) of Amended and Restated Exhibit B attached hereto.

(g) Upon written notice by the Executive to the Company of the Executive's voluntary termination of employment without Good Reason (which the Company may, in its sole discretion, make effective earlier than any notice date). A notice by the Executive of non-renewal of the Employment Term pursuant to Section 1 above shall be deemed a voluntary termination by the Executive without Good Reason as of the end of the Employment Term.

Section 6. Consequences of a Termination of Employment

6.1 Termination Due to Death or Retirement. If the Employment Term ends on account of the Executive's termination due to death pursuant to Section 5(a) above or retirement pursuant to Section 5(c) above, the Executive (or the Executive's surviving spouse, or other beneficiary as so designated by the Executive during his lifetime, or to the Executive's estate, as appropriate) shall be entitled, in lieu of any other payments or benefits, subject to Section 7(e), to (i) payment promptly of any unpaid Base Salary, unpaid annual incentive compensation (for the preceding fiscal year) and any accrued vacation, (ii) reimbursement for any unreimbursed business expenses incurred prior to the date of termination, and (iii) any amounts, benefits or fringes due under any equity, benefit or fringe plan, grant or program in accordance with the terms of said plan, grant or program but without duplication (collectively, the "Accrued Obligations").

6.2 Termination Due To Disability. If the Employment Term ends as a result of Disability pursuant to Section 5(b) above, the Executive shall be entitled, in lieu of any other payments or benefits (but subject to the last sentence of such Section 5(b)), to any Accrued Obligations.

6.3 Involuntary Termination by the Company Without Cause or Termination by the Executive for Good Reason. If the Executive is involuntarily terminated by the Company without Cause in accordance with Section 5(e) above or the Executive terminates his employment for Good Reason in accordance with Section 5(f) above, the Executive shall be entitled, in lieu of any other payments or benefits, subject to Section 7(b) hereof, to any Accrued Obligations and the following:

(a) Payment of the Prorated Portion (as determined in the next sentence) of the earned annual incentive compensation award for the fiscal year in which the Executive's termination occurs, payable promptly after the end of such fiscal year. "Prorated Portion" shall be determined by multiplying such amount by a fraction, the numerator of which is the number of days during the fiscal year of termination that the Executive is employed by the Company, and the denominator of which is, 365.

(b) Continued payment off payroll for two years (in approximately equal monthly installments) of an amount equal to two times the sum of (i) the Executive's Base Salary and (ii) the higher of (x) the Executive's target incentive compensation established for the fiscal year in which the Executive's termination occurs or (y) a multiple thereof equal to the product of such target amount and the multiple of target earned by the Executive for the prior fiscal year (whether or not deferred) (the sum of (i) and (ii) being hereinafter referred to as the "Final Annual Compensation").

(c) Payment of the premium for COBRA continuation health coverage (whether under the Company's health plans or those of Williams & Connolly LLP, but in no event at a premium rate higher than the premiums payable under COBRA to the Company for the continuation of such health care coverage as the Executive had in effect with respect to himself and his family immediately prior to his termination) for the Executive and the Executive's dependents until the earliest of (i) eighteen (18) months after such termination, (ii) until no longer eligible for COBRA continuation benefit coverage or (iii) the Executive commences other substantially full-time employment.

(d) Payment, within thirty (30) business days following such termination, of a lump sum amount equal to the present discounted value of any "Credit Date Payments" (as described in Section 9 of Amended and Restated Exhibit B) then remaining unpaid, with the amount of each such unpaid Credit Date Payment being discounted back to the date of payment under this Section 6.3(d) at a discount rate of 5.65% per annum.

6.4 Termination by the Company for Cause or Termination by the Executive without Good Reason. If the Executive is terminated by the Company for Cause or the Executive terminates his employment without Good Reason, the Executive shall be entitled to receive all Accrued Obligations.

Section 7. No Mitigation/No Offset/Release

- (a) In the event of any termination of employment hereunder, the Executive shall be under no obligation to seek other employment and there shall be no offset against any amounts due the Executive under this Agreement on account of any remuneration attributable to any subsequent employment that the Executive may obtain. The amounts payable hereunder shall not be subject to setoff, counterclaim, recoupment, defense or other right which the Company may have against the Executive or others, except as specifically set forth in Section 9 hereof or upon obtaining by the Company of a final unappealable judgment against the Executive.
- (b) Any amounts payable and benefits or additional rights provided pursuant to Section 6.3 or Section 8.1 beyond any Accrued Obligations and beyond the sum of any amounts due (without execution of a release) under the Company severance program then in effect, or, if greater, three (3) months Base Salary as severance, shall only be payable if the Executive delivers to the Company a release of all claims of the Executive (other than those specifically payable or providable hereunder on or upon the applicable type of termination and any rights of indemnification under the Company's organizational documents) with regard to the Company, its subsidiaries and related entities and their respective past or present officers, directors and employees in such form as reasonably requested by the Company.
- (c) Upon any termination of employment, upon the request of the Company, the Executive shall deliver to the Company a resignation from all offices and directorships and fiduciary positions of the Executive in which the Executive is serving with, or at the request of, the Company or its subsidiaries, affiliates or benefit plans.
- (d) The amounts and benefits provided under Sections 6 and 8 hereof are intended to be inclusive and not duplicative of the amounts and benefits due under the Company's employee benefit plans and programs to the extent they are duplicative.
- (e) The intent of the parties is that all payments hereunder shall be in accordance with Section 409A of the Internal Revenue Code ("Section 409A") and this Agreement shall be interpreted accordingly. The parties shall modify this Agreement as necessary to assure such compliance. To the extent that the Executive is a "Specified Employee," within the meaning of Section 409A, any payments paid as a result of separation from service (within the meaning of Section 409A), other than upon death, shall not be paid until the earlier of six (6) months after such separation from service and Executive's death (the "Delay Period") and all payments that otherwise become due during such Delay Period shall be promptly paid in a lump sum after it has expired. Furthermore in such situation, to the extent required by Section 409A, the Executive shall pay the premiums of all benefits to be provided during the Delay Period and shall promptly after the end of the Delay Period be reimbursed by the Company therefor.

8. Change in Control

8.1 Employment Termination in Connection with a Change in Control. In the event of a Qualifying Termination (as defined below) during the period commencing one-hundred eighty (180) days prior to the effective date of a Change in Control and terminating on the second anniversary of the effective date of a Change in Control (the "Change in Control Protection Period"), then in lieu of the benefits provided to the Executive under Section 6.3 of this Agreement, but subject to Section 7(e), the Company shall pay the Executive the following amounts within (except as otherwise provided) thirty (30) business days of the Qualifying Termination (or, if later, the effective date of the Change in Control; in which case any amounts or benefits previously paid pursuant to Section 6 shall be setoff against those under this Section 8) and provide the following benefits:

- (a) Any Accrued Obligations.
- (b) A lump-sum cash payment equal to three (3) times the highest rate of the Executive's Base Salary rate in effect at any time up to and including the date of the Executive's termination.
- (c) A lump-sum cash payment equal to the Prorated Portion of the greater of: (i) the Executive's target annual incentive compensation award established for the fiscal year during which the Executive's award termination occurs, or (ii) the Executive's earned annual incentive award for the fiscal year prior to the fiscal year in which the Change in Control occurs (whether or not deferred).
- (d) A lump-sum cash payment equal to three (3) times the greater of: (i) the Executive's highest annual incentive compensation earned over the three (3) fiscal years ending prior to the Change in Control (whether or not deferred); or (ii) the Executive's target incentive compensation established for the fiscal year in which the Executive's date of termination occurs.
- (e) To the extent the Executive is eligible, was eligible prior or after the Change in Control or if the Executive would be eligible with credit for an additional three (3) years of age and service credit, coverage under all

applicable retiree health and other retiree welfare plans for the Executive and the Executive's eligible dependents (including an adjustment to the extent necessary to put the Executive on the same after tax basis as if the Executive had been eligible for such coverage).

(f) To the extent eligible prior or after the Change in Control, continued participation, (coordinated with (e) above to the extent duplicative), at no additional after tax cost to the Executive than the Executive would have as an employee, in all welfare plans, until three (3) years after the date of termination, provided, however, that in the event the Executive obtains other employment that offers substantially similar or improved benefits, as to any particular welfare plan, such continuation of coverage by the Company for such similar or improved benefit under such plan shall immediately cease. To the extent such coverage cannot be provided under the Company's welfare benefit plans without jeopardizing the tax status of such plans, for underwriting reasons or because of the tax impact on the Executive, the Company shall pay the Executive an amount such that the Executive can purchase such benefits separately at no greater after tax cost to him than he would have had if the benefits were provided to him as an employee.

(g) A lump-sum cash payment of the actuarial present value equivalent (as determined in accordance with the most favorable (to the Executive) overall actuarial assumptions and subsidies in any of the Company's tax-qualified or nonqualified type defined benefit pension plans in which the Executive then participates) of the accrued benefits accrued by the Executive as of the date of termination under the terms of any nonqualified defined benefit type retirement plan, including but not limited to, the SERP and the SBP, and assuming the benefit was fully vested without regard to any minimum age or service requirements. For this purpose, such benefits shall be calculated under the assumption that the Executive's employment continued following the date of termination for three (3) full years (i.e., three (3) additional years of age (including, but not limited to, for purposes of determining the actuarial present value but not the commencement date for calculation of benefits (all of which shall be deemed to commence on the date of termination)), compensation (the Executive's "Then Compensation Level") and service credits shall be added). "Then Compensation Level" shall mean an annual rate of compensation equal to the sum of (i) Final Annual Compensation and (ii) the performance units and performance share units earned with respect to the measurement periods ending at or about the end of the fiscal year immediately preceding the year of termination (to the extent recognized in the definition of "Compensation" under the applicable plan; in the case of the SERP as provided in Section 3.4 above such that no amounts deemed earned in respect of performance share units in 2008 (i.e. any grant after the 2005 grant) or later years shall be included in Compensation for purposes of the SERP); provided, however, that with respect to the year of termination, in lieu of utilization of the amount in clause (ii) above, the Executive will be deemed to have received in the year of termination the full amount of performance units and performance share units earned with regard to the measuring periods ending on or about the end of the fiscal year immediately preceding the year of termination (whether or not such amount is actually paid to the Executive prior to the date of termination); provided, further, that, other than as set forth in the immediately preceding proviso, the amounts described in clause (ii) above shall be included in "Compensation" under the plans referred to in this Section 8.1(g) in lieu of any amounts actually paid to the Executive in respect of performance units and performance share units in the year of termination and thereafter.

(h) Three (3) times the amount of the maximum Company contribution or match to any defined contribution type plan in which the Executive participates.

(i) A lump-sum cash payment of the product of (i) the Interest Factor (as determined in the next sentence) multiplied by (ii) the Executive's entire account balance under the Deferred Income Plan (or any replacement therefor), plus an additional amount equal to three (3) times the match which the Company made for the Executive to such plan for the fiscal year ending immediately prior to the Change in Control. The "Interest Factor" shall be equal to one (1) plus three (3) times the rate of earnings of the Executive's account under such plan for the fiscal year ending immediately prior to his termination.

(j) Immediate full vesting of any outstanding stock options, performance share units and other equity awards (and lapse of any forfeiture provisions) to the extent permitted under the plan or grant, or if full vesting is not permitted with regard to stock options, a cash payment equal to the difference between the fair market value of the shares covered by the unvested options and the exercise price of such unvested options on such unvested options on the date of termination (or, if later, the date of the Change in Control).

(k) Outplacement services at a level commensurate with the Executive's position, including use of an executive office and secretary, for a period of one (1) year commencing on the date of termination but in no event extending beyond the date on which the Executive commences other full time employment.

(l) Continuation of participation for three (3) additional years in the Company's programs with regard to tax preparation assistance and financial planning assistance, club dues and automobile (but based on the automobile then being used and no new one), in accordance with the Company's programs in effect at the time of the Change in Control.

(m) Payment of a lump sum amount equal to the present discounted value of any "Credit Date Payments" (as defined in Section 9 of Amended and Restated Exhibit B) then remaining unpaid, with the amount of each such unpaid Credit Date Payment being discounted back to the date of payment under this Section 8.1(m) at a discount rate of 5.65% per annum.

For purposes of this Section 8, a Qualifying Termination shall mean any termination of the Executive's employment (i) by the Company without Cause, or (ii) by the Executive for Good Reason.

8.2 Definition of "Change in Control." A Change in Control of 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.

8.3 Excise Tax Equalization Payment. In the event that the Executive becomes entitled to payments and/or benefits which would constitute "parachute payments" within the meaning of Section 280G(b)(2) of the Code, the provisions of Exhibit A will apply.

9. Noncompetition, Confidentiality and Nondisparagement

9.1 Agreement Not to Compete .

(a) The Executive agrees that for a period of two (2) years after the termination of the Executive's employment, the Executive will not engage in Competition with the Company with the Listed Companies, provided that after the Executive's termination of employment the Listed Companies shall be limited to those effectively listed at the time of his termination and still on such list at the time of any alleged activity of the Executive, including, but not limited to, (i) soliciting customers, business or orders for, or selling any products and services in, Competition with the Company for such Listed Companies or (ii) diverting, enticing, or otherwise taking away customers, business or orders of the Company, or attempting to do so, in either case in Competition with the Company for such Listed Companies.

(b) The Executive agrees that if, while he is receiving severance pay from the Company pursuant to Section 6.3 (b), the Executive: (i) violates (a) above, or (ii) otherwise engages in Competition in the Restricted Territory, whether or not with the Listed Companies, Section 9.6(b) hereof shall apply.

(c) The Executive agrees that the restrictions contained in this Section 9 are necessary for the protection of the business and goodwill of the Company because of the trade secrets within the Executive's knowledge and are considered by the Executive to be reasonable for such purpose.

9.2 Definitions.

(a) "Competition" shall mean engaging in, as an employee, director, partner, principal, shareholder, consultant, advisor, independent contractor or similar capacity, with (a) the Listed Companies or (b) in any business, activity or conduct which directly competes with the business of the Company, provided that, with regard to the period after termination of the Executive's employment, Section 9.1(b)(ii) shall only apply to business lines in which the Company is engaged both at the time of termination of employment and at the time of the determination and

which during the last fiscal year ending prior to the date of such termination represented at least five percent (5%) of the Company's revenues (the "Prohibited Lines"). Notwithstanding anything else in this Section 9, Competition shall not include: (A) (i) holding five percent (5%) or less of an interest in the equity or debt of any publicly traded company, (ii) engaging in any activity with the prior written approval of the Chief Executive Officer or the O&C Committee, (iii) the practice of law in a law firm that represents entities in Competition with the Company, provided that the Executive does not personally represent such entities, or (iv) the employment by, or provision of services to, an investment banking firm or consulting firm that provides services to entities that are in Competition with the Company provided that the Executive does not personally represent or provide services to such entities that are Listed Companies or otherwise with regard to businesses in Competition with the Prohibited Lines, or (B) with regard to Section 9.1(b)(ii), (i) being employed by, or consulting for, a non-Competitive division or business unit of an entity which is in Competition with the Company (and participating in such entity's employee equity plans), (ii) being employed by, or consulting for, an entity which had annual revenues in the last fiscal year prior to the Executive being employed by, or consulting for, the entity generated through business lines in Competition with the Prohibited Lines of the Company that do not exceed five percent (5%) of such entity's total annual revenues, provided that revenues within the Executive's area of responsibility or authority are not more than ten percent (10%) composed of the revenues from the businesses in Competition with the Prohibited Lines, or (iii) any activities conducted after a Change in Control of the Company.

(b) The Restricted Territory shall mean any geographic area in which the Company with regard to the Prohibited Lines did more than nominal business.

(c) Listed Companies shall mean those entities which are within the "peer group" established by the Company for the performance graphs in its proxy statement pursuant to Item 402(l) of Regulation S-K under the Exchange Act and which are in a list of no more than five (5) entities established by the Company from time to time and available from the Chief Human Resources Officer, provided that the addition of any entity to the list shall not be effective until sixty (60) days after it is so listed.

(d) For purposes of this Section 9, "Company" shall mean the Company and its subsidiaries and affiliates.

9.3 Agreement Not to Engage in Certain Solicitation . The Executive agrees that the Executive will not, during the Executive's employment with the Company or during the two (2) year period thereafter, directly or indirectly, solicit or induce, or attempt to solicit or induce, any non-clerical employee(s), sales representative(s), agent(s), or consultant(s) of the Company to terminate such person's employment, representation or other association with the Company for the purpose of affiliating with any entity with which the Executive is associated ("Solicitation").

9.4 Confidential Information .

(a) The Executive specifically acknowledges that any trade secrets or confidential business and technical information of the Company or its vendors, suppliers or customers, whether reduced to writing, maintained on any form of electronic media, or maintained in mind or memory and whether compiled by the Executive or the Company (collectively, "Confidential Information"), derives independent economic value from not being readily known to or ascertainable by proper means by others; that reasonable efforts have been made by the Company to maintain the secrecy of such information; that such information is the sole property of the Company or its vendors, suppliers, or customers and that any retention, use or disclosure of such information by the Executive during the Employment Term (except in the course of performing duties and obligations of employment with the Company) or any time after termination thereof, shall constitute misappropriation of the trade secrets of the Company or its vendors, suppliers, or customers, provided that Confidential Information shall not include: (i) information that is at the time of disclosure public knowledge or generally known within the industry, (ii) information deemed in good faith by the Executive, while employed by the Company, desirable to disclose in the course of performing the Executive's duties, (iii) information the disclosure of which the Executive in good faith deems necessary in defense of the Executive's rights provided such disclosure by the Executive is limited to only disclose as necessary for such purpose, or (iv) information disclosed by the Executive to comply with a court, or other lawful compulsory, order compelling him to do so, provided the Executive gives the Company prompt notice of the receipt of such order and the disclosure by the Executive is limited to only disclosure necessary for such purpose.

(b) The Executive acknowledges that the Company from time to time may have agreements with other persons or with the United States Government, or agencies thereof, that impose obligations or restrictions on the Company regarding inventions made during the course of work under such agreements or regarding the confidential nature of such work. If the Executive's duties hereunder will require disclosures to be made to him subject to such obligations and restrictions, the Executive agrees to be bound by them.

9.5 Scope of Restrictions . If, at the time of enforcement of this Section 9, a court holds that the restrictions stated herein are unreasonable under circumstances then existing, the parties hereto agree that the maximum period, scope or geographical area reasonable under such circumstances shall be substituted for the stated period, scope or area and that the court shall be allowed to revise the restrictions

contained herein to cover the maximum period, scope and area permitted by law.

9.6 Remedies .

(a) In the event of a material breach or threatened material breach of Section 9.1(a), Section 9.3, Section 9.4 or Section 9.10, the Company, in addition to its other remedies at law or in equity, shall be entitled to injunctive or other equitable relief in order to enforce or prevent any violations of the provisions of this Section 9. Except as specifically provided with regard to Listed Companies, the Company agrees that it will not assert to enjoin or otherwise limit the Executive's activities based on an argument of inevitable disclosure of confidential information.

(b) In the event Section 9.1(b) applies, the Company may immediately cease payment to the Executive of all future amounts due under Sections 6.3(a) or (b) as well as otherwise specifically provided in any other plan, grant or program.

(c) Upon written request of the Executive, the Company shall within thirty (30) days notify the Executive in writing whether or not in good faith it believes any proposed activities would be in Competition and, if it so determines or does not reply within thirty (30) days, it shall be deemed to waive any right to treat such activities as Competition unless the facts are otherwise than as presented by the Executive or there is a change thereafter in such activities. The Executive shall promptly provide the Company with such information as it may reasonably request to evaluate whether or not such activities are in Competition.

9.7 Uniformity. In no event shall any definitions of Competition or Solicitation (or a similar provision) as it applies to the Executive with regard to any plan of program or grant of the Company be interpreted to be any broader than as set forth in this Section 9.

9.8 Delivery of Documents. Upon termination of this Agreement or at any other time upon request by the Company, the Executive shall promptly deliver to the Company all records, files, memoranda, notes, designs, data, reports, price lists, customer lists, drawings, plans, computer programs, software, software documentation, sketches, laboratory and research notebooks and other documents (and all copies or reproductions of such materials in his possession or control) belonging to the Company. Notwithstanding the foregoing, the Executive may retain his rolodex and similar phone directories (collectively, the "Rolodex") to the extent the Rolodex does not contain information other than name, address, telephone number and similar information, provided that, at the request of the Company, the Executive shall provide the Company with a copy of the Rolodex.

9.9 Nondisparagement.

(a) During the Employment Term and thereafter, the Executive shall not with willful intent to damage economically or as to reputation or vindictively disparage the Company, its subsidiaries or their respective past or present officers, directors or employees (the "Protected Group"), provided that the foregoing shall not apply to (i) actions or statements taken or made by the Executive while employed by the Company in good faith as fulfilling the Executive's duties with the Company or otherwise at the request of the Company, (ii) truthful statements made in compliance with legal process or governmental inquiry, (iii) as the Executive in good faith deems necessary to rebut any untrue or misleading public statements made about him or any other member of the Protected Group, (iv) statements made in good faith by the Executive to rebut untrue or misleading statements made about him or any other member of the Protected Group by any member of the Protected Group, and (v) normal commercial puffery in a competitive business situation. No member of the Protected Group shall be a third party beneficiary of this Section 9.9(a).

(b) During the Employment Term and thereafter, neither the Company officially nor any then member of the Executive Leadership Team (or the equivalent) of the Company, as such term is currently used within the Company, shall with willful intent to damage the Executive economically or as to reputation or otherwise vindictively disparage the Executive, provided the foregoing shall not apply to (i) actions or statements taken or made in good faith within the Company in fulfilling duties with the Company, (ii) truthful statements made in compliance with legal process, governmental inquiry or as required by legal filing or disclosure requirements, (iii) as in good faith deemed necessary to rebut any untrue or misleading statements by the Executive as to any member of the Protected Group, or (iv) normal commercial puffery in a competitive business situation.

(c) In the event of a material breach or threatened material breach of clauses (a) or (b) above, the Company or the Executive, as the case may be, in addition to its or the Executive's other remedies at law or in equity, shall be entitled to injunctive or other equitable relief in order to enforce or prevent any violations of this Section 9.9.

9.10 Pooling of Interests. If the Company is involved in any proposed business combination that is contemplated to be accounted for as a pooling of interests, the Executive agrees to cooperate with the reasonable requests of the Company with regard to the exercise of stock options, the sale of Company stock or other matters that could affect the ability of the combination to be accounted for as a pooling of interests.

10. Liability Insurance

The Company shall cover the Executive under directors and officers liability insurance both during and, while potential liability exists, after the Employment Term in the same amount and to the same extent, if any, as the Company covers its then current officers and directors.

11. Assignment

11.10 Assignment by the Company . This Agreement may and shall be assigned or transferred to, and shall be binding upon and shall inure to the benefit of, any successor of the Company, and any such successor shall be deemed substituted for all purposes of the "Company" under the terms of this Agreement. As used in this Agreement, the term "successor" shall mean any person, firm, corporation or business entity which at any time, whether by merger, purchase, or otherwise, acquires all or substantially all of the assets of the Company. Notwithstanding such assignment, the Company shall remain, with such successor, jointly and severally liable for all its obligations hereunder. Except as herein provided, this Agreement may not otherwise be assigned by the Company.

11.2 Assignment by the Executive . This Agreement is not assignable by the Executive. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, and administrators, successors, heirs, distributees, devisees, and legatees. If the Executive should die while any amounts payable to the Executive hereunder remain outstanding, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the Executive's devisee, legatee, or other designee or, in the absence of such designee, to the Executive's estate.

12. Legal Remedies

12.11 Payment of Legal Fees . The Company shall pay the Executive's reasonable legal fees and costs associated with entering into this Agreement. To the fullest extent permitted by law, the Company shall promptly pay upon submission of statements all legal and other professional fees, costs of litigation, prejudgment interest, and other expenses incurred in connection with any dispute arising hereunder; provided, however, the Company shall be reimbursed by the Executive for (i) the fees and expenses advanced in the event the Executive's claim is in a material manner in bad faith or frivolous and the arbitrator or court, as applicable, determines that the reimbursement of such fees and expenses is appropriate, or (ii) to the extent that the arbitrator or court, as appropriate, determines that such legal and other professional fees are clearly and demonstrably unreasonable.

12.2 Arbitration . All disputes and controversies arising under or in connection with this Agreement, other than the seeking of injunctive or other equitable relief pursuant to Section 9 hereof, shall be settled by arbitration conducted before a panel of three (3) arbitrators sitting in New York City, New York, or such other location agreed by the parties hereto, in accordance with the rules for expedited resolution of commercial disputes of the American Arbitration Association then in effect. The determination of the majority of the arbitrators shall be final and binding on the parties. Judgment may be entered on the award of the arbitrator in any court having proper jurisdiction. All expenses of such arbitration, including the fees and expenses of the counsel of the Executive, shall be borne by the Company and the Executive shall be entitled to reimbursement of his expenses as provided in Section 12.1 hereof.

12.3 Notice . Any notices, requests, demands, or other communications provided for by this Agreement shall be sufficient if in writing and if delivered personally, sent by telecopier, sent by an overnight service or sent by registered or certified mail. Notice to the Executive not delivered personally (or by telecopy where the Executive is known to be) shall be sent to the last address on the books of the Company, and notice to the Company not delivered personally (or by telecopy to the known personal telecopy of the person it is being sent to) shall be sent to it at its principal office. All notices to the Company shall be delivered to the Chief Executive Officer with a copy (not itself constituting notice) to the Executive Vice President, Human Relations. A copy (not itself constituting notice) of any notice to the Executive shall be delivered to Jerry L. Shulman, Williams & Connolly LLP, 725 12th Street, N.W., Washington, D.C. 20005. Delivery shall be deemed to occur on the earlier of actual receipt or tender and rejection by the intended recipient.

12.4 Continued Payments . In the event after a Change in Control either party files for arbitration to resolve any dispute as to whether a termination is for Cause or Good Reason, until such dispute is determined by the arbitrators, the Executive shall continue to be treated economically and benefit wise in the manner asserted by him in the arbitration effective as of the date of the filing of the arbitration, subject to the Executive's promptly refunding any amounts paid to him, paying the cost of any benefits provided to him and paying to the Company the profits in any stock option or other equity awards exercised or otherwise realized by him during the pendency of the arbitration which he is ultimately held not to be entitled to; provided the arbitrators may terminate such payments and benefits in the event that they determine at any point that the Executive is intentionally delaying conclusion of the arbitration.

13. Miscellaneous

13.12 Entire Agreement . This Agreement and each Exhibit hereto, except to the extent specifically provided otherwise herein or therein, supersedes any prior agreements or understandings, oral or written, between the parties hereto with respect to the subject matter hereof and constitutes the entire agreement of the parties with respect to the subject matter hereof. In the event of any discrepancy or conflict between this Agreement and either Exhibit, the provisions of the Exhibit shall prevail. To the extent any severance plan or program of the Company that would apply to the Executive is more generous to the Executive than the provisions hereof, the Executive shall be entitled to any additional payments or benefits that are not duplicative, but shall otherwise not be eligible for such plan or program.

13.2 Modification . This Agreement shall not be varied, altered, modified, canceled, changed, or in any way amended, nor any provision hereof waived, except by mutual agreement of the parties in a written instrument executed by the parties hereto or their legal representatives.

13.3 Severability . In the event that any provision or portion of this Agreement shall be determined to be invalid or unenforceable for any reason, the remaining provisions of this Agreement shall be unaffected thereby and shall remain in full force and effect.

13.4 Counterparts . This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed to be an original, but all of which together will constitute one and the same Agreement.

13.5 Tax Withholding . The Company may withhold from any benefits payable under this Agreement all federal, state, city, or other taxes as may be required pursuant to any law or governmental regulation or ruling.

13.6 Beneficiaries . The Executive may designate one or more persons or entities as the primary and/or contingent beneficiaries of any amounts to be received under this Agreement. Such designation must be in the form of a signed writing acceptable to the Board or the Board's designee. The Executive may make or change such designation at any time.

13.7 Representation . The Executive represents that the Executive's employment by the Company and the performance by the Executive of his obligations under this Agreement do not, and shall not, breach any agreement that obligates him to keep in confidence any trade secrets or confidential or proprietary information of his or of any other party, to write or consult to any other party or to refrain from competing, directly or indirectly, with the business of any other party. The Executive shall not disclose to the Company, and the Company shall not request that the Executive disclose, any trade secrets or confidential or proprietary information of any other party.

14. Governing Law

The provisions of this Agreement shall be construed and enforced in accordance with the laws of the state of Delaware, without regard to any otherwise applicable principles of conflicts of laws.

[signatures begin on next page]

IN WITNESS WHEREOF, the Executive and the Company have executed this Agreement, as of the day and year first above written.

/s/Terrence O'Donnell
TERRENCE O'DONNELL

TEXTRON INC.

By: /s/John D.
Butler
Name: John D. Butler
Title: EVP, Admin and CHRO

Exhibit A **Parachute Gross Up**

(a) In the event that the Executive shall become entitled to payments and/or benefits provided by this Agreement or any other amounts in the "nature of compensation" (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a change of ownership or effective control covered by Section 280G(b)(2) of the Code or any person affiliated with the Company or such person) as a result of such change in ownership or effective control (collectively the "Company Payments"), and such Company Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Code (and any similar tax that may hereafter be imposed by any taxing authority) the Company shall pay to the Executive at the time specified in subsection (d) below an additional amount (the "Gross-up Payment") such that the net amount retained by the Executive, after deduction of any Excise Tax on the Company Payments and any U.S. federal, state, and for local income or payroll tax upon the Gross-up Payment provided for by this paragraph (a), but before deduction for any U.S. federal, state, and local income or payroll tax on the Company Payments, shall be equal to the Company Payments.

(b) For purposes of determining whether any of the Company Payments and Gross-up Payments (collectively the "Total Payments") will be subject to the Excise Tax and the amount of such Excise Tax, (x) the Total Payments shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "parachute payments" in excess of the "base amount" (as defined under Code Section

280G(b)(3) of the Code) shall be treated as subject to the Excise Tax, unless and except to the extent that, in the opinion of the Company's independent certified public accountants appointed prior to any change in ownership (as defined under Code Section 280G(b)(2)) or tax counsel selected by such accountants (the "Accountants") such Total Payments (in whole or in part) either do not constitute "parachute payments," represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the "base amount" or are otherwise not subject to the Excise Tax, and (y) the value of any non-cash benefits or any deferred payment or benefit shall be determined by the Accountants in accordance with the principles of Section 280G of the Code.

(c) For purposes of determining the amount of the Gross-up Payment, the Executive shall be deemed to pay U.S. federal income taxes at the highest marginal rate of U.S. federal income taxation in the calendar year in which the Gross-up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence for the calendar year in which the Company Payment is to be made, net of the maximum reduction in U.S. federal income taxes which could be obtained from deduction of such state and local taxes if paid in such year. In the event that the Excise Tax is subsequently determined by the Accountants to be less than the amount taken into account hereunder at the time the Gross-up Payment is made, the Executive shall repay to the Company, at the time that the amount of such reduction in Excise Tax is finally determined, the portion of the prior Gross-up Payment attributable to such reduction (plus the portion of the Gross-up Payment attributable to the Excise Tax and U.S. federal, state and local income tax imposed on the portion of the Gross-up Payment being repaid by the Executive if such repayment results in a reduction in Excise Tax or a U.S. federal, state and local income tax deduction), plus interest on the amount of such repayment at the rate provided in Section 1274(b)(2)(B) of the Code. Notwithstanding the foregoing, in the event any portion of the Gross-up Payment to be refunded to the Company has been paid to any U.S. federal, state and local tax authority, repayment thereof (and related amounts) shall not be required until actual refund or credit of such portion has been made to the Executive, and interest payable to the Company shall not exceed the interest received or credited to the Executive by such tax authority for the period it held such portion. The Executive and the Company shall mutually agree upon the course of action to be pursued (and the method of allocating the expense thereof) if the Executive's claim for refund or credit is denied.

In the event that the Excise Tax is later determined by the Accountant or the Internal Revenue Service to exceed the amount taken into account hereunder at the time the Gross-up Payment is made (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-up Payment), the Company shall make an additional Gross-up Payment in respect of such excess (plus any interest or penalties payable with respect to such excess) at the time that the amount of such excess is finally determined.

(d) The Gross-up Payment or portion thereof provided for in subsection (c) above shall be paid not later than the thirtieth (30th) day following an event occurring which subjects the Executive to the Excise Tax; provided, however, that if the amount of such Gross-up Payment or portion thereof cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Accountant, of the minimum amount of such payments and shall pay the remainder of such payments (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code), subject to further payments pursuant to subsection (c) hereof, as soon as the amount thereof can reasonably be determined, but in no event later than the ninetieth day after the occurrence of the event subjecting the Executive to the Excise Tax. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth day after demand by the Company (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code).

(e) In the event of any controversy with the Internal Revenue Service (or other taxing authority) with regard to the Excise Tax, the Executive shall permit the Company to control issues related to the Excise Tax (at its expense), provided that such issues do not potentially materially adversely affect the Executive, but the Executive shall control any other issues. In the event the issues are interrelated, the Executive and the Company shall in good faith cooperate so as not to jeopardize resolution of either issue, but if the parties cannot agree the Executive shall make the final determination with regard to the issues. In the event of any conference with any taxing authority as to the Excise Tax or associated income taxes, the Executive shall permit the representative of the Company to accompany the Executive, and the Executive and the Executive's representative shall cooperate with the Company and its representative.

(f) The Company shall be responsible for all charges of the Accountant.

(g) The Company and the Executive shall promptly deliver to each other copies of any written communications, and summaries of any verbal communications, with any taxing authority regarding the Excise Tax covered by this Exhibit A.

**AMENDED AND RESTATED
EXHIBIT B TO
AMENDED AND RESTATED EMPLOYMENT AGREEMENT
OF TERENCE O'DONNELL
DATED AS OF MAY 2, 2006 (the "Employment Agreement")**

The following constitute special compensation provisions to be provided to the Executive by the Company. All initially capitalized terms not otherwise defined in this Exhibit B shall have the same meanings as in the Employment Agreement. This Exhibit B shall be deemed incorporated by reference into and to be part of the Employment Agreement, provided, however, that to the extent, if any, that there is a discrepancy or conflict between the text of the Employment Agreement and this Exhibit B, the provisions of this Exhibit B shall prevail.

1) Hiring Bonus:

The Executive received a special hiring bonus in the amount of \$200,000, subject to withholding and other deductions in accordance with the

Company's usual compensation policies.

2) Performance Share Units:

The Executive was granted initial Performance Share Units ("PSU's") as follows:

- a) Cycle 2000 4,000 PSU's
- b) Cycle 2000-01 6,000 PSU's
- c) Cycle 2000-02 7,500 PSU's

3) Stock Options :

The Executive received an initial grant of non-qualified options to acquire 20,000 shares of voting common stock of the Company, such grant to be pursuant to an agreement in the form of the Company's normal non-qualified stock option agreement for key executives.

4) Special Pension Calculations

a) All long term incentive compensation earned by the Executive (whether or not deferred) pursuant to any long term incentive plan (including without limitation the Performance Share Units) shall be included in measuring the Executive's compensation for purposes of any of the Company's pension plans. Notwithstanding the immediately preceding sentence, for purposes of determining the Executive's benefits under the SERP, the definition of "Compensation" under Section 1.04 of the SERP shall be revised so as to exclude therefrom the value of any Performance Share Units granted to the Executive in respect of the 2006-08 performance cycle or any subsequent performance cycles.

b) There shall be no deduction from or offset to any pension payment or death benefit otherwise due to the Executive from the Company or any affiliated entity (collectively, the "Textron Group") or pursuant to any employee benefit plan, program or policy provided by the Textron Group as a result of or in connection with any amounts available or paid to the Executive that are derived or paid from any defined benefit plan, defined contribution plan or unfunded retirement, withdrawal or death benefit plan of Williams & Connolly LLP ("W&C").

c) In the event that the Executive is involuntarily terminated without Cause or terminates his employment with Good Reason (as such term is defined in the Employment Agreement), in either case prior to reaching age 60, the Executive shall nevertheless be entitled to payment of a pension pursuant to the Executive Supplemental Pension Plan equal to 25% of the pension to which he would have been entitled thereunder upon retirement at age 65.

5) Deferred Income Plan

In the event of (a) a Qualified Termination following a Change in Control, (b) an involuntary termination of the Executive by the Company without Cause or (c) a termination by the Executive for Good Reason, any otherwise unvested premium payable by the Company with respect to any deferred income under the Deferred Income Plan shall be fully vested as of such date.

6) Perquisites

The Executive shall be entitled to:

- a) An executive automobile and related expenses in accordance with normal Company policy for key executives
- b) Financial Planning and Tax Preparation services generally accorded key executives
- c) Club membership (both initiation fees and regular dues) in accordance with normal Company policy for key executives
- d) Payment of or reimbursement for all bar review course fees, bar examination fees, annual dues or similar fees or expenses incurred by the Executive for the purpose of becoming licensed or qualified as an attorney eligible to practice within the State of Rhode Island or in any other jurisdiction in which the Executive in good faith determines he should be so licensed or qualified
- e) Payment or reimbursement for (i) up to six (6) months temporary housing in a furnished "executive suites" or comparable housing in the Providence, Rhode Island metropolitan area, (ii) all local travel, food and entertainment expenses within such metropolitan area while the Executive is housed in such temporary housing, and (iii) reasonable travel, housing, food and other househunting expenses actually incurred by the Executive or members of his immediate family in traveling to, from and within the Providence, Rhode Island metropolitan area in search of long-term housing for the Executive and his family

7) Travel between Providence, Rhode Island and Washington, DC

The parties to the Employment Agreement acknowledge that (a) the Executive will maintain residences in each of the Providence, Rhode Island and Washington, DC metropolitan areas, and (b) the Executive will, in addition to his position with the Company, continue on a limited-time basis as a partner in W&C. The Executive will, therefore, travel frequently between such metropolitan areas. In recognition of such understandings, and in order to clarify the allocation of expenses for such travel, the parties have agreed to the following:

- a) To the extent that the Executive uses transportation equipment or facilities owned or operated by or for any member of the Textron Group, which equipment or facilities are not being diverted from another corporate use to accommodate the Executive, and without regard to the purpose of the Executive's travel, the Executive may utilize such equipment or facilities at no cost to him, provided, however, that to the extent required by any law, the Company shall report appropriate charges for any travel thereupon by the Executive as additional income to the Executive in accordance with such law and normal Company policy.
- b) The parties acknowledge and agree that the Executive will conduct Textron-Group related business in both Providence, Rhode Island and Washington, DC. To the extent that the Executive travels between such metropolitan areas on Textron Group-related business using commercial travel facilities, all such reasonable travel expenses shall be paid for or reimbursed by the Company in accordance with its normal policies for key executives.
- c) To the extent that such travel utilizes commercial travel facilities but is for non-Textron Group related purposes, the Executive shall be responsible for paying for or reimbursing the Company for all such expenses.

8) Special Relationship with W&C

In further recognition of (a) the Executive's continuing relationship with W&C, and (b) the attorney-client relationship between the Company and W&C, the parties have agreed as follows:

- a) The Executive may simultaneously serve the Company as provided for in Section 2 of the Employment Agreement and remain as a part-time partner in W&C, all as set forth in such Section 2.
- b) Any legal services performed by the Executive, whether directly or as a supervisor, on behalf of any member of the Textron Group, regardless of where it is performed, shall be considered as having been performed in his capacity as an officer and employee of the Company and not as a partner of W&C.
- c) Any legal services performed or supervised by any other partner, associate or staff at W&C for any member of the Textron Group, whether or not subject to supervision by the Executive, shall be considered as having been performed by the firm as outside counsel to the Textron Group.
- d) W&C shall not bill the Company for any time spent by the Executive with respect to any matter relating to any member of the Textron Group, nor will it bill the Company for any travel expenses incurred by the Executive in the course of such representation (all of which will be treated as employment-related expenses of the Executive subject to his Employment Agreement). W&C shall bill the Company, however, for all travel expenses of any other partner or employee of W&C, and for all messenger, photocopying and similar office services, all in accordance with its normal billing practices, without regard to whether the Executive directed the incurrence of such services on behalf of any member of the Textron Group or supervised the matter with respect to which such travel or services were ordered.
- e) W&C shall remain free to represent and to provide any services to or on behalf of any other clients to the same extent as if the Executive had no personal affiliation with the Company. The Executive shall timely inform W&C of any matter from which he should, in his good faith judgment, be screened, and W&C may rely in good faith on such determination by the Executive.
- f) The Company will indemnify, defend and hold harmless W&C and its partners, associates and staff from and against any liability, loss, cost or expense (a "Loss") incurred or suffered by any of them, in whatever capacity, in connection with or as a result of any investigation or proceeding of any sort to the extent relating to or arising out of any legal services performed by the Executive (including his supervision of any legal services provided by the firm for or on behalf of any member of the Textron Group) in his capacity as an employee of the Company, provided, however, no such indemnity shall apply if and to the extent that such Loss relates to or arises out of services deemed hereunder to have been performed by the firm for or on behalf of any member of the Textron Group (whether or not such services were supervised by the Executive).
- g) W&C and each other indemnified party under this Section 8 shall be a third party beneficiary thereof, with rights to enforce the provisions thereof to the extent related to such indemnified party.

9) Credit Date Payments

Beginning as of January 1, 2006, and continuing on each anniversary thereof through and including January 1, 2009 (each a " **Credit Date** "),

Textron will credit the Executive's Moody's Account within Textron's Deferred Income Plan for Textron Key Executives (the " **Deferred Income Plan** ") with the sum of \$157,465.00 per year over and above any other deferred income credited to any account of the Executive within the Deferred Income Plan (each such additional payment, a " **Credit Date Payment** "), *provided, however* , that no such additional Credit Date Payment shall be credited as of any Credit Date (a) unless the Executive is, as of such Credit Date, an employee of Textron, or (b) as otherwise provided in Sections 6.3(d) or 8.1(i) of the Agreement. Notwithstanding anything to the contrary set forth in the Employment Agreement or this First Amendment, Credit Date Payments shall not be included in measuring the Executive's compensation for purposes of any of the Company's pension plans.

10) Approvals

To the extent that any commitment or covenant of the Company contained in either the Employment Agreement or this Amended and Restated Exhibit B, including without limitation the provisions of Sections 4 and 5 of this Amended and Restated Exhibit B, shall constitute an exception to normal compensation or benefit policies of the Company for its key executives, the Organization and Compensation Committee of the Board of Directors of the Company shall promptly and expressly approve such exceptions.

SECOND AMENDMENT entered into as of the 4th day of May, 2006 to the employment agreement entered into as of July 23, 1998 (as amended by First Amendment dated as of May 6, 2005 the "Employment Agreement") by and between Textron, Inc., a Delaware corporation, with its principal office at 40 Westminister Street, Providence, Rhode Island 02903 (the "Company") and Lewis B. Campbell (the "Executive").

WITNESSETH :

WHEREAS, the Company and the Executive have previously entered into the Employment Agreement; and

WHEREAS, the Company and Executive desire to amend the Employment Agreement to clarify certain provisions.

NOW, THEREFORE, the parties hereto agree as follows:

1. Section 6.3(b) is amended by adding at the end thereof:

"(the sum of (i) and (ii) being hereinafter referred to as 'Final Annual Compensation')."

2. Section 6.3(e) is amended to read as follows:

- "Two and one-half (2 1/2) additional years of service (including age as if such service was completed) and compensation credit (at the Executive's "Then Compensation Level") for benefit purposes under any defined benefit type retirement plan, including but not limited to the SERP and the SBP if then in effect, and, if the Executive is not eligible to receive benefits under any such plan on the date of termination, two and one-half (2 1/2) additional years of age for determining eligibility to receive such benefits, provided that benefits under any such plan will not commence until the Executive actually attains the required distribution age under the plan or the Executive's spouse qualifies for death benefits under such plan and further provided that, with regard to any plan qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), the additional amounts may be provided on a nonqualified plan basis. "Then Compensation Level" shall mean an annual rate of compensation equal to the sum of (i) Final Annual Compensation and (ii) the performance units and performance share units earned with respect to the measurement periods ending at or about the end of the fiscal year immediately preceding the year of termination (to the extent recognized in the definition of 'Compensation' under the applicable plan; in the case of the SERP as provided in Section 3.4 above such that no amounts deemed earned in respect of performance share units in 2007 (i.e. any grant after the 2004 grant) or later years shall be included in Compensation for purposes of the SERP); provided, however, that with respect to the year of termination, in lieu of utilization of the amount in clause (ii) above, the Executive will be deemed to have received in the year of termination the full amount of performance units and performance share units earned with respect to the measuring periods ending on or about the end of the fiscal year immediately preceding the year of termination (whether or not such amount is actually paid to the Executive prior to the date of termination); provided, further, that, other than as set forth in the immediately preceding proviso, the amounts described in clause (ii) above shall be included in "Compensation" under the plans referred to in this Section 6.3(e) in lieu of any amounts actually paid to the Executive in respect of performance units and performance share units in the year of termination and thereafter."

3. Section 8.1(g) is amended to read as follows:

- "(g) A lump-sum cash payment of the actuarial present value equivalent (as determined in accordance with the most favorable (to the Executive) overall actuarial assumptions and subsidies in any of the Company's tax-qualified or nonqualified type defined benefit pension plans in which the Executive then participates) of the accrued benefits accrued by the Executive as of the date of termination under the terms of any nonqualified defined benefit type retirement plan, including but not limited to, the SERP and the SBP, and assuming the benefit was fully vested (and commenced immediately upon such termination) without regard to any minimum age or service requirements. For this purpose, such benefits shall be calculated under the assumption that the Executive's employment continued following the date of termination for three (3) full years (i.e., three (3) additional years of age (including, but not limited to, for purposes of determining the early retirement factor and the actuarial present value, but not the commencement date of benefits for calculation purposes (all of which shall be deemed to commence on the date of termination)), compensation (at the Executive's Then Compensation Level) and service credits shall be added.)"

4. Section 8.1(j) is amended to insert the words "(at the maximum level)" after the word "units" on the first line thereof.

5. Section 8.1 of the Employment Agreement is amended by adding the following new subsection at the end of such section:

"(n) The Executive shall be entitled to the Performance Bonus, subject to, and in accordance with, Section 3.9 of this Agreement."

6. The Employment Agreement, as amended herein, shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed by its duly and authorized officer and

the Executive has hereunto set his hand as of the date first above written.

TEXTRON INC.

By: /s/Terrence O'Donnell
Name: Terrence O'Donnell
Title: EVP, General Counsel

EXECUTIVE

/s/Lewis B. Campbell
Lewis B. Campbell

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

	Three Months Ended April 1, 2006
<hr/>	
Fixed charges:	
Interest expense	\$ 25
Estimated interest portion of rents	7
<hr/>	
Total fixed charges	\$ 32
Income:	
Income from continuing operations before income taxes	\$ 213
Dividends in excess of pre-tax income of Textron Finance	13
Fixed charges	32
<hr/>	
Adjusted income	\$ 258
Ratio of income to fixed charges	8.06

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

	Three Months Ended April 1, 2006
<hr/>	
Fixed charges:	
Interest expense	\$ 98
Estimated interest portion of rents	7
<hr/>	
Total fixed charges	\$ 105
Income:	
Income from continuing operations before income taxes	\$ 213
Fixed charges	105
<hr/>	
Adjusted income	\$ 318
Ratio of income to fixed charges	3.03

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

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

1. I have reviewed this quarterly report on Form 10-Q of Textron Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - A. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - B. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - C. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - D. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - A. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - B. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2006

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

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

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

1. I have reviewed this quarterly report on Form 10-Q of Textron Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - A. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - B. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - C. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - D. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - A. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - B. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2006

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

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

In connection with the quarterly report of Textron Inc. (the "Company") on Form 10-Q for the period ended April 1, 2006 as filed with the Securities and Exchange Commission on the Date hereof (the "Report"), I, Lewis B. Campbell, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Textron Inc.

Date: May 5, 2006

/s/ Lewis B. Campbell

Lewis B. Campbell
Chairman, President and Chief Executive
Officer

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

In connection with the quarterly report of Textron Inc. (the "Company") on Form 10-Q for the period ended April 1, 2006 as filed with the Securities and Exchange Commission on the Date hereof (the "Report"), I, Ted R. French, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Textron Inc.

Date: May 5, 2006

/s/ Ted R. French

Ted R. French
Executive Vice President and Chief
Financial Officer