

# TEXTRON INC

## FORM 10-Q (Quarterly Report)

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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 March 31, 2007  
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 21, 2007 - 124,595,706 shares

**TEXTRON INC.**

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**PART I. FINANCIAL INFORMATION**

**Item 1. FINANCIAL STATEMENTS**

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

	Three Months Ended	
	March 31, 2007	April 1, 2006
<b>Revenues</b>		
Manufacturing revenues	\$ 2,754	\$ 2,450
Finance revenues	210	182
Total revenues	2,964	2,632
<b>Costs, expenses and other</b>		
Cost of sales	2,180	1,955
Selling and administrative	372	361
Interest expense, net	123	94
Provision for losses on finance receivables	5	9
Total costs, expenses and other	2,680	2,419
Income from continuing operations before income taxes	284	213
Income taxes	(86)	(55)
<b>Income from continuing operations</b>	<b>198</b>	<b>158</b>
(Loss) income from discontinued operations, net of income taxes	(2)	10
<b>Net income</b>	<b>\$ 196</b>	<b>\$ 168</b>
<b>Basic earnings per share:</b>		
Continuing operations	\$ 1.58	\$ 1.21
Discontinued operations, net of income taxes	(0.02)	0.08
<b>Basic earnings per share</b>	<b>\$ 1.56</b>	<b>\$ 1.29</b>
<b>Diluted earnings per share:</b>		
Continuing operations	\$ 1.55	\$ 1.19
Discontinued operations, net of income taxes	(0.02)	0.07
<b>Diluted earnings per share</b>	<b>\$ 1.53</b>	<b>\$ 1.26</b>
<b>Dividends per share :</b>		
\$2.08 Preferred stock, Series A	\$ 0.52	\$ 0.52
\$1.40 Preferred stock, Series B	\$ 0.35	\$ 0.35

Common stock	\$	0.3875	\$	0.3875
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See Notes to the consolidated financial statements.

3.

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

	March 31, 2007	December 30, 2006
<b>Assets</b>		
<b>Manufacturing group</b>		
Cash and cash equivalents	\$ 537	\$ 733
Accounts receivable, less allowance for doubtful accounts of \$33 and \$34	1,079	964
Inventories	2,342	2,069
Other current assets	462	521
<b>Total current assets</b>	<b>4,420</b>	<b>4,287</b>
Property, plant and equipment, less accumulated depreciation and amortization of \$2,198 and \$2,147	1,776	1,773
Goodwill	1,257	1,257
Other assets	1,252	1,233
<b>Total Manufacturing group assets</b>	<b>8,705</b>	<b>8,550</b>
<b>Finance group</b>		
Cash	48	47
Finance receivables, less allowance for losses of \$94 and \$93	8,168	8,217
Goodwill	169	169
Other assets	612	567
<b>Total Finance group assets</b>	<b>8,997</b>	<b>9,000</b>
<b>Total assets</b>	<b>\$ 17,702</b>	<b>\$ 17,550</b>
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
<b>Manufacturing group</b>		
Current portion of long-term debt and short-term debt	\$ 83	\$ 80
Accounts payable	897	814
Accrued liabilities	2,102	2,100
<b>Total current liabilities</b>	<b>3,082</b>	<b>2,994</b>
Other liabilities	2,268	2,329
Long-term debt	1,686	1,720
<b>Total Manufacturing group liabilities</b>	<b>7,036</b>	<b>7,043</b>
<b>Finance group</b>		
Other liabilities	516	499
Deferred income taxes	481	497
Debt	6,991	6,862
<b>Total Finance group liabilities</b>	<b>7,988</b>	<b>7,858</b>
<b>Total liabilities</b>	<b>15,024</b>	<b>14,901</b>
<b>Shareholders' equity</b>		
Capital stock:		
Preferred stock	10	10
Common stock	26	26
Capital surplus	1,820	1,786
Retained earnings	6,347	6,211
Accumulated other comprehensive loss	(631)	(644)
	7,572	7,389

Less cost of treasury shares	4,894	4,740
<b>Total shareholders' equity</b>	<b>2,678</b>	<b>2,649</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 17,702</b>	<b>\$ 17,550</b>
<b>Common shares outstanding</b> (in thousands)	<b>124,506</b>	<b>125,596</b>

See Notes to the consolidated financial statements.

4.

**TEXTRON INC.**  
**Consolidated Statements of Cash Flows (Unaudited)**  
For the Three Months Ended March 31, 2007 and April 1, 2006, respectively  
(In millions)

	<b>Consolidated</b>	
	2007	2006
<b>Cash flows from operating activities:</b>		
Net income	\$ 196	\$ 168
Loss (income) from discontinued operations	2	(10)
Income from continuing operations	198	158
Adjustments to reconcile income from continuing operations to net cash (used in) provided by operating activities:		
Earnings of Finance group, net of distributions	-	-
Depreciation and amortization	74	66
Provision for losses on finance receivables	5	9
Share-based compensation	8	7
Deferred income taxes	-	(5)
Changes in assets and liabilities excluding those related to acquisitions and divestitures:		
Accounts receivable, net	(111)	(104)
Inventories	(288)	(233)
Other assets	33	15
Accounts payable	81	177
Accrued and other liabilities	(12)	41
Captive finance receivables, net	(74)	(73)
Other operating activities, net	21	19
Net cash (used in) provided by operating activities of continuing operations	(65)	77
Net cash used in operating activities of discontinued operations	(5)	(8)
Net cash (used in) provided by operating activities	(70)	69
<b>Cash flows from investing activities:</b>		
Finance receivables:		
Originated or purchased	(2,886)	(2,472)
Repaid	2,340	2,046
Proceeds on receivables sales and securitization sales	591	-
Capital expenditures	(61)	(60)
Proceeds on sale of property, plant and equipment	1	2
Other investing activities, net	14	26
Net cash used in investing activities of continuing operations	(1)	(458)
Net cash provided by (used in) investing activities of discontinued operations	17	(20)
Net cash provided by (used in) investing activities	16	(478)
<b>Cash flows from financing activities:</b>		
Decrease in short-term debt	(720)	(131)
Proceeds from issuance of long-term debt	874	556
Principal payments and retirements of long-term debt	(102)	(52)

Proceeds from employee stock ownership plans	26	107
Purchases of Textron common stock	(171)	(226)
Dividends paid	(49)	(97)
Dividends paid to Manufacturing group	-	-
Net cash (used in) provided by financing activities of continuing operations	(142)	157
Net cash used in financing activities of discontinued operations	-	(1)
Net cash (used in) provided by financing activities	(142)	156
Effect of exchange rate changes on cash and cash equivalents	1	2
<b>Net decrease in cash and cash equivalents</b>	<b>(195)</b>	<b>(251)</b>
Cash and cash equivalents at beginning of period	780	796
Cash and cash equivalents at end of period	\$ 585	\$ 545
<b>Supplemental schedule of non-cash investing and financing activities from continuing operations:</b>		
Capital expenditures financed through capital leases	\$ 5	\$ 5

See Notes to the consolidated financial statements.

5.

**TEXTRON INC.**  
**Consolidated Statements of Cash Flows (Unaudited) (Continued)**  
For the Three Months Ended March 31, 2007 and April 1, 2006, respectively  
(In millions)

	<b>Manufacturing Group*</b>		<b>Finance Group*</b>	
	2007	2006	2007	2006
<b>Cash flows from operating activities:</b>				
Net income	\$ 196	\$ 168	\$ 35	\$ 31
Loss (income) from discontinued operations	2	(10)	-	-
Income from continuing operations	198	158	35	31
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:				
Earnings of Finance group, net of distributions	100	31	-	-
Depreciation and amortization	65	56	9	10
Provision for losses on finance receivables	-	-	5	9
Share-based compensation	8	7	-	-
Deferred income taxes	(2)	(4)	2	(1)
Changes in assets and liabilities excluding those related to acquisitions and divestitures:				
Accounts receivable, net	(111)	(104)	-	-
Inventories	(276)	(214)	-	-
Other assets	33	14	-	(2)
Accounts payable	81	177	-	-
Accrued and other liabilities	(21)	(9)	9	50
Captive finance receivables, net	-	-	-	-
Other operating activities, net	11	16	9	3
Net cash provided by operating activities of continuing operations	86	128	69	100
Net cash used in operating activities of discontinued operations	(5)	(8)	-	-
Net cash provided by operating activities	81	120	69	100
<b>Cash flows from investing activities:</b>				
Finance receivables:				

Originated or purchased	-	-	(3,111)	(2,700)
Repaid	-	-	2,469	2,201
Proceeds on receivables sales and securitization sales	-	-	613	-
Capital expenditures	(59)	(57)	(2)	(3)
Proceeds on sale of property, plant and equipment	1	2	-	-
Other investing activities, net	-	(4)	3	14
Net cash used in investing activities of continuing operations	(58)	(59)	(28)	(488)
Net cash provided by (used in) investing activities of discontinued operations	17	(20)	-	-
Net cash used in investing activities	(41)	(79)	(28)	(488)
<b>Cash flows from financing activities:</b>				
Decrease in short-term debt	(42)	(75)	(678)	(56)
Proceeds from issuance of long-term debt	-	-	874	556
Principal payments and retirements of long-term debt	(1)	(2)	(101)	(50)
Proceeds from employee stock ownership plans	26	107	-	-
Purchases of Textron common stock	(171)	(226)	-	-
Dividends paid	(49)	(97)	-	-
Dividends paid to Manufacturing group	-	-	(135)	(62)
Net cash (used in) provided by financing activities of continuing operations	(237)	(293)	(40)	388
Net cash used in financing activities of discontinued operations	-	(1)	-	-
Net cash (used in) provided by financing activities	(237)	(294)	(40)	388
Effect of exchange rate changes on cash and cash equivalents	1	2	-	-
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(196)</b>	<b>(251)</b>	<b>1</b>	<b>-</b>
Cash and cash equivalents at beginning of period	733	786	47	10
Cash and cash equivalents at end of period	\$ 537	\$ 535	\$ 48	\$ 10

**Supplemental schedule of non-cash investing and financing activities**

**from continuing operations:**

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

See Notes to the consolidated financial statements.

6.

**TEXTRON INC.**

**Notes to the Consolidated Financial Statements (Unaudited)**

**Note 1: Basis of Presentation**

The consolidated interim financial statements included in this quarterly report should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 30, 2006. In the opinion of management, the interim financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for the fair presentation of our consolidated financial position, results of operations and cash flows for the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

Our financings are conducted through two separate borrowing groups. The Manufacturing group consists of Textron Inc., consolidated with the entities that operate in the Bell, Cessna and Industrial segments, while the Finance group consists of the Finance segment, comprised of Textron Financial Corporation and its subsidiaries. We designed this framework to enhance our borrowing power by separating the Finance group. Our

Manufacturing group operations include the development, production and delivery of tangible goods and services, while our Finance group provides financial services. Due to the fundamental differences between each borrowing group's activities, investors, rating agencies and analysts use different measures to evaluate each group's performance. To support those evaluations, we present balance sheet and cash flow information for each borrowing group within the consolidated financial statements. All significant intercompany transactions are eliminated from the consolidated financial statements, including retail and wholesale financing activities for inventory sold by our Manufacturing group that is financed by our Finance group.

## Note 2: Inventories

<i>(In millions)</i>	March 31, 2007	December 30, 2006
Finished goods	\$ 729	\$ 665
Work in process	1,719	1,562
Raw materials	445	435
	2,893	2,662
Less progress/milestone payments	551	593
	\$ 2,342	\$ 2,069

## Note 3: Finance Receivables

In the first quarter of 2007, we adopted Financial Accounting Standards Board ("FASB") Staff Position No. 13-2 "Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction" ("FSP 13-2"). FSP 13-2 requires a recalculation of returns on leveraged leases if there is a change or projected change in the timing of cash flows related to income taxes generated by the leveraged leases. The impact of any estimated change in projected cash flows must be reported as an adjustment to the net leveraged lease investment and retained earnings at the date of adoption. Our Finance group has leveraged leases with an initial investment balance of \$209 million that we estimate could be impacted by changes in the timing of cash flows related to income taxes. Upon the adoption, we reduced retained earnings for the \$33 million cumulative effect of a change in accounting principle, and reduced our investment in these leveraged leases by \$50 million and deferred income tax liabilities by \$17 million.

7.

## Note 4: Comprehensive Income

Our comprehensive income for the periods is provided below:

<i>(In millions)</i>	Three Months Ended	
	March 31, 2007	April 1, 2006
Net income	\$ 196	\$ 168
Other comprehensive income:		
Recognition of prior service cost and unrealized losses on pension and postretirement benefits	15	-
Other	(2)	1
Comprehensive income	\$ 209	\$ 169

## Note 5: Earnings per Share

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

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

Three Months Ended

<i>(In thousands)</i>	March 31, 2007	April 1, 2006
Basic weighted-average shares outstanding	125,047	130,093
Dilutive effect of convertible preferred shares, stock options and restricted stock	2,390	2,763
Diluted weighted-average shares outstanding	127,437	132,856

#### Note 6: Share-Based Compensation

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

<i>(In millions)</i>	Three Months Ended	
	March 31, 2007	April 1, 2006
Compensation expense, net of hedge income or expense	\$ 13	\$ 22
Income tax benefit	(2)	(13)
Total net compensation cost included in net income	\$ 11	\$ 9
Net compensation costs included in discontinued operations	-	1
Net compensation costs included in continuing operations	\$ 11	\$ 8

8.

#### 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 \$28 and \$25 in the first quarter of 2007 and 2006, respectively. We estimate the fair value of options granted on the date of grant using the Black-Scholes option-pricing model. Expected volatilities are based on implied volatilities from traded options on our common stock, historical volatilities and other factors. We use historical data to estimate option exercise behavior, adjusted to reflect anticipated increases in expected life.

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

	Three Months Ended	
	March 31, 2007	April 1, 2006
Dividend yield	2%	2%
Expected volatility	30%	25%
Risk-free interest rate	5%	4%
Expected lives (In years)	5.5	6.0

Stock option activity under the 1999 Long-Term Incentive Plan ("Plan") during the three months ended March 31, 2007 is as follows:

	Number of Options <i>(In thousands)</i>	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life <i>(In years)</i>	Aggregate Intrinsic Value <i>(In millions)</i>
Outstanding at beginning of year	5,420	\$ 63.77		
Granted	924	91.70		
Exercised	(452)	57.43		
Canceled, expired or forfeited	(54)	76.37		
Outstanding at end of period	5,838	\$ 68.57	6.56	\$ 125

Exercisable at end of period	3,972	\$	59.65	5.31	\$	119
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### Restricted Stock

The fair value of restricted stock is based on the trading price of our 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 March 31, 2007 and April 1, 2006 was approximately \$86 and \$82 per share, respectively.

9.

Restricted stock activity under the Plan during the three months ended March 31, 2007 is as follows:

<i>(Shares in thousands)</i>	Number of Shares	Weighted- Average Grant- Date Fair Value
Outstanding at beginning of year, nonvested	1,219	\$ 65.38
Granted	305	86.08
Vested	(92)	56.32
Forfeited	(42)	60.32
Outstanding at end of period, nonvested	1,390	\$ 70.67

### Share-Based Compensation Awards

The value of the share-based compensation awards that vested and/or were paid during the respective periods is as follows:

<i>(In millions)</i>	Three Months Ended	
	March 31, 2007	April 1, 2006
<b>Subject only to service conditions:</b>		
Value of shares, options or units vested	\$ 25	\$ 17
Intrinsic value of cash awards paid	\$ 4	\$ 5
<b>Subject to performance vesting conditions:</b>		
Value of units vested	\$ -	\$ -
Intrinsic value of cash awards paid	\$ 42	\$ 35
Intrinsic value of amounts paid under Deferred Income Plan	\$ 2	\$ 1

### Note 7: Retirement Plans

We provide defined benefit pension plans and other postretirement benefits to eligible employees. The components of net periodic benefit cost for these plans for the three months ended March 31, 2007 and April 1, 2006 are as follows:

<i>(In millions)</i>	Pension Benefits		Postretirement Benefits Other Than Pensions	
	2007	2006	2007	2006
Service cost	\$ 33	\$ 35	\$ 2	\$ 2
Interest cost	73	69	10	10
Expected return on plan assets	(99)	(96)	-	-
Amortization of prior service cost (credit)	4	5	(1)	(1)
Amortization of net loss	13	12	6	6
Net periodic benefit cost	\$ 24	\$ 25	\$ 17	\$ 17

### Note 8: Income Taxes

We adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" ("FIN 48") at the beginning of fiscal 2007, which resulted in an increase of approximately \$22 million to our December 31, 2006 retained earnings balance. FIN 48 provides a comprehensive model for the financial statement recognition, measurement, presentation and

disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Unrecognized tax benefits represent tax positions for which reserves have been established.

10.

As of the date of adoption, our unrecognized tax benefits totaled approximately \$356 million, of which \$225 million in benefits, if recognized, would favorably affect our effective tax rate in any future period. The remaining \$131 million in unrecognized tax benefits are related to discontinued operations. We do not believe that it is reasonably possible that our estimates of unrecognized tax benefits will change significantly in the next 12 months.

We conduct business globally and, as a result, file numerous consolidated and separate income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as Belgium, Canada, Germany, the United Kingdom and the U.S. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 1997 in these major jurisdictions.

We recognize interest and penalties related to unrecognized tax benefits in income tax expense in our consolidated statements of operations. At the date of adoption, we had \$77 million of accrued interest included in other liabilities on our consolidated balance sheet.

### **Note 9: Commitments and Contingencies**

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

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

The Internal Revenue Service ("IRS") has challenged both the ability to accelerate the timing of tax deductions and the amounts of those deductions related to certain leveraged lease transactions within the Finance segment. These transactions, along with other transactions with similar characteristics, have an initial investment of approximately \$209 million. Resolution of these issues may result in an adjustment to the timing of taxable income and deductions that reduce the effective yield of the leveraged lease transactions. In addition, resolution of these issues could result in the acceleration of cash payments to the IRS. Deferred tax liabilities of \$164 million are recorded on our consolidated balance sheet related to these leases at March 31, 2007. We believe that the proposed IRS adjustments are inconsistent with the tax law in existence at the time the leases were originated and intend to vigorously defend our position.

11.

#### *Armed Reconnaissance Helicopter Program*

Bell Helicopter is performing under a U.S. Government contract for System Development and Demonstration ("SDD") of the Armed Reconnaissance Helicopter ("ARH"). In the fourth quarter of 2006, we completed certain phases of the critical design review under the ARH SDD contract and determined the initial production configuration of the aircraft, which included aircraft configuration changes required by the U.S. Government. At the end of 2006, our cost estimates based on this configuration exceeded the fixed pricing contained in the two options the U.S. Government had under this program resulting in a reasonably possible exposure in the range of no loss to a possible loss of \$4 million per aircraft. During the first quarter of 2007, the option for the first production lot (for 6-12 aircraft) expired, while the option for the second lot (for 18-36 aircraft) will expire in December 2007. Certain additional development requirements under the ARH SDD contract must be met before the U.S. Government can exercise the remaining option. Based on the program status at the end of the first quarter, we do not believe it is likely that the option for the second lot, as currently configured, would be exercised by the U.S. Government.

In March, 2007, we received correspondence from the U.S. Government which required that we provide, by April 23, 2007, a written plan

describing a strategy to maximize contract performance, while minimizing negative cost and schedule impact to the U.S. Government. The correspondence also indicated specific limitations of government funding on the ARH SDD contract, but allowed us to continue program development efforts at our risk if we so chose. The U.S. Government has indicated that after review of our plan, it will make a decision to either continue with ARH SDD development, or terminate the contract. We are committed to the ARH program, and believe that the U.S. Government will continue with the program.

Although not contractually obligated to do so, we have continued to work under the ARH SDD contract, as well as efforts to secure long-lead materials for the anticipated production aircraft, at our risk. At March 31, 2007, our costs incurred and supplier obligations related to the ARH program in excess of contract funding are estimated to be approximately \$25 million, which have been expensed in the first quarter of 2007. We expect to continue to expense development costs and supplier obligations until discussions with the U.S. Government are resolved, because recovery of these amounts cannot be assured at this time.

Should the U.S. Government choose to continue with the ARH program, production aircraft requirements may be changed under a new or modified contract to include revised aircraft specifications, pricing and delivery schedules. We cannot determine the impact of such changes until discussions with the U.S. Government are resolved. Alternatively, should the U.S. Government choose to terminate the ARH program, we would incur additional costs specifically related to the termination. The timing and amount of these costs and their recoverability would depend on the nature of the termination and costs incurred.

#### **Note 10: Guarantees and Indemnifications**

As disclosed under the caption “Guarantees and Indemnifications” in Note 17 to the consolidated financial statements in Textron’s 2006 Annual Report on Form 10-K, Textron has issued or is party to certain guarantees. As of March 31, 2007, there has been no material change to these guarantees.

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

12.

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

	Three Months Ended	
	March 31, 2007	April 1, 2006
<i>(In millions)</i>		
Accrual at the beginning of period	\$ 315	\$ 318
Provision	45	50
Settlements	(46)	(43)
Adjustments to prior accrual estimates	6	(10)
Accrual at the end of period	\$ 320	\$ 315

#### **Note 11: Recently Announced Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements.” This Statement replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value and expands financial statement disclosures regarding fair value measurements. This Statement applies only to fair value measurements that already are required or permitted by other accounting standards and does not require any new fair value measurements. SFAS No. 157 is effective for the first quarter of 2008, and we currently are evaluating the impact of adoption on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment to FASB Statement No. 115.” SFAS 159 allows companies to choose to measure eligible assets and liabilities at fair value with changes in value recognized in earnings. Fair value treatment for eligible assets and liabilities may be elected either prospectively upon initial recognition, or if an event triggers a new basis of accounting for an existing asset or liability. SFAS 159 is effective in the first quarter of 2008, and we currently are evaluating the impact of adoption on our financial position and results of operations.

#### **Note 12: Segment Information**

Our four reportable segments are: Bell, Cessna, Industrial and Finance. These segments reflect the manner in which we manage our operations. Segment profit is an important measure used to evaluate performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense, certain corporate expenses and special charges. The measurement for the Finance segment includes interest income and expense and excludes special charges. Provisions for losses on finance receivables involving the sale or lease of our products are recorded by the selling manufacturing division when our Finance group has recourse to the Manufacturing group.

13.

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

<i>(In millions)</i>	Three Months Ended	
	March 31, 2007	April 1, 2006
<b>REVENUES</b>		
MANUFACTURING:		
Bell	\$ 939	\$ 783
Cessna	968	869
Industrial	847	798
	2,754	2,450
FINANCE	210	182
Total revenues	\$ 2,964	\$ 2,632
<b>SEGMENT OPERATING PROFIT</b>		
MANUFACTURING:		
Bell	\$ 91	\$ 69
Cessna	155	117
Industrial	60	49
	306	235
FINANCE	52	49
Segment profit	358	284
Corporate expenses and other, net	(50)	(49)
Interest expense, net	(24)	(22)
Income from continuing operations before income taxes	\$ 284	\$ 213

14.

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

### **Consolidated Results of Operations**

#### **Business Overview**

In the first quarter, we continued to realize the benefits of our focus to drive revenue growth and improve operational efficiencies as earnings per share from continuing operations increased 30% to \$1.55 compared to the corresponding quarter of 2006. Revenues were \$3 billion, a 13% increase over the first quarter of last year as each of our segments reported higher revenues, while organic revenue growth (sales from existing business, excluding the effects of foreign exchange and mergers and acquisition activity) was nearly 11%.

Our revenue growth was largely due to a favorable mix of Citation business jets at Cessna and higher armored security vehicle ("ASV") deliveries in the Bell segment. Increased revenues in the Industrial segment reflected higher volume at Kautex and increased European volume in Greenlee's electrical tools business. Finance revenues benefited from an increase of about \$500 million in managed receivables since the end of last year. Earnings increased due to the impact of the higher revenues and our improved operating performance, which drove the increase in earnings per share. Additionally, the number of diluted weighted-average shares outstanding has decreased by 5.4 million shares compared to the

shares outstanding in the corresponding quarter of 2006, primarily due to our share repurchase program. This decrease in the share base outstanding contributed \$0.06 of the earnings per share growth in the current quarter.

Backlog in the Cessna and Bell Helicopter businesses grew to nearly \$12 billion in the first quarter largely due to an increase of approximately \$500 million at Cessna, as new business jet orders outpaced deliveries by nearly two to one. The continued strength in Citation orders gives us confidence in the sustainability of this market cycle.

## Revenues

In the first quarter of 2007, our revenues increased \$332 million compared with the corresponding quarter in 2006 primarily due to higher manufacturing sales volume and product mix of \$157 million, higher pricing of \$71 million, favorable foreign exchange impact of \$35 million in the Industrial segment, the reimbursement of costs related to Hurricane Katrina of \$28 million and the benefit from acquisitions of \$27 million, largely due to Overwatch Systems. Additionally, revenues in our Finance segment increased \$28 million. These increases were partially offset by the 2006 divestiture of non-core product lines of \$16 million in the Industrial segment.

## Segment Profit

Our segment profit increased \$74 million in the first quarter of 2007, compared with the corresponding quarter in 2006, primarily due to higher pricing of \$71 million, favorable cost performance of \$43 million and the net benefit from higher volume and product mix of \$14 million, partially offset by inflation of \$50 million.

15.

## Income Taxes

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

	Three Months Ended	
	March 31, 2007	April 1, 2006
Federal statutory income tax rate	35.0%	35.0%
Increase (decrease) in taxes resulting from:		
State income taxes	0.7	1.6
Foreign tax rate differential	(2.1)	(3.1)
Manufacturing deduction	(1.4)	(0.5)
Export sales benefit	-	(1.1)
Canadian functional currency	(0.5)	-
Favorable tax settlements	-	(5.6)
Other, net	(1.4)	(0.5)
Effective income tax rate	30.3%	25.8%

## Segment Analysis

Our four reportable segments are: Bell, Cessna, Industrial and Finance. These segments reflect the manner in which we manage our operations. Segment profit is an important measure used to evaluate performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense, certain corporate expenses and special charges. The measurement for the Finance segment includes interest income and expense and excludes special charges.

## Bell

<i>(In millions)</i>	Three Months Ended	
	March 31, 2007	April 1, 2006
Revenues	\$ 939	\$ 783
Segment profit	91	69

## Revenues

### *U.S. Government Business*

In the first quarter of 2007, revenues increased \$129 million, compared with 2006 primarily due to higher net volume and mix of \$87 million, the reimbursement of costs related to Hurricane Katrina of \$28 million and the benefit from acquisitions of \$16 million. The volume increase is primarily due to higher ASV deliveries of \$63 million, higher H-1 revenue of \$52 million and higher Intelligent Battlefield Systems volume of \$15 million, partially offset by lower volume of \$27 million for Joint Direct Attack Munition and Sensor Fuzed Weapon products and \$16 million in lower helicopter spares and service sales.

### *Commercial Business*

In the first quarter of 2007, commercial revenues increased \$27 million, compared with 2006 primarily due to higher pricing of \$19 million and the benefit from acquisitions of \$11 million. Our commercial business volume was slightly lower as the impact of lower Huey II kit deliveries of \$22 million was largely offset by higher volume of commercial helicopters of \$13 million and other commercial deliveries of \$6 million.

16.

## **Segment Profit**

### *U.S. Government Business*

In the first quarter of 2007, profit in our U.S. Government business increased \$12 million, compared with 2006. The increase was primarily due to improved performance of \$14 million and the impact from the higher net volume and mix of \$7 million, partially offset by the unfavorable impact from inflation and pricing of \$6 million. The favorable performance reflected the Hurricane Katrina cost reimbursement of \$28 million and lower charges of \$8 million recorded on the H-1 program, partially offset by higher charges recorded for the Armed Reconnaissance Helicopter (“ARH”) program of \$22 million due to a \$25 million charge in 2007 and lower V-22 profitability of \$8 million.

Bell Helicopter is performing under a U.S. Government contract for System Development and Demonstration (“SDD”) of the ARH. In the fourth quarter of 2006, we completed certain phases of the critical design review under the ARH SDD contract and determined the initial production configuration of the aircraft, which included aircraft configuration changes required by the U.S. Government. At the end of 2006, our cost estimates based on this configuration exceeded the fixed pricing contained in the two options the U.S. Government had under this program resulting in a reasonably possible exposure in the range of no loss to a possible loss of \$4 million per aircraft. During the first quarter of 2007, the option for the first production lot (for 6-12 aircraft) expired, while the option for the second lot (for 18-36 aircraft) will expire in December 2007. Certain additional development requirements under the ARH SDD contract must be met before the U.S. Government can exercise the remaining option. Based on the program status at the end of the first quarter, we do not believe it is likely that the option for the second lot, as currently configured, would be exercised by the U.S. Government.

In March, 2007, we received correspondence from the U.S. Government which required that we provide, by April 23, 2007, a written plan describing a strategy to maximize contract performance, while minimizing negative cost and schedule impact to the U.S. Government. The correspondence also indicated specific limitations of government funding on the ARH SDD contract, but allowed us to continue program development efforts at our risk if we so chose. The U.S. Government has indicated that after review of our plan, it will make a decision to either continue with ARH SDD development, or terminate the contract. We are committed to the ARH program, and believe that the U.S. Government will continue with the program.

Although not contractually obligated to do so, we have continued to work under the ARH SDD contract, as well as efforts to secure long-lead materials for the anticipated production aircraft, at our risk. At March 31, 2007, our costs incurred and supplier obligations related to the ARH program in excess of contract funding are estimated to be approximately \$25 million, which have been expensed in the first quarter of 2007. We expect to continue to expense development costs and supplier obligations until discussions with the U.S. Government are resolved, because recovery of these amounts cannot be assured at this time.

Should the U.S. Government choose to continue with the ARH program, production aircraft requirements may be changed under a new or modified contract to include revised aircraft specifications, pricing and delivery schedules. We cannot determine the impact of such changes until discussions with the U.S. Government are resolved. Alternatively, should the U. S. Government choose to terminate the ARH program, we would incur additional costs specifically related to the termination. The timing and amount of these costs and their recoverability would depend on the nature of the termination and costs incurred.

### *Commercial Business*

In the first quarter of 2007, commercial profit increased \$10 million, compared with 2006 primarily due to higher pricing of \$19 million and favorable cost performance of \$7 million, partially offset by the net impact of lower volume and an unfavorable product mix of \$12 million and inflation of \$9 million.

17.

## Cessna

<i>(In millions)</i>	Three Months Ended	
	March 31, 2007	April 1, 2006
Revenues	\$ 968	\$ 869
Segment profit	155	117

### Revenues

Revenues at Cessna increased \$99 million in the first quarter of 2007, compared with 2006 due to favorable Citation jet mix of \$63 million and pricing of \$44 million. We delivered 67 Citation business jets in both the first quarter of 2007 and 2006.

### Segment Profit

Segment profit increased \$38 million at Cessna in the first quarter of 2007, compared with 2006 primarily due to higher pricing of \$44 million and the impact of favorable product mix of \$17 million, partially offset by inflation of \$18 million and increased product development expenses of \$7 million.

## Industrial

<i>(In millions)</i>	Three Months Ended	
	March 31, 2007	April 1, 2006
Revenues	\$ 847	\$ 798
Segment profit	60	49

### Revenues

Revenues in the Industrial segment increased \$49 million in the first quarter of 2007, compared with 2006 primarily due to favorable foreign exchange impact of \$35 million, higher volume of \$18 million and higher pricing of \$10 million, partially offset by the divestiture of non-core product lines of \$16 million.

### Segment Profit

Segment profit in the Industrial segment increased \$11 million in the first quarter of 2007, compared with 2006 mainly due to \$19 million of improved cost performance and higher pricing of \$10 million, partially offset by \$19 million of inflation.

## Finance

<i>(In millions)</i>	Three Months Ended	
	March 31, 2007	April 1, 2006
Revenues	\$ 210	\$ 182
Segment profit	52	49

### Revenues

Revenues in the Finance segment increased \$28 million in the first quarter of 2007, compared with 2006. The increase was primarily due to a \$33 million increase related to higher average finance receivables and an \$11 million increase from a higher interest rate environment, partially offset by \$11 million in lower leveraged lease earnings due to an unfavorable cumulative earnings adjustment attributable to the recognition of a residual value impairment. Average finance receivables increased primarily due to growth in the distribution and aviation finance businesses.

18.

### Segment Profit

Segment profit in the Finance segment increased \$3 million in the first quarter of 2007, compared with 2006 primarily due to a benefit from higher average finance receivables of \$16 million, partially offset by \$11 million in lower leveraged lease earnings due to an unfavorable cumulative earnings adjustment attributable to the recognition of a residual value impairment.

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

<i>(Dollars in millions)</i>	March 31, 2007	December 30, 2006
Nonperforming assets	\$ 116	\$ 113
Ratio of nonperforming assets to total finance assets	1.32%	1.28%
Ratio of allowance for losses on receivables to nonaccrual finance receivables	123.2%	123.1%
60+ days contractual delinquency as a percentage of finance receivables	0.80%	0.77%

The Finance segment has continued to sustain favorable portfolio quality. Net charge-offs for the first quarter of 2007 totaled \$4 million compared with \$5 million in the corresponding period of 2006.

## Liquidity and Capital Resources

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

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

The debt (net of cash)-to-capital ratio for our Manufacturing group as of March 31, 2007 was 32%, compared with 29% at December 30, 2006, and the gross debt-to-capital ratio was 40% at both March 31, 2007 and December 30, 2006. Our Manufacturing group targets a gross debt-to-capital ratio that is consistent with an A rated company.

19.

We have a policy of maintaining unused committed bank lines of credit in an amount not less than outstanding commercial paper balances. These facilities are in support of commercial paper and letters of credit issuances only, and neither of these primary lines of credit was drawn at March 31, 2007 or December 30, 2006.

Our primary committed credit facilities at March 31, 2007 include the following:

<i>(In millions)</i>	Facility Amount	Commercial Paper Outstanding	Letters of Credit Outstanding	Amount Not Reserved as Support for Commercial Paper and Letters of Credit
Manufacturing group - multi-year facility expiring in 2011*	\$ 1,250	\$ -	\$ 19	\$ 1,231
Finance group - multi-year facility expiring in 2011	\$ 1,750	\$ 1,035	\$ 12	\$ 703

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

Both of these facilities were amended in April 2007, and the expiration dates were extended by one year to 2012.

At March 31, 2007, our Finance group had \$2.6 billion in debt and \$432 million in other liabilities that are payable within the next 12 months.

### Operating Cash Flows of Continuing Operations

<i>(In millions)</i>	Three Months Ended	
	March 31, 2007	April 1, 2006
Manufacturing group	\$ 86	\$ 128
Finance group	69	100
Reclassifications and elimination adjustments	(220)	(151)
Consolidated	\$ (65)	\$ 77

Our consolidated operating cash flows decreased in the first quarter of 2007 compared with the first quarter of 2006 primarily due to the timing of payments of accounts payable for the Manufacturing group and accrued interest for the Finance group, as well as increased inventory levels to support continued growth in our Cessna and Bell Helicopter businesses.

Reclassifications between operating and investing cash flows and eliminations adjustments for the quarters are summarized below:

<i>(In millions)</i>	Three Months Ended	
	March 31, 2007	April 1, 2006
Reclassifications from investing activities:		
Finance receivable originations for Manufacturing group		
inventory sales	\$ (225)	\$ (228)
Cash received from customers and securitizations for		
captive financing	151	155
Other	(11)	(16)
Total reclassifications from investing activities	(85)	(89)
Dividends paid by Finance group to Manufacturing group	(135)	(62)
Total reclassifications and adjustments	\$ (220)	\$ (151)

20.

In the first quarter of 2007, the Finance group increased the dividends it paid to the Manufacturing group by \$73 million, compared to the corresponding quarter in 2006. The payment of these dividends represents the distribution of the Finance group's retained earnings to achieve its targeted leverage ratio.

### Investing Cash Flows of Continuing Operations

<i>(In millions)</i>	Three Months Ended	
	March 31, 2007	April 1, 2006
Manufacturing group	\$ (58)	\$ (59)
Finance group	(28)	(488)
Reclassifications to operating activities	85	89
Consolidated	\$ (1)	\$ (458)

Our consolidated investing cash flows increased largely due to proceeds received from the incremental securitization of \$588 million in distribution finance receivables, partially offset by a net increase of \$120 million in finance receivable originations, net of collections.

### Financing Cash Flows of Continuing Operations

<i>(In millions)</i>	Three Months Ended	
	March 31, 2007	April 1, 2006
Manufacturing group	\$ (237)	\$ (293)
Finance group	(40)	388
Dividends paid by Finance group to Manufacturing group	135	62

The decrease in our consolidated financing cash flows during the first quarter of 2007 is due primarily to a reduction in short-term debt issuances, net of repayments, of \$589 million, partially offset by an increase in proceeds from the issuance of long-term debt by the Finance group of \$318 million. The reduction in short-term debt issuances was primarily related to the Finance group where the proceeds from receivable sales and securitizations were used to fund receivable originations during the first quarter of 2007.

#### *Stock Repurchases*

In the first quarter of 2007 and 2006, we repurchased 1,762,592 and 2,576,572 shares of common stock, respectively, under Board-authorized share repurchase programs for an aggregate cost of \$164 million and \$219 million, respectively.

#### *Dividends*

Our Board of Directors approved a quarterly dividend of \$0.3875 in the first quarter of 2007 and 2006. We made dividend payments to shareholders of \$49 million in the first quarter of 2007, compared with \$97 million in the first quarter of 2006. The decrease in dividend payments reflects the fourth quarter 2005 dividend that was paid in the first quarter of 2006, while the fourth quarter 2006 dividend was paid in the fourth quarter.

### **Capital Resources**

Under a shelf registration statement previously filed with the Securities and Exchange Commission, our Manufacturing group may issue public debt and other securities in one or more offerings up to a total maximum offering of \$2.0 billion. At March 31, 2007, we had \$1.6 billion available under this registration statement.

Under a previously filed registration statement, the Finance group may issue an unlimited amount of public debt. Our Finance group issued \$530 million of term debt and CAD 60 million of term debt during the first quarter of 2007 under this registration statement. We used the proceeds from these issuances to fund receivable growth and repay short-term debt. In addition, during the first quarter of 2007, the Finance group issued \$300 million of 6%

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Fixed-to-Floating Rate Junior Subordinated Notes, which mature on February 15, 2067. The Finance group has the right to redeem the notes at par on or after February 15, 2017, and is obligated to redeem the notes beginning on February 15, 2042, the redemption of which must be made from the sale of certain replacement capital securities or a capital contribution from Textron.

### **Foreign Exchange Risks**

Our financial results are affected by changes in foreign currency exchange rates and economic conditions in the foreign markets in which our products are manufactured and/or sold. For the first quarter of 2007, the impact of foreign exchange rate changes from the first quarter of 2006 increased revenues by approximately \$35 million (1.3%) and increased segment profit by approximately \$2 million (0.6%).

### **Recently Announced Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements." This Statement replaces multiple existing definitions of fair value with a single definition, establishes a consistent framework for measuring fair value and expands financial statement disclosures regarding fair value measurements. This Statement applies only to fair value measurements that already are required or permitted by other accounting standards and does not require any new fair value measurements. SFAS No. 157 is effective for the first quarter of 2008, and we currently are evaluating the impact of adoption on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment to FASB Statement No. 115." SFAS 159 allows companies to choose to measure eligible assets and liabilities at fair value with changes in value recognized in earnings. Fair value treatment for eligible assets and liabilities may be elected either prospectively upon initial recognition, or if an event triggers a new basis of accounting for an existing asset or liability. SFAS 159 is effective in the first quarter of 2008, and we currently are evaluating the impact of adoption on our financial position and results of operations.

### **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 demand for our products, interest rates 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 U.S. 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 ability to control costs and successful implementation of various cost-reduction programs; [g] the timing of new product launches and certifications of new aircraft products; [h] the occurrence of slowdowns or downturns in customer markets in which Textron products are sold or supplied or where Textron Financial Corporation offers financing; [i] changes in aircraft delivery schedules or cancellation of orders; [j] the impact of changes in tax legislation; [k] 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; [l] Textron's ability to offset, through cost reductions, pricing pressure brought by original equipment manufacturer customers; [m] Textron's ability to realize full value of receivables; [n] the availability and cost of insurance; [o] increases in pension expenses and other postretirement employee

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costs; [p] Textron Financial Corporation's ability to maintain portfolio credit quality; [q] Textron Financial Corporation's access to debt financing at competitive rates; [r] uncertainty in estimating contingent liabilities and establishing reserves to address such contingencies; [s] performance of acquisitions; [t] the efficacy of research and development investments to develop new products; [u] the launching of significant new products or programs which could result in unanticipated expenses; and [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.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There has been no significant change in our exposure to market risk during the first quarter of 2007. For discussion of our exposure to market risk, refer to Item 7A. Quantitative and Qualitative Disclosures about Market Risk contained in Textron's 2006 Annual Report on Form 10-K.

**Item 4. CONTROLS AND PROCEDURES**

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chairman, President and Chief Executive Officer (the "CEO") and our Executive Vice President and Chief Financial Officer (the "CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Act")) as of the end of the fiscal quarter covered by this report. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures are effective in providing reasonable assurance that (a) the information required to be disclosed by us in the reports that we file or submit under the Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (b) such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

There were no changes in our internal control over financial reporting during the fiscal quarter ended March 31, 2007 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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

**Issuer Repurchases of Equity Securities**

	Total Number of Shares Purchased	Average Price Paid per Share (Excluding Commissions)	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Plan
Month 1 (December 31, 2006 - February 3, 2007)	606,941	\$ 93.05	606,941	3,780,859
Month 2 (February 4, 2007 - March 3, 2007)	675,651	\$ 95.02	675,651	3,105,208
Month 3 (March 4, 2007 - March 31, 2007)	480,000	\$ 90.48	480,000	2,625,208
<b>Total</b>	<b>1,762,592</b>	<b>\$ 93.10</b>	<b>1,762,592</b>	

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.

On March 1, 2007, Textron issued 1,000 shares of its Common Stock to James L. Ziemer upon his joining Textron's Board of Directors pursuant to Textron's practice of issuing 1,000 shares of its Common Stock to each new non-employee Director. The sale or transfer of these shares is restricted, and the shares were not registered under the Securities Act of 1933 pursuant to the exemption afforded by section 4(2) of that Act for transactions by an issuer not involving any public offering.

#### **Item 5. OTHER INFORMATION**

Because this Quarterly Report on Form 10-Q is being filed within four business days from the date of the reportable event, 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 5.02 -- Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

At our annual meeting of shareholders held on April 25, 2007, shareholders approved the Textron Inc. Short-Term Incentive Plan and the Textron Inc. 2007 Long-Term Incentive Plan.

#### **Textron Inc. Short-Term Incentive Plan**

The Textron Inc. Short-Term Incentive Plan (the "Short-Term Plan") has materially the same components as the previous Annual Incentive Plan, which was terminated upon approval of the Short-Term Plan. The Short-Term Plan permits the awarding of cash bonuses to employees of Textron and its subsidiaries based on the achievement of pre-established performance goals. The maximum amount payable to any participant for any plan year is \$4,000,000. The Short-Term Plan will be administered by the Organization and Compensation Committee of our Board of Directors (the "O&C Committee"), which may, to the extent specified in the Short-Term Plan, delegate its responsibilities. For each executive officer of Textron, the O&C Committee will establish objective written performance goals. Following the end of each plan year or other performance period, the O&C Committee will certify the extent to which performance goals have been achieved and compute the final amounts to be paid to each participant. Further information on the Short-Term Plan appears on pages 46-47 of Textron's 2007 annual meeting Proxy Statement dated March 19, 2007. The full text of the Short-Term Plan is attached as Exhibit 10.1 to this Report.

24.

#### **Textron Inc. 2007 Long-Term Incentive Plan**

The Textron Inc. 2007 Long-Term Incentive Plan (the "2007 Plan") has materially the same components as the Textron 1999 Long-Term Incentive Plan (the "1999 Plan"), under which no further awards will be made. The 2007 Plan authorizes the grant of stock options, stock appreciation rights, performance stock, restricted stock, restricted stock units, performance share units and other awards. The 2007 Plan authorizes the issuance of up to 6,000,000 shares of Textron common stock ("Shares"), 1,500,000 of which may be issued in connection with full-value awards such as restricted stock, restricted stock units, performance stock and performance share units. Only awards settled in Shares will count against these totals. No remaining Shares available for grant from the 1999 Plan will be brought forward to add to these totals, although any shares that become available for issuance upon cancellation, forfeiture or expiration of awards granted under the 1999 Plan without having been exercised or settled will be added to the totals referred to above. In the case of awards under the 2007 Plan that are denominated and intended to be settled in Shares but which are forfeited or cancelled or otherwise expire without having been exercised or settled in shares, the corresponding Shares again will be available for issuance under the 2007 Plan. In addition to these aggregate limits, no more than 200,000 shares may be made subject to stock options or stock appreciation rights granted to a participant in any calendar year, no more than 200,000 shares may

be granted to a participant in any calendar year in connection with awards to be settled in Shares other than stock options or stock appreciation rights, no more than \$15 million may be paid to any participant in any calendar year with respect to awards settled in cash and a maximum of 5% of the Shares available under the 2007 Plan may be issued as restricted stock, restricted stock units, performance stock or performance share units not subject to certain minimum vesting conditions.

The 2007 Plan will be administered by the O&C Committee, which may, to the extent specified in the 2007 Plan, delegate some or all of its authority under the 2007 Plan. The O&C Committee has the responsibility to select participants, which may include employees and non-employee directors of Textron and its subsidiaries and certain other persons.

Except as specifically authorized by Textron's shareholders, no stock option or stock appreciation right may be directly or indirectly repriced. Except in the case of certain substitute awards, the exercise price of a stock option may not be less than the closing price of a share on the date of grant. No stock option granted under the 2007 Plan may have a term in excess of ten years, and stock options intended to qualify as incentive stock options are subject to additional restrictions and limitations. Further information on the 2007 Plan appears on pages 47-50 of Textron's 2007 annual meeting Proxy Statement dated March 19, 2007. The full text of the 2007 Plan is attached as Exhibit 10.2 to this Report.

25.

**Item 6. EXHIBITS**

- |      |   |
|------|---|
| 10.1 | Textron Inc. Short-Term Incentive Plan  |
| 10.2 | Textron Inc. 2007 Long-Term Incentive Plan  |
| 12.1 | Computation of ratio of income to fixed charges of Textron Inc. Manufacturing Group                       |
| 12.2 | Computation of ratio of income to fixed charges of Textron Inc. including all majority-owned subsidiaries |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002        |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002        |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350                               |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350                               |

26.

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: April 30, 2007

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	Textron Inc. Short-Term Incentive Plan
10.2	Textron Inc. 2007 Long-Term Incentive Plan
12.1	Computation of ratio of income to fixed charges of Textron Inc. Manufacturing Group
12.2	Computation of ratio of income to fixed charges of Textron Inc. including all majority-owned subsidiaries
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Rule 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer Pursuant to Rule 18 U.S.C. Section 1350

## TEXTRON INC. SHORT-TERM INCENTIVE PLAN

### SECTION 1. ESTABLISHMENT AND PURPOSE

1.1 *Establishment of the Plan.* Textron Inc., a Delaware company (the “*Company*”), hereby establishes a short-term incentive compensation plan to be known as the Textron Inc. Short-Term Incentive Plan (the “*Plan*”). The Plan permits the awarding of cash bonuses to Employees (as defined below), based on the achievement of performance goals that are pre-established by the Board of Directors of the Company (the “*Board*”) or by the Committee (as defined below).

Upon approval by the Board, subject to approval by the shareholders of the Company at the 2007 annual general meeting of shareholders, the Plan shall become effective as of January 1, 2007 and continue until December 31, 2016, unless terminated earlier as set forth in Section 10.

1.2 *Purpose.* The purposes of the Plan are to (i) provide greater motivation for certain employees of the Company and its Subsidiaries (as defined below) to attain and maintain the highest standards of performance, (ii) attract and retain employees of outstanding competence, and (iii) direct the energies of employees towards the achievement of specific business goals established for the Company and its Subsidiaries.

The purposes of the Plan shall be carried out by the payment to Participants (as defined below) of short-term incentive cash awards, subject to the terms and conditions of the Plan. All compensation payable under this Plan to Participants who are Executive Officers (as defined below) is intended to be deductible by the Company under Section 162(m) of the Code (as defined below).

### SECTION 2. DEFINITIONS

As used in the Plan, the following terms shall have the meanings set forth below (unless otherwise expressly provided).

“*Award Opportunity*” means the various levels of incentive awards which a Participant may earn under the Plan, as established by the Committee pursuant to Section 5.1.

“*Base Salary*” shall mean the regular annualized base salary (determined as of January 1 of each Plan Year with respect to Executive Officers) earned by a Participant during a Plan Year prior to any salary reduction contributions made to any deferred compensation plans sponsored or maintained by the Company or by any Subsidiary; *provided, however*, that Base Salary shall not include awards under this Plan, any bonuses, equity awards, the matching contribution under any plan of the Company or any of its Subsidiaries (as applicable) providing such, overtime, relocation allowances, severance payments or any other special awards as determined by the Committee.

“*Beneficial Owner*” shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

“*Board*” has the meaning set forth in Section 1.1.

“*Code*” means the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

“*Committee*” means the Organization and Compensation Committee of the Board, provided that the Committee shall consist of three or more individuals, appointed by the Board to administer the Plan, pursuant to Section 3, who are “outside directors” to the extent required by and within the meaning of Section 162(m) of the Code, as amended from time to time.

“*Company*” has the meaning set forth in Section 1.1.

“*Effective Date*” means the date the Plan becomes effective, as set forth in Section 1.1 herein.

“*Employee*” means an employee of the Company or a Subsidiary.

“*Exchange Act*” means the Securities Exchange Act of 1934, as amended from time to time.

“*Executive Officer*” means a “covered employee” within the meaning of Section 162(m)(3) of the Code or any other executive designated by the Committee for purposes of exempting compensation payable under the Plan from the deduction limitations of Section 162(m) of the Code.

“*Final Award*” means the actual award earned during a Plan Year by a Participant, as determined by the Committee at the end of such

Plan Year.

“ *Participant* ” means an Employee who is participating in the Plan pursuant to Section 4.

“ *Plan* ” means this Textron Inc. Short-Term Incentive Plan.

“ *Plan Year* ” means the calendar year, commencing on January 1<sup>st</sup> and ending on December 31<sup>st</sup>.

“ *Subsidiary* ” means any company or corporation in which the Company beneficially owns, directly or indirectly, 50% or more of the securities entitled to vote in the election of the directors of the corporation.

“ *Target Incentive Award* ” means the award to be paid to a Participant when performance measures are achieved, as established by the Committee. For an individual, the Target Incentive Award is typically expressed as a percentage of the individual’s Base Salary (as defined above.)

### **SECTION 3. ADMINISTRATION**

The Plan shall be administered by the Committee. Subject to the limitations set forth in the Plan, the Committee shall: (i) select from the Employees of the Company and its Subsidiaries, those who shall participate in the Plan, (ii) establish Award Opportunities in such forms and amounts as it shall determine, (iii) impose such limitations, restrictions, and conditions upon such Award Opportunities as it shall deem appropriate, (iv) interpret the Plan and adopt, amend, and rescind administrative guidelines and other rules and regulations relating to the Plan, (v) make any and all factual and legal determinations in connection with the administration and interpretation of the Plan, (vi) correct any defect or omission or reconcile any inconsistency in this Plan or in any Award Opportunity granted hereunder, and (vii) make all other necessary determinations and take all other actions necessary or advisable for the implementation and administration of the Plan. The Committee's determinations on matters within its authority shall be conclusive and binding upon all parties.

Except with respect to the matters that under Section 162(m) of the Code and Treasury Regulation Section 1.162-27(e) are required to be determined or established by the Committee to qualify awards to Executive Officers under the Plan as qualified performance-based compensation, the Committee shall have the power to delegate to any officer or employee of the Company the authority to administer and interpret the procedural aspects of the Plan, subject to the Plan's terms, including adopting and enforcing rules to decide procedural and administrative issues. To the extent of any such delegation, references to the “Committee” herein shall be deemed to refer to the relevant delegate.

Subject to applicable laws, rules and regulations: (i) no member of the Committee (or its delegates) shall be liable for any good faith action or determination made in connection with the operation, administration or interpretation of the Plan and (ii) the members of the Committee (and its delegates) shall be entitled to indemnification and reimbursement in the manner provided in the Company’s Certificate of Incorporation as it may be amended from time to time. In the performance of its responsibilities with respect to the Plan, the Committee shall be entitled to rely upon information and/or advice furnished by the Company’s officers or employees, the Company’s accountants, the Company’s counsel and any other party the Committee deems necessary, and no member of the Committee shall be liable for any action taken or not taken in reliance upon any such information and/or advice

### **SECTION 4. ELIGIBILITY AND PARTICIPATION**

4.1 *Eligibility.* Each Employee who is included in the Plan by the Committee, shall be eligible to participate in the Plan for such Plan Year and all subsequent Plan Years, subject to the limitations of Section 7 herein.

4.2 *Participation.* Participation in the Plan shall be determined annually by the Committee based upon the criteria set forth in the Plan. Participation in the Plan during the applicable Plan Year shall be limited to those Employees (“ *Participants* ” ) who are selected by the Committee. Employees who are eligible to participate in the Plan shall be notified of the performance goals and related Award Opportunities for the relevant Plan Year.

4.3 *Right to Reduce or End Eligibility.* The Committee may elect to reduce the Award Opportunity (as described in Section 5.2 herein) or end it altogether for any single Participant or group of Participants at any time.

### **SECTION 5. AWARD DETERMINATION**

5.1 *Performance Goals.* Prior to the beginning of each Plan Year, or as soon as practicable thereafter, the Committee shall approve or establish in writing the performance goals for that Plan Year. Performance goals may include financial and/or non-financial goals.

Performance goals and their relative weight may vary by job. After the performance goals are established, the Committee will align the achievement of the performance goals with the Award Opportunities (as described in Section 5.2 herein), such that the level of achievement at the end of the Plan Year as compared to the pre-established performance goals set at the beginning of the Plan Year will determine the amount of the Final Award. The Committee also shall have the authority to exercise subjective discretion in the determination of Final Awards to reduce or increase a calculated award based on the Committee's qualitative assessment of performance.

The performance period with respect to which awards may be payable under the Plan shall generally be the Plan Year; *provided, however*, that the Committee shall have the authority and discretion to designate different performance periods under the Plan, in which case references to Plan Year shall be deemed to refer to such other performance period.

**5.2 Award Opportunities.** Prior to the beginning of each Plan Year, or as soon as practicable thereafter, the Committee shall establish an Award Opportunity for each Participant. In the event a Participant changes job levels during a Plan Year, the Participant's Award Opportunity may be adjusted to reflect the amount of time at each job level during the Plan Year. In addition, if a Participant changes jobs during the year, the Participant's goals may change as of the effective date of the job change to reflect the different performance goals. Each job's performance goals will continue to be assessed on a full-year basis to determine payouts, with the proportion of time in each job applied to determine the final payout amount.

**5.3 Adjustment of Performance Goals.** The Committee shall have the right to adjust the performance goals and the Award Opportunities (either up or down) during a Plan Year if it determines that the occurrence of external changes or other unanticipated business conditions have materially affected the fairness of the goals and have unduly influenced the Company's ability to meet them, including without limitation, events such as material acquisitions, changes in the capital structure of the Company, and extraordinary accounting changes. In addition, performance goals and Award Opportunities will be calculated without regard to any changes in accounting standards that may be required by the Financial Accounting Standards Board after such performance goals or Award Opportunities are established. Further, in the event of a Plan Year of less than twelve months, the Committee shall have the right to adjust the performance goals and the Award Opportunities accordingly, at its sole discretion.

**5.4 Final Award Determinations.** At the end of each Plan Year, Final Awards shall be computed for each Participant as determined by the Committee. Each Final Award shall be based upon the (i) Participant's Target Incentive Award percentage, multiplied by his Base Salary and (ii) percent satisfaction of performance goals (as set by the Committee). Final Award amounts may vary above or below the Target Incentive Award, based on the level of achievement of the pre-established performance goals.

**5.5 Limitations.** The amount payable to a Participant for any Plan Year shall not exceed U.S. \$4,000,000.

## **SECTION 6. PAYMENT OF FINAL AWARDS**

**6.1 Form and Timing of Payment.** As soon as practicable after the end of each Plan Year, the Committee shall determine the extent to which the Company and each Participant has achieved the performance goals for such Plan Year, including the specific target objective(s) and the satisfaction of any other material terms of the awards, and the Committee shall approve the amount of each Participant's Final Award for the relevant period. Generally, Final Award payments shall be payable to the Participant, or to his estate in the case of death, in a single lump-sum cash payment, as soon as practicable after the end of each Plan Year, after the Committee, in its sole discretion, has certified in writing the extent to which the specified performance goals were achieved, but in no event later than March 15<sup>th</sup> of such Plan Year.

**6.2 Payment of Partial Awards.** In the event a Participant no longer meets the eligibility criteria as set forth in the Plan during the course of a particular Plan Year, the Committee may, in its sole discretion, compute and pay a partial award for the portion of the Plan Year that an Employee was a Participant. Unless such payment is specifically approved by the Committee, no such payments will be made, and continued service through the end of the Plan Year shall be required to earn an award. Unless the Committee determines otherwise, a Participant who has earned a Final Award with respect to a completed Plan Year who subsequently terminates employment or otherwise ceases eligibility before the date that the Final Award is to be paid shall be paid such Final Award on the scheduled date.

**6.3 Unsecured Interest.** No Participant or any other party claiming an interest in amounts earned under the Plan shall have any interest whatsoever in any specific asset of the Company or of any Subsidiary. To the extent that any party acquires a right to receive payments under the Plan, such right shall be equivalent to that of an unsecured general creditor of the Company.

## **SECTION 7. TERMINATION OF ELIGIBILITY OR EMPLOYMENT**

**7.1 Termination of Eligibility.** In the event a Participant ceases to be eligible to participate in the Plan during a Plan Year but remains employed by the Company or a Subsidiary through the end of such Plan Year, the Final Award determined in accordance with Section 5.4 herein shall be reduced to reflect participation prior to such cessation of eligibility only. The reduced award shall be based upon the proportionate amount of Base Salary earned during the Plan Year prior to cessation of eligibility.

The Final Award thus determined shall be payable as soon as practicable following certification of the relevant performance goals by the Committee for the Plan Year in which such termination occurs, or sooner (except with respect to Executive Officers), as determined by the Committee in its sole discretion.

**7.2 Termination of Employment.** In the event a Participant's employment is terminated for any reason, all of the Participant's rights to a Final Award for the Plan Year then in progress shall be forfeited. However, the Committee, in its sole discretion, may pay a partial award for the portion of that Plan Year that the Participant was employed by the Company, computed as determined by the Committee.

## **SECTION 8. RIGHTS OF PARTICIPANTS**

**8.1 Employment.** Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employ of the Company.

**8.2 Nontransferability.** No right or interest of any Participant in the Plan shall be assignable or transferable, or subject to any lien, directly, by operation of law, or otherwise, including, but not limited to, execution, levy, garnishment, attachment, pledge, and bankruptcy.

## **SECTION 9. EXECUTIVE OFFICERS**

**9.1 Applicability.** The provisions of this Section 9 shall apply only to Executive Officers and are intended to apply additional terms, conditions and limitations required for amounts payable hereunder to Executive Officers to qualify as performance-based compensation exempt from Section 162(m) of the Code. In the event of any inconsistencies between this Section 9 and the other Plan provisions, the provisions of this Section 9 shall control with respect to Executive Officers.

**9.2 Performance Goals and Award Opportunities.** With respect to Executive Officers, objective written performance goals and Award Opportunities for a Plan Year shall be established by the Committee (and the Committee only, with no delegation) (i) while the attainment of the performance goals for the Plan Year is substantially uncertain and (ii) no more than 90 days after the commencement of the Plan Year (or a number of days equal to 25% of the Plan Year, if less). The performance goals applicable to the Executive Officers shall be limited to the performance goals listed below. The Committee may select one or more of the performance goals specified for each Plan Year which need not be the same for each Executive Officer in a given year. Performance goals will be comprised of specified levels of one or more of the following performance criteria as the Committee deems appropriate: operating cash flows from continuing operations, operating working capital, free cash flow, revenues, segment profit, corporate expenses, special charges, gain (loss) on sale of business, income from continuing operations, net income, EBITDA—earnings before interest, taxes, depreciation and amortization, EBIT—earnings before interest and taxes, EPS—earnings per share, as adjusted EPS, ROA—return on assets, ROS—return on sales, ROE—return on equity, ROIC—return on invested capital, WACC—weighted average cost of capital, total shareholder return, stock price appreciation, growth in managed assets, organic growth, cost performance, net cost reductions, Inventory turns, selling and administrative expense as a percentage of sales, days sales outstanding, ratio of income to fixed charges, segment profit margins, total profit margin, EVA—economic value added, intrinsic value and effective income tax rate. In each case, performance goals shall be determined in accordance with generally accepted accounting principles (subject to modifications approved by the Committee) and shall be consistently applied on a business unit, divisional, subsidiary or consolidated basis or any combination thereof. Performance goals may be described in terms of objectives that are related to the individual Participant or objectives that are Company-wide or related to a Subsidiary, division, department, region, function or business unit and may be measured on an absolute or cumulative basis or on the basis of percentage of improvement over time, and may be measured in terms of Company performance (or performance of the applicable Subsidiary, division, department, region, function or business unit) or measured relative to selected peer companies or a market index. In addition, for awards not intended to qualify as “performance-based compensation” under Section 162(m) of the Code, the Committee may establish performance goals based on other criteria as it deems appropriate. Notwithstanding the above, for any award or portion of an award designated to be “performance-based compensation” under Section 162(m) of the Code, the Committee does not retain any right to increase any amount otherwise determined under the provisions of the Plan.

**9.3 Certification of Achievement of Performance Goals.** At the end of the Plan Year and prior to payment, the Committee shall certify in writing the extent to which the performance goals and any other material terms were satisfied. Final Awards shall be computed for each Executive Officer based on (i) the Participant's Target Incentive Award percentage, multiplied by his Base Salary and (ii) percent satisfaction of performance goals (as certified by the Committee). Final Award amounts may vary above or below the Target Incentive Award based on the level of achievement of the pre-established performance goals.

**9.4 Non-adjustment of Performance Goals.** Once established, performance goals shall not be changed during the Plan Year except as permitted consistent with the qualified performance-based compensation exception under Section 162(m) of the Code.

**9.5 Discretionary Adjustments.** The Committee retains the discretion to eliminate or decrease the amount of the Final Award otherwise payable to a Participant. For any Final Award or portion of a Final Award designated to be “performance-based compensation” under Section 162(m) of the Code, the Committee shall not retain any right to increase any amount otherwise determined under the provisions of the

Plan.

## **SECTION 10. AMENDMENT AND MODIFICATION**

The Committee, in its sole discretion, without notice, at any time and from time to time, may modify or amend, in whole or in part, any or all of the provisions of the Plan, or suspend or terminate it entirely; *provided, however*, that no such modification, amendment, suspension, or termination may, without the consent of a Participant (or his or her beneficiary in the case of the death of the Participant), reduce the right of a Participant (or his or her beneficiary, as the case may be) to a payment or distribution hereunder which he or she has already earned and is otherwise entitled, except where such modification, amendment, suspension or termination is necessary to comply with applicable law, including without limitation, any modifications or amendments made pursuant to Section 409A of the Code and any regulations, rulings and other regulatory guidance issued thereunder. Notwithstanding the foregoing, the Committee shall not amend Plan provisions to the extent that such amendment would cause an outstanding award to fail to meet performance-based compensation exception of Section 162(m) of the Code.

## **SECTION 11. MISCELLANEOUS**

11.1 *Jurisdiction, Venue and Governing Law.* Except as to matters of federal law, the Plan, and all agreements hereunder, shall be governed by and construed in accordance with the laws of Rhode Island. Any dispute, controversy or claim arising out of or relating to the Plan or any award under the Plan shall be brought only in a court of competent jurisdiction in the State of Rhode Island, and no other court, agency or tribunal shall have jurisdiction to resolve any such dispute, controversy or claim.

11.2 *Withholding Taxes.* The Company and its Subsidiaries shall have the right to deduct from all payments under the Plan any federal, state, local and/or foreign income, employment or other applicable payroll taxes required by law to be withheld with respect to such payments.

11.3 *Gender and Number.* Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

11.4 *Severability.* In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

11.5 *Costs of the Plan.* All costs of implementing and administering the Plan shall be borne by the Company.

11.6 *Successors.* All obligations of the Company and its Subsidiaries under the Plan shall be binding upon and inure to the benefit of any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, amalgamation, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

**TEXTRON INC.**  
**2007 LONG-TERM INCENTIVE PLAN**

**1. Purposes of the Plan**

The purposes of the Plan are to (a) promote the long-term success of the Company and its Subsidiaries and to increase stockholder value by providing Eligible Individuals with incentives to contribute to the long-term growth and profitability of the Company and (b) assist the Company in attracting, retaining and motivating highly qualified individuals who are in a position to make significant contributions to the Company and its Subsidiaries.

Upon the Effective Date, no further Awards will be granted under the Prior Plan.

**2. Definitions and Rules of Construction**

(a) *Definitions.* For purposes of the Plan, the following capitalized words shall have the meanings set forth below:

“*Affiliate*” means any Parent or Subsidiary and any person that directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the Company.

“*Award*” means an Option, Restricted Stock, Restricted Stock Unit, Stock Appreciation Right, Performance Stock, Performance Share Unit or Other Award granted by the Committee pursuant to the terms of the Plan.

“*Award Document*” means an agreement, certificate or other type or form of document or documentation approved by the Committee that sets forth the terms and conditions of an Award. An Award Document may be in written, electronic or other media, may be limited to a notation on the books and records of the Company and, unless the Committee requires otherwise, need not be signed by a representative of the Company or a Participant.

“*Beneficial Owner*” and “*Beneficially Owned*” have the meaning set forth in Rule 13d-3 under the Exchange Act.

“*Board*” means the Board of Directors of the Company, as constituted from time to time.

“*Change of Control*” means:

(i) Any “person” or “group” (within the meaning of Sections 13 (d) and 14 (d)(2) of the Exchange Act other than the Company, any “person” who on the Effective Date was a director or officer of the Company, any trustee or other fiduciary holding Common Stock under an employee benefit plan of the Company, or 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 Common Stock, is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Act) of more than thirty percent (30%) of the then outstanding voting stock of the Company, or

(ii) during any period of two 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 was previously so approved) cease for any reason to constitute a majority of the Board, or

(iii) the shareholders of the Company approve 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 by being converted into voting securities of the surviving entity) more than fifty percent (50%) of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation, or

(iv) the shareholders of the Company approve 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 the Company’s assets.

Notwithstanding the foregoing, with respect to an Award that is subject to Section 409A of the Code and the payment or settlement of the Award will accelerate upon a Change of Control, no event set forth herein will constitute a Change of Control for purposes of the Plan or any Award Document unless such event also constitutes a “change in ownership,” “change in effective control,” or “change in the ownership of a substantial portion of the Company’s assets” as defined under Section 409A of the Code.

“ **Code** ” means the Internal Revenue Code of 1986, as amended, and the applicable rulings and regulations promulgated thereunder.

“ **Committee** ” means the Organization and Compensation Committee of the Board, any successor committee thereto or any other committee appointed from time to time by the Board to administer the Plan, which committee shall meet the requirements of Section 162 (m) of the Code, Section 16(b) of the Exchange Act and the applicable rules of the NYSE; *provided, however*, that, if any Committee member is found not to have met the qualification requirements of Section 162(m) of the Code and Section 16(b) of the Exchange Act, any actions taken or Awards granted by the Committee shall not be invalidated by such failure to so qualify.

“ **Common Stock** ” means the common stock of the Company, par value \$0.01 per share, or such other class of share or other securities as may be applicable under Section 13 of the Plan.

“ **Company** ” means Textron Inc., a Delaware corporation, or any successor to all or substantially all of the Company’s business that adopts the Plan.

“ **Early Retirement** ” means the attainment of age 60, or age 55 with 10 years of service, or 20 years of service.

“ **Effective Date** ” means the date on which the Plan is adopted by the Board.

“ **Eligible Individuals** ” means the individuals described in Section 4(a) of the Plan who are eligible for Awards under the Plan.

“ **Exchange Act** ” means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

“ **Fair Market Value** ” means, with respect to a share of Common Stock, the closing selling price of a share of Common Stock on the relevant date of determination as reported on the composite tape for securities listed on the NYSE, or such national securities exchange as may be designated by the Committee. If there were no sales on the relevant date, the fair market value shall equal the closing share price on the most recent day during which a sale occurred.

“ **Incentive Stock Option** ” means an Option that is intended to comply with the requirements of Section 422 of the Code or any successor provision thereto.

“ **Non-Employee Director** ” means any member of the Board who is not an officer or employee of the Company or any Subsidiary.

“ **Nonqualified Stock Option** ” means an Option that is not intended to comply with the requirements of Section 422 of the Code or any successor provision thereto.

“ **NYSE** ” means the New York Stock Exchange.

“ **Option** ” means an Incentive Stock Option or Nonqualified Stock Option granted pursuant to Section 7 of the Plan.

“ **Other Award** ” means any form of Award other than an Option, Restricted Stock, Restricted Stock Unit, Performance Stock, Performance Share Unit, or Stock Appreciation Right granted pursuant to Section 11 of the Plan.

“ **Parent** ” means a corporation which owns or beneficially owns a majority of the outstanding voting stock or voting power of the Company. Notwithstanding the above, with respect to an Incentive Stock Option, Parent shall have the same meaning as “parent corporation” set forth in Section 424(e) of the Code.

“ **Participant** ” means an Eligible Individual who has been granted an Award under the Plan.

“ **Performance Period** ” means the period established by the Committee and set forth in the applicable Award Document over which Performance Targets are measured.

“ **Performance Stock** ” means a Target Number of Shares granted pursuant to Section 10(b) of the Plan.

“ **Performance Target** ” means the performance measures established by the Committee, from among the performance criteria provided in Section 6(g), and set forth in the applicable Award Document.

“ **Performance Share Unit** ” means a right to receive a Target Number of Shares or cash in the future granted pursuant to

Section 10(c) of the Plan.

“ **Permitted Transferees** ” means (i) a Participant’s family member, (ii) one or more trusts established in whole or in part for the benefit of one or more of such family members, (iii) one or more entities which are beneficially owned in whole or in part by one or more such family members, or (iv) a charitable or not-for-profit organization.

“ **Plan** ” means this Textron Inc. 2007 Long-Term Incentive Plan, as amended or restated from time to time.

“ **Plan Limit** ” means the maximum aggregate number of Shares that may be issued for all purposes under the Plan as set forth in Section 5(a) of the Plan.

“ **Prior Plan** ” means the 1999 Long-Term Incentive Plan, as amended and restated from time to time.

“ **Restricted Stock** ” means one or more Shares granted pursuant to Section 8(b) of the Plan.

“ **Restricted Stock Unit** ” means a right to receive one or more Shares (or cash, if applicable) in the future granted pursuant to Section 8(c) of the Plan.

“ **Shares** ” means shares of Common Stock, as may be adjusted pursuant to Section 13(b).

“ **Stock Appreciation Right** ” means a right to receive all or some portion of the appreciation on Shares granted pursuant to Section 9 of the Plan.

“ **Subsidiary** ” means (i) a corporation or other entity with respect to which the Company, directly or indirectly, has the power, whether through the ownership of voting securities, by contract or otherwise, to elect at least a majority of the members of such corporation’s board of directors or analogous governing body, or (ii) any other corporation or other entity in which the Company, directly or indirectly, has at least a 20% equity or similar interest and which the Committee designates as a Subsidiary for purposes of the Plan. For purposes of determining eligibility for the grant of Incentive Stock Options under the Plan, the term “Subsidiary” shall be defined in the manner required by Section 424(f) of the Code.

“ **Substitute Award** ” means any Award granted upon assumption of, or in substitution or exchange for, outstanding employee equity awards previously granted by a company or other entity acquired by the Company or with which the Company combines pursuant to the terms of an equity compensation plan that was approved by the stockholders of such company or other entity.

“ **Target Number** ” means, if applicable, the target number of Shares or cash value established by the Committee and set forth in the applicable Award Document.

(b) **Rules of Construction.** The masculine pronoun shall be deemed to include the feminine pronoun, and the singular form of a word shall be deemed to include the plural form, unless the context requires otherwise. Unless the text indicates otherwise, references to sections are to sections of the Plan.

### 3. Administration

(a) **Committee.** The Plan shall be administered by the Committee, which shall have full power and authority, subject to the express provisions hereof, to:

- (i) select the Participants from the Eligible Individuals;
- (ii) grant Awards in accordance with the Plan;
- (iii) determine the number of Shares subject to each Award or the cash amount payable in connection with an Award;
- (iv) determine the terms and conditions of each Award, including, without limitation, those related to term, permissible methods of exercise, vesting, cancellation, payment, settlement, exercisability, Performance Periods, Performance Targets, and the effect, if any, of a Participant’s termination of employment with the Company or any of its Subsidiaries or, subject to Section 6(d), a Change of Control of the Company;
- (v) subject to Sections 6(g), 16 and 17(e) of the Plan, amend the terms and conditions of an Award after the granting thereof;

- (vi) specify and approve the provisions of the Award Documents delivered to Participants in connection with their Awards;
- (vii) construe and interpret any Award Document delivered under the Plan;
- (viii) make factual determinations in connection with the administration or interpretation of the Plan;
- (ix) adopt, prescribe, amend, waive and rescind administrative regulations, rules and procedures relating to the Plan;
- (x) employ such legal counsel, independent auditors and consultants as it deems desirable for the administration of the Plan and to rely upon any advice, opinion or computation received therefrom;
- (xi) vary the terms of Awards to Participants in non-US jurisdictions to take account of local tax and securities law and other regulatory requirements or to procure favorable tax treatment for Participants;
- (xii) correct any defects, supply any omission or reconcile any inconsistency in any Award Document or the Plan; and
- (xiii) make all other determinations and take any other action desirable or necessary to interpret, construe or implement properly the provisions of the Plan or any Award Document.

(b) *Plan Construction and Interpretation.* The Committee shall have full power and authority, subject to the express provisions hereof, to construe and interpret the Plan.

(c) *Determinations of Committee Final and Binding.* All determinations by the Committee in carrying out and administering the Plan and in construing and interpreting the Plan shall be made in the Committee's sole discretion and shall be final, binding and conclusive for all purposes and upon all persons interested herein.

(d) *Delegation of Authority.* To the extent not prohibited by applicable laws, rules and regulations, the Committee may, from time to time, delegate some or all of its authority under the Plan to a subcommittee or subcommittees thereof or other persons or groups of persons as it deems necessary, appropriate or advisable under such conditions or limitations as it may set at the time of such delegation or thereafter; *provided, however*, that the Committee may not delegate its authority (i) to make Awards to employees (A) who are subject on the date of the Award to the reporting rules under Section 16(a) of the Exchange Act, (B) whose compensation for such fiscal year may be subject to the limit on deductible compensation pursuant to Section 162(m) of the Code or (C) who are officers of the Company who are delegated authority by the Committee hereunder, or (ii) pursuant to Section 16 of the Plan. For purposes of the Plan, reference to the Committee shall be deemed to refer to any subcommittee, subcommittees, or other persons or groups of persons to whom the Committee delegates authority pursuant to this Section 3 (d). In addition, notwithstanding the foregoing, an independent Committee of the Board is required to approve any grants under this plan to non-employee directors.

(e) *Liability of Committee.* Subject to applicable laws, rules and regulations: (i) no member of the Board or Committee (or its delegates) shall be liable for any good faith action or determination made in connection with the operation, administration or interpretation of the Plan and (ii) the members of the Board or the Committee (and its delegates) shall be entitled to indemnification and reimbursement in the manner provided in the Company's Certificate of Incorporation as it may be amended from time to time. In the performance of its responsibilities with respect to the Plan, the Committee shall be entitled to rely upon information and/or advice furnished by the Company's officers or employees, the Company's accountants, the Company's counsel and any other party the Committee deems necessary, and no member of the Committee shall be liable for any action taken or not taken in reliance upon any such information and/or advice.

(f) *Action by the Board.* Anything in the Plan to the contrary notwithstanding, subject to applicable laws, rules and regulations, any authority or responsibility that, under the terms of the Plan, may be exercised by the Committee may alternatively be exercised by the Board.

#### **4. Eligibility**

(a) *Eligible Individuals.* Awards may be granted to employees and Non-Employee Directors of the Company or any of its Subsidiaries or joint ventures, partnerships or business organizations in which the Company or its Subsidiaries have an equity interest; *provided, however*, that only employees of the Company or a Parent or Subsidiary may be granted Incentive Stock Options. The Committee shall have the authority to select the persons to whom Awards may be granted and to determine the type, number and terms of Awards to be granted to each such Participant. Under the Plan, references to "employment" or "employed" include service of Participants who are Non-Employee Directors, except for purposes of determining eligibility to be granted Incentive Stock Options.

(b) *Grants to Participants.* The Committee shall have no obligation to grant any Eligible Individual an Award or to designate an Eligible Individual as a Participant solely by reason of such Eligible Individual having received a prior Award or having been previously

designated as a Participant. The Committee may grant more than one Award to a Participant and may designate an Eligible Individual as a Participant for overlapping periods of time.

## 5. Shares Subject to the Plan

(a) *Plan Limit.* Subject to adjustment in accordance with Section 13 of the Plan, the maximum aggregate number of Shares that may be issued for all purposes under the Plan shall be 6,000,000 plus any Shares that become available for issuance upon cancellation, forfeiture, or expiration of awards granted under the Prior Plan without having been exercised or settled. Shares to be issued under the Plan may be authorized and unissued shares, issued shares that have been reacquired by the Company (in the open-market or in private transactions) and that are being held in treasury, or a combination thereof. All of the Shares subject to the Plan Limit may be issued pursuant to Incentive Stock Options.

(b) *Rules Applicable to Determining Shares Available for Issuance.* The number of Shares remaining available for issuance will be reduced by the number of Shares subject to outstanding Awards that are both denominated and intended to be settled in Shares and, for all other awards, by the number of Shares actually delivered upon settlement or payment of the Award. For purposes of determining the number of Shares that remain available for issuance under the Plan, (i) the number of Shares that are tendered by a Participant or withheld by the Company to pay the exercise price of an Award or to satisfy the Participant's tax withholding obligations in connection with the exercise or settlement of an Award and (ii) all of the Shares covered by a stock-settled Stock Appreciation Right to the extent exercised, will not be added back to the Plan Limit. In addition, for purposes of determining the number of Shares that remain available for issuance under the Plan, the number of Shares corresponding to Awards that are both denominated and intended to be settled in Shares under the Plan that are forfeited or cancelled or otherwise expire for any reason without having been exercised or settled or that is settled through issuance of consideration other than Shares (including, without limitation, cash) shall be added back to the Plan Limit and again be available for the grant of Awards; *provided, however*, that this provision shall not be applicable with respect to (i) the cancellation of a Stock Appreciation Right granted in tandem with an Option upon the exercise of the Option or (ii) the cancellation of an Option granted in tandem with a Stock Appreciation Right upon the exercise of the Stock Appreciation Right.

(c) *Special Limits.* Anything to the contrary in Section 5(a) above notwithstanding, but subject to adjustment under Sections 5(b) and 13 of the Plan, the following special limits shall apply to Shares available for Awards under the Plan:

(i) the maximum number of Shares that may be issued pursuant to awards of Restricted Stock, Restricted Stock Units, Performance Stock, Performance Share Units and Other Awards that are payable in Shares granted under the Plan shall equal 1,500,000 Shares in the aggregate;

(ii) the maximum number of Shares that may be made subject to Options and Stock Appreciation Rights granted to any Eligible Individual in any calendar year shall equal 200,000 Shares, and if any Option or Stock Appreciation Right is forfeited, cancelled or otherwise expires for any reason without having been exercised, the Shares subject to such Option or Stock Appreciation Right shall be included in the determination of the aggregate number of Shares issued to such employee under the Plan.

(iii) the maximum amount of Awards (other than those Awards set forth in Section 5(c)(ii)) that may be (1) awarded to any Eligible Individual in any calendar year (with respect to Awards settled in Shares) is 200,000 Shares measured as of the date of grant, or (2) paid to any Eligible Individual in any calendar year (with respect to Awards settled in cash) is \$15 million; and

(iv) A maximum of five percent (5%) of the aggregate number of Shares available for issuance under the Plan may be issued as Restricted Stock, Restricted Stock Units, Performance Stock, or Performance Share Units, having no minimum vesting period as specified in Sections 8(a) and 10(a).

(d) Any Shares underlying Substitute Awards shall not be counted against the number of Shares remaining for issuance and shall not be subject to Section 5(c).

## 6. Awards in General

(a) *Types of Awards.* Awards under the Plan may consist of Options, Restricted Stock, Restricted Stock Units, Stock Appreciation Rights, Performance Stock, Performance Share Units and Other Awards. Any Award described in Sections 7 through 11 of the Plan may be granted singly or in combination or tandem with any other Award, as the Committee may determine. Awards under the Plan may be made in combination with, in replacement of, or as alternatives to awards or rights under any other compensation or benefit plan of the Company, including the plan of any acquired entity.

(b) *Terms Set Forth in Award Document.* The terms and conditions of each Award shall be set forth in an Award Document in a form approved by the Committee for such Award, which Award Document shall contain terms and conditions not inconsistent with the Plan. Notwithstanding the foregoing, and subject to applicable laws, the Committee may accelerate (i) the vesting or payment of any Award, (ii) the

lapse of restrictions on any Award or (iii) the date on which any Award first becomes exercisable. The Committee shall exercise this discretion only in the event of death, disability, Change of Control, retirement, or termination without cause. The terms of Awards may vary among Participants, and the Plan does not impose upon the Committee any requirement to make Awards subject to uniform terms. Accordingly, the terms of individual Award Documents may vary.

(c) *Termination of Employment* . The Committee shall specify at or after the time of grant of an Award the provisions governing the disposition of an Award in the event of a Participant's termination of employment with the Company or any of its Subsidiaries. Subject to applicable laws, rules and regulations, in connection with a Participant's termination of employment, the Committee shall have the discretion to accelerate the vesting, exercisability or settlement of, eliminate the restrictions and conditions applicable to, alter the form of payment, or extend the post-termination exercise period of an outstanding Award. Such provisions may be specified in the applicable Award Document or determined at a subsequent time.

(d) *Change of Control* . (i) The Committee shall have full authority to determine the effect, if any, of a Change of Control of the Company or any Subsidiary on the vesting, exercisability, settlement, payment or lapse of restrictions applicable to an Award, which effect may be specified in the applicable Award Document or determined at a subsequent time. Subject to applicable laws, rules and regulations, the Board or the Committee shall, at any time prior to, coincident with or after the effective time of a Change of Control, take such actions as it may consider appropriate, including, without limitation: (A) providing for the acceleration of any vesting conditions relating to the exercise or settlement of an Award or that an Award shall terminate or expire unless exercised or settled in full on or before a date fixed by the Committee; (B) making such adjustments to the Awards then outstanding as the Committee deems appropriate to reflect such Change of Control; (C) causing the Awards then outstanding to be assumed, or new rights substituted therefor, by the surviving corporation in such Change of Control; or (D) permit or require Participants to surrender outstanding Options and Stock Appreciation Rights in exchange for a cash payment equal to the difference, if any, between the highest price paid for a Share in the Change of Control transaction and the Exercise Price of the Award. In addition, except as otherwise specified in an Award Document (or a Participant's written employment agreement with the Company or any Subsidiary):

(1) any and all Options and Stock Appreciation Rights outstanding as of the effective date of the Change of Control shall become immediately exercisable;

(2) any restrictions imposed on Restricted Stock and Restricted Stock Units outstanding as of the effective date of the Change of Control shall lapse;

(3) the Performance Targets with respect to all Performance Share Units, Performance Stock and other performance-based Awards granted pursuant to Sections 6(g) or 10 outstanding as of the effective date of the Change of Control shall be deemed to have been attained at the specified target level of performance; and

(4) the vesting of all Awards denominated in Shares outstanding as of the effective date of the Change of Control shall be accelerated.

(ii) Subject to applicable laws, rules and regulations, the Committee may provide, in an Award Document or subsequent to the grant of an Award for the accelerated vesting, exercisability and/or the deemed attainment of a Performance Target with respect to an Award upon specified events similar to a Change of Control.

(iii) Notwithstanding any other provision of the Plan or any Award Document, the provisions of this Section 6(d) may not be terminated, amended, or modified upon or after a Change of Control in a manner that would adversely affect a Participant's rights with respect to an outstanding Award without the prior written consent of the Participant. Subject to Section 16, the Board, upon recommendation of the Committee, may terminate, amend or modify this Section 6(d) at any time and from time to time prior to a Change of Control.

(e) *Dividends and Dividend Equivalents* . The Committee may provide Participants with the right to receive dividends or payments equivalent to dividends or interest with respect to an outstanding Award, which payments can either be paid currently or deemed to have been reinvested in Shares, and can be made in Shares, cash or a combination thereof, as the Committee shall determine; *provided, however*, that the terms of any reinvestment of dividends must comply with all applicable laws, rules and regulations, including, without limitation, Section 409A of the Code. Notwithstanding the foregoing, no dividends or dividend equivalents shall be paid with respect to Options or Stock Appreciation Rights.

(f) *Rights of a Stockholder* . A Participant shall have no rights as a stockholder with respect to Shares covered by an Award (including voting rights) until the date the Participant or his nominee becomes the holder of record of such Shares. No adjustment shall be made for dividends or other rights for which the record date is prior to such date, except as provided in Section 13.

(g) *Performance-Based Awards* . (i) The Committee may determine whether any Award (or portion of an Award) under the Plan is intended to be “performance-based compensation” as that term is used in Section 162(m) of the Code. Any such Awards (or portions of Awards) designated to be “performance-based compensation” shall be conditioned on the achievement of one or more Performance Targets to the extent required by Section 162(m) of the Code and will be subject to all other conditions and requirements of Section 162(m). The Performance Targets will be comprised of specified levels of one or more of the following performance criteria as the Committee deems appropriate: operating cash flows from continuing operations, operating working capital, free cash flow, revenues, segment profit, corporate expenses, special charges, gain (loss) on sale of business, income from continuing operations, net income, EBITDA—earnings before interest, taxes, depreciation and amortization, EBIT—earnings before interest and taxes, EPS—earnings per share, as adjusted EPS, ROA - return on assets, ROS—return on sales, ROE—return on equity, ROIC—return on invested capital, WACC—weighted average cost of capital, total shareholder return, stock price appreciation, growth in managed assets, organic growth, cost performance, net cost reductions, inventory turns, selling and administrative expense as a percentage of sales, days sales outstanding, ratio of income to fixed charges, segment profit margins, total profit margin, EVA—economic value added, intrinsic value and effective income tax rate, in each case determined in accordance with generally accepted accounting principles (subject to modifications approved by the Committee) consistently applied on a business unit, divisional, subsidiary or consolidated basis or any combination thereof. The Performance Targets may be described in terms of objectives that are related to the individual Participant or objectives that are Company-wide or related to a Subsidiary, division, department, region, function or business unit and may be measured on an absolute or cumulative basis or on the basis of percentage of improvement over time, and may be measured in terms of Company performance (or performance of the applicable Subsidiary, division, department, region, function or business unit) or measured relative to selected peer companies or a market index. In addition, for Awards or portions of Awards not intended to qualify as “performance-based compensation” under Section 162(m) of the Code, the Committee may establish Performance Targets based on other criteria as it deems appropriate.

(ii) The Participants will be designated, and the applicable Performance Targets will be established, by the Committee within ninety (90) days following the commencement of the applicable Performance Period (or such earlier or later date permitted or required by Section 162(m) of the Code). Each Participant will be assigned a Target Number payable if Performance Targets are achieved. Any payment of an Award granted with Performance Targets shall be conditioned on the written certification of the Committee in each case that the Performance Targets and any other material conditions were satisfied. The Committee may determine, at the time of Award grant and to the extent permitted by Code Section 162(m) and the regulations and interpretive rulings thereunder, that if performance exceeds the specified Performance Targets, the Award may be settled with payment greater than the Target Number, but in no event may such payment exceed the limits set forth in Section 5(c). Similarly, the Committee may establish a payment that is below the Target Number but above a threshold level of payment if performance is below established Performance Targets. The Committee retains the right to reduce any Award notwithstanding the attainment of the Performance Targets. Notwithstanding the above, for any Award or portion of an Award designated to be “performance-based compensation” under Section 162(m) of the Code, the Committee does not retain any right to increase any amount otherwise determined under the provisions of the Plan.

(h) *Deferrals* . In accordance with the procedures authorized by, and subject to the approval of, the Committee, Participants may be given the opportunity to defer the payment or settlement of an Award to one or more dates selected by the Participant; *provided, however*, that the terms of any deferrals must comply with all applicable laws, rules and regulations, including, without limitation, Section 409A of the Code. No deferral opportunity shall exist with respect to an Award unless explicitly permitted by the Committee on or after the time of grant.

(i) *Repricing of Options and Stock Appreciation Rights* . Notwithstanding anything in the Plan to the contrary, except as may be specifically authorized by the Company’s shareholders, an Option or Stock Appreciation Right shall not be granted in substitution for a previously granted Option or Stock Appreciation Right being canceled or surrendered as a condition of receiving a new Award, if the new Award would have a lower exercise price than the Award it replaces, nor shall the exercise price of an Option or Stock Appreciation Right be reduced once the Option or Stock Appreciation Right is granted. The foregoing shall not (i) prevent adjustments pursuant to Section 13 or (ii) apply to grants of Substitute Awards.

## **7. Terms and Conditions of Options**

(a) *General* . The Committee, in its discretion, may grant Options to Eligible Individuals and shall determine whether such Options shall be Incentive Stock Options or Nonqualified Stock Options. Each Option shall be evidenced by an Award Document that shall expressly identify the Option as an Incentive Stock Option or Nonqualified Stock Option, and be in such form and contain such provisions as the Committee shall from time to time deem appropriate.

(b) *Exercise Price* . The exercise price of an Option shall be fixed by the Committee at the time of grant or shall be determined by a method specified by the Committee at the time of grant. In no event shall the exercise price of an Option be less than one hundred percent (100%) of the Fair Market Value of a Share on the date of grant; *provided, however* that the exercise price of a Substitute Award granted as an Option shall be determined in accordance with Section 409A of the Code and, with respect to Incentive Stock Options, Section 424 of the Code and may be less than one hundred percent (100%) of the Fair Market Value.

(c) *Term* . An Option shall be effective for such term as shall be determined by the Committee and as set forth in the Award Document relating to such Option, and the Committee may extend the term of an Option after the time of grant; *provided, however*, that the term of an Option may in no event extend beyond the tenth (10<sup>th</sup>) anniversary of the date of grant of such Option.

(d) *Exercise; Payment of Exercise Price* . Options shall be exercised by delivery of a notice of exercise in a form approved by the Company. Subject to the provisions of the applicable Award Document, the exercise price of an Option may be paid (i) in cash or cash equivalents, (ii) by actual delivery or attestation to ownership of freely transferable Shares already owned by the person exercising the Option, (iii) by a combination of cash and Shares equal in value to the exercise price, (iv) through net share settlement or similar procedure involving the withholding of Shares subject to the Option with a value equal to the exercise price or (v) by such other means as the Committee may authorize. In accordance with the rules and procedures authorized by the Committee for this purpose, the Option may also be exercised through a “cashless exercise” procedure authorized by the Committee from time to time that permits Participants to exercise Options by delivering irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the exercise price and the amount of any required tax or other withholding obligations or such other procedures determined by the Company from time to time.

(e) *Incentive Stock Options* . The exercise price per Share of an Incentive Stock Option shall be fixed by the Committee at the time of grant or shall be determined by a method specified by the Committee at the time of grant, but in no event shall the exercise price of an Incentive Stock Option be less than one hundred percent (100%) of the Fair Market Value of a Share on the date of grant. No Incentive Stock Option may be issued pursuant to the Plan to any individual who, at the time the Incentive Stock Option is granted, owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any of its Subsidiaries, unless (i) the exercise price determined as of the date of grant is at least one hundred ten percent (110%) of the Fair Market Value on the date of grant of the Shares subject to such Incentive Stock Option and (ii) the Incentive Stock Option is not exercisable more than five (5) years from the date of grant thereof. No Participant shall be granted any Incentive Stock Option which would result in such Participant receiving a grant of Incentive Stock Options that would have an aggregate Fair Market Value in excess of one hundred thousand dollars (\$100,000), determined as of the time of grant, that would be exercisable for the first time by such Participant during any calendar year. No Incentive Stock Option may be granted under the Plan after the tenth (10th) anniversary of the Effective Date. The terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code, or any successor provision thereto, as amended from time to time.

## **8. Terms and Conditions of Restricted Stock and Restricted Stock Units**

(a) *Minimum Vesting Provisions* . Restricted Stock or Restricted Stock Units settled in shares that are granted without any other performance-based qualification criteria other than the passage of time shall have a minimum period of restriction of three (3) years. Performance-based grants shall feature a minimum period of restriction of one (1) year.

(b) *Restricted Stock* . The Committee, in its discretion, may grant Restricted Stock to Eligible Individuals. An Award of Restricted Stock shall consist of one or more Shares granted to an Eligible Individual, and shall be subject to the terms, conditions and restrictions set forth in the Plan and established by the Committee in connection with the Award and specified in the applicable Award Document. Restricted Stock may, among other things, be subject to restrictions on transferability, vesting requirements or other specified circumstances under which it may be canceled.

(c) *Restricted Stock Units* . The Committee, in its discretion, may grant Restricted Stock Units to Eligible Individuals. A Restricted Stock Unit shall entitle a Participant to receive, subject to the terms, conditions and restrictions set forth in the Plan and the applicable Award Document, one or more Shares. Restricted Stock Units may, among other things, be subject to restrictions on transferability, vesting requirements or other specified circumstances under which they may be canceled. If and when the cancellation provisions lapse, the Restricted Stock Units shall become Shares owned by the applicable Participant or, at the sole discretion of the Committee, cash, or a combination of cash and Shares, with a value equal to the Fair Market Value of the Shares at the time of payment.

## **9. Stock Appreciation Rights**

(a) *General* . The Committee, in its discretion, may grant Stock Appreciation Rights to Eligible Individuals. A Stock Appreciation Right shall entitle a Participant to receive, upon satisfaction of the conditions to payment specified in the applicable Award Document, an amount equal to the excess, if any, of the Fair Market Value on the exercise date of the number of Shares for which the Stock Appreciation Right is exercised over the grant price for such Stock Appreciation Right specified in the applicable Award Document. The grant price per share of Shares covered by a Stock Appreciation Right shall be fixed by the Committee at the time of grant or, alternatively, shall be determined by a method specified by the Committee at the time of grant, but in no event shall the grant price of a Stock Appreciation Right be less than one hundred percent (100%) of the Fair Market Value of a Share on the date of grant; *provided, however*, that the grant price of a Substitute Award granted as a Stock Appreciation Rights shall be in accordance with Section 409A of the Code and may be less than one hundred percent (100%) of the Fair Market Value. Payments to a Participant upon exercise of a Stock Appreciation Right may be made in cash or Shares, or a combination of cash and Shares having an aggregate Fair Market Value as of the date of exercise equal to the excess, if any, of the Fair Market Value on the exercise date of the number of Shares for which the Stock Appreciation Right is exercised over the grant price for such Stock

Appreciation Right. The term of a Stock Appreciation Right settled in Shares shall not exceed ten (10) years.

(b) *Stock Appreciation Rights in Tandem with Options.* A Stock Appreciation Right granted in tandem with an Option may be granted either at the same time as such Option or subsequent thereto. If granted in tandem with an Option, a Stock Appreciation Right shall cover the same number of Shares as covered by the Option (or such lesser number of shares as the Committee may determine) and shall be exercisable only at such time or times and to the extent the related Option shall be exercisable, and shall have the same term as the related Option. The grant price of a Stock Appreciation Right granted in tandem with an Option shall equal the per-share exercise price of the Option to which it relates. Upon exercise of a Stock Appreciation Right granted in tandem with an Option, the related Option shall be canceled automatically to the extent of the number of Shares covered by such exercise; conversely, if the related Option is exercised as to some or all of the shares covered by the tandem grant, the tandem Stock Appreciation Right shall be canceled automatically to the extent of the number of Shares covered by the Option exercise.

## 10. Terms and Conditions of Performance Stock and Performance Share Units

(a) *Minimum Vesting Provisions.* Performance Stock or Performance Share Units shall feature a minimum period of restriction of one (1) year.

(b) *Performance Stock.* The Committee may grant Performance Stock to Eligible Individuals. An Award of Performance Stock shall consist of a Target Number of Shares granted to an Eligible Individual based on the achievement of Performance Targets over the applicable Performance Period, and shall be subject to the terms, conditions and restrictions set forth in the Plan and established by the Committee in connection with the Award and specified in the applicable Award Document.

(c) *Performance Share Units.* The Committee, in its discretion, may grant Performance Share Units to Eligible Individuals. A Performance Share Unit shall entitle a Participant to receive, subject to the terms, conditions and restrictions set forth in the Plan and established by the Committee in connection with the Award and specified in the applicable Award Document, a Target Number of Shares or cash based upon the achievement of Performance Targets over the applicable Performance Period. At the sole discretion of the Committee, Performance Share Units shall be settled through the delivery of Shares or cash, or a combination of Shares and cash.

## 11. Other Awards

The Committee shall have the authority to specify the terms and provisions of other forms of equity- or cash-based Awards not described above that the Committee determines to be consistent with the purpose of the Plan and the interests of the Company, which Awards may provide for cash payments or settlement in Shares. To the extent that any such Awards which constitute “full value” awards are to be settled in shares and are performance-based, the minimum period of restriction shall be one (1) year. Awards which constitute “full value” awards and are to be settled in shares that have no performance-based criteria other than the passage of time shall have a minimum period of restriction of three (3) years.

## 12. Certain Restrictions

(a) *Transfers.* No Award shall be transferable other than pursuant to a beneficiary designation under Section 12(c), by last will and testament or by the laws of descent and distribution or, except in the case of an Incentive Stock Option, pursuant to a domestic relations order, as the case may be; *provided, however*, that the Committee may, subject to applicable laws, rules and regulations and such terms and conditions as it shall specify, permit the transfer of an Award, other than an Incentive Stock Option, for no consideration to a Permitted Transferee. Any Award transferred to a Permitted Transferee shall be further transferable only by last will and testament or the laws of descent and distribution or, for no consideration, to another Permitted Transferee of the Participant.

(b) *Award Exercisable Only by Participant.* During the lifetime of a Participant, an Award shall be exercisable only by the Participant or by a Permitted Transferee to whom such Award has been transferred in accordance with Section 12(a) above. The grant of an Award shall impose no obligation on a Participant to exercise or settle the Award.

(c) *Beneficiary Designation.* The beneficiary or beneficiaries of the Participant to whom any benefit under the Plan is to be paid in case of his death before he receives any or all of such benefit shall be determined under the Company’s Group Life Insurance Plan. A Participant may, from time to time, name any beneficiary or beneficiaries to receive any benefit in case of his death before he receives any or all of such benefit. Each such designation shall revoke all prior designations by the same Participant, including the beneficiary designated under the Company’s Group Life Insurance Plan, and will be effective only when filed by the Participant in writing (in such form or manner as may be prescribed by the Committee) with the Company during the Participant’s lifetime. In the absence of a valid designation under the Company’s Group Life Insurance Plan or otherwise, if no validly designated beneficiary survives the Participant or if each surviving validly designated beneficiary is legally impaired or prohibited from receiving the benefits under an Award, the Participant’s beneficiary shall be the Participant’s estate.

### **13. Recapitalization or Reorganization**

(a) *Authority of the Company and Stockholders.* The existence of the Plan, the Award Documents and the Awards granted hereunder shall not affect or restrict in any way the right or power of the Company or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Shares or the rights thereof or which are convertible into or exchangeable for Shares, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(b) *Change in Capitalization.* Notwithstanding any provision of the Plan or any Award Document, the number and kind of Shares authorized for issuance under Section 5 of the Plan, including the maximum number of Shares available under the special limits provided for in Section 5(c), shall be equitably adjusted in the sole discretion of the Committee in the event of a stock split, reverse stock split, stock dividend, recapitalization, reorganization, partial or complete liquidation, reclassification, merger, consolidation, separation, extraordinary cash dividend, split-up, spin-off, combination, exchange of Shares, warrants or rights offering to purchase Shares at a price substantially below Fair Market Value, or any other corporate event or distribution of stock or property of the Company affecting the Shares in order to preserve, but not increase, the benefits or potential benefits intended to be made available under the Plan. In addition, upon the occurrence of any of the foregoing events, the number and kind of Shares subject to any outstanding Award and the exercise price per Share (or the grant price per Share, as the case may be), if any, under any outstanding Award shall be equitably adjusted (including by payment of cash to a Participant) in the sole discretion of the Committee in order to preserve the benefits or potential benefits intended to be made available to Participants. Such adjustments shall be made by the Committee. Unless otherwise determined by the Committee, such adjusted Awards shall be subject to the same restrictions and vesting or settlement schedule to which the underlying Award is subject.

### **14. Term of the Plan**

Unless earlier terminated pursuant to Section 16, the Plan shall terminate on the tenth (10<sup>th</sup>) anniversary of the Effective Date, except with respect to Awards then outstanding. No Awards may be granted under the Plan after the tenth (10<sup>th</sup>) anniversary of the Effective Date.

### **15. Effective Date**

The Plan shall become effective on the Effective Date, subject to approval by the stockholders of the Company.

### **16. Amendment and Termination**

Subject to applicable laws, rules and regulations, the Board may at any time terminate or, from time to time, amend, modify or suspend the Plan; *provided, however*, that no termination, amendment, modification or suspension (i) will be effective without the approval of the stockholders of the Company if such approval is required under applicable laws, rules and regulations, including the rules of NYSE and (ii) shall materially and adversely alter or impair the rights of a Participant in any Award previously made under the Plan without the consent of the holder thereof. Notwithstanding the foregoing, the Board shall have broad authority to amend the Plan or any Award under the Plan without the consent of a Participant to the extent it deems necessary or desirable (a) to comply with, take into account changes in, or interpretations of, applicable tax laws, securities laws, employment laws, accounting rules and other applicable laws, rules and regulations, (b) to take into account unusual or nonrecurring events or market conditions (including, without limitation, the events described in Section 13(b)), or (c) to take into account significant acquisitions or dispositions of assets or other property by the Company.

### **17. Miscellaneous**

(a) *Tax Withholding.* The Company or a Subsidiary, as appropriate, may require any individual entitled to receive a payment of an Award to remit to the Company, prior to payment, an amount sufficient to satisfy any applicable tax withholding requirements. In the case of an Award payable in Shares, the Company or a Subsidiary, as appropriate, may permit or require a Participant to satisfy, in whole or in part, such obligation to remit taxes by the Company withholding Shares that would otherwise be received by such individual or repurchasing shares that were issued to the Participant to satisfy the (i) minimum statutory withholding rates within the United States, or (ii) in accordance with local tax jurisdictions outside the United States, as applicable, for any applicable tax withholding purposes, in accordance with all applicable laws and pursuant to such rules as the Committee may establish from time to time. The Company or a Subsidiary, as appropriate, shall also have the right to deduct from all cash payments made to a Participant (whether or not such payment is made in connection with an Award) any applicable taxes required to be withheld with respect to such payments.

(b) *No Right to Awards or Employment.* No person shall have any claim or right to receive Awards under the Plan. Neither the Plan, the grant of Awards under the Plan nor any action taken or omitted to be taken under the Plan shall be deemed to create or confer on any Eligible

Individual any right to be retained in the employ of the Company or any Subsidiary or other affiliate thereof, or to interfere with or to limit in any way the right of the Company or any Subsidiary or other affiliate thereof to terminate the employment of such Eligible Individual at any time. No Award shall constitute salary or contractual compensation for the year of grant, any later year or any other period of time. Payments received by a Participant under any Award made pursuant to the Plan shall not be included in, nor have any effect on, the determination of employment-related rights or benefits under any other employee benefit plan or similar arrangement provided by the Company and the Subsidiaries, unless otherwise specifically provided for under the terms of such plan or arrangement or by the Committee.

(c) *Securities Law Restrictions.* An Award may not be exercised or settled, and no Shares may be issued in connection with an Award, unless the issuance of such shares (i) has been registered under the Securities Act of 1933, as amended, (ii) has qualified under applicable state “blue sky” laws (or the Company has determined that an exemption from registration and from qualification under such state “blue sky” laws is available) and (iii) complies with all applicable foreign securities laws. All certificates for Shares delivered under the Plan shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any exchange upon which the Shares are then listed, and any applicable securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(d) *Section 162(m) of the Code.* The Plan is intended to comply in all respects with Section 162(m) of the Code; *provided, however,* that in the event the Committee determines that compliance with Section 162(m) of the Code is not desired with respect to a particular Award (or portion of an Award), compliance with Section 162(m) of the Code will not be required. In addition, if any provision of this Plan would cause Awards or portions of Awards that are intended to constitute “qualified performance-based compensation” under Section 162(m) of the Code, to fail to so qualify, that provision shall be severed from, and shall be deemed not to be a part of, the Plan, but the other provisions hereof shall remain in full force and effect.

(e) *Section 409A of the Code.* Notwithstanding any contrary provision in the Plan or an Award Document, if any provision of the Plan or an Award Document contravenes any regulations or guidance promulgated under Section 409A of the Code or would cause an Award to be subject to additional taxes, accelerated taxation, interest and/or penalties under Section 409A of the Code, such provision of the Plan or Award Document may be modified by the Committee without the consent of the Participant in any manner the Committee deems reasonable or necessary. In making such modifications the Committee shall attempt, but shall not be obligated, to maintain, to the maximum extent practicable, the original intent of the applicable provision without contravening the provisions of Section 409A of the Code. Moreover, any discretionary authority that the Committee may have pursuant to the Plan shall not be applicable to an Award that is subject to Section 409A of the Code to the extent such discretionary authority would contravene Section 409A of the Code or the guidance promulgated thereunder.

(f) *Awards to Individuals Subject to Laws of a Jurisdiction Outside of the United States.* To the extent that Awards under the Plan are awarded to Eligible Individuals who are domiciled or reside outside of the United States or to persons who are domiciled or reside in the United States but who are subject to the tax laws of a jurisdiction outside of the United States, the Committee may adjust the terms of the Awards granted hereunder to such person (i) to comply with the laws, rules and regulations of such jurisdiction and (ii) to permit the grant of the Award not to be a taxable event to the Participant. The authority granted under the previous sentence shall include the discretion for the Committee to adopt, on behalf of the Company, one or more sub-plans applicable to separate classes of Eligible Individuals who are subject to the laws of jurisdictions outside of the United States.

(g) *Satisfaction of Obligations.* Subject to applicable law, the Company may apply any cash, Shares, securities or other consideration received upon exercise or settlement of an Award to any obligations a Participant owes to the Company and the Subsidiaries in connection with the Plan or otherwise, including, without limitation, any tax obligations or obligations under a currency facility established in connection with the Plan.

(h) *No Limitation on Corporate Actions.* Nothing contained in the Plan shall be construed to prevent the Company or any Subsidiary from taking any corporate action, whether or not such action would have an adverse effect on any Awards made under the Plan. No Participant, beneficiary or other person shall have any claim against the Company or any Subsidiary as a result of any such action.

(i) *Unfunded Plan.* The Plan is intended to constitute an unfunded plan for incentive compensation. Prior to the issuance of Shares, cash or other form of payment in connection with an Award, nothing contained herein shall give any Participant any rights that are greater than those of a general unsecured creditor of the Company. The Committee may, but is not obligated, to authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Shares with respect to awards hereunder.

(j) *Successors.* All obligations of the Company under the Plan with respect to Awards granted hereunder shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

(k) *Application of Funds.* The proceeds received by the Company from the sale of Shares pursuant to Awards will be used for general corporate purposes.

(l) *Award Document.* In the event of any conflict or inconsistency between the Plan and any Award Document, the Plan shall govern and the Award Document shall be interpreted to minimize or eliminate any such conflict or inconsistency.

(m) *Headings.* The headings of Sections herein are included solely for convenience of reference and shall not affect the meaning of any of the provisions of the Plan.

(n) *Severability.* If any provision of this Plan is held unenforceable, the remainder of the Plan shall continue in full force and effect without regard to such unenforceable provision and shall be applied as though the unenforceable provision were not contained in the Plan.

(o) *Expenses.* The costs and expenses of administering the Plan shall be borne by the Company.

(p) *Jurisdiction, Venue and Governing Law.* Except as to matters of federal law, the Plan and all actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Rhode Island. Any dispute, controversy or claim arising out of or relating to the Plan or any award under the Plan shall be brought only in a court of competent jurisdiction in the State of Rhode Island, and no other court, agency or tribunal shall have jurisdiction to resolve any such dispute, controversy or claim.

**TEXTRON INC.  
MANUFACTURING GROUP**

**COMPUTATION OF RATIO OF INCOME TO FIXED CHARGES**

(unaudited)

(In millions, except ratio)

		Three Months Ended March 31, 2007
<b>Fixed charges:</b>		
Interest expense*	\$	27
Estimated interest portion of rents		7
<hr/>		
Total fixed charges	\$	34
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<b>Income:</b>		
Income from continuing operations before income taxes	\$	284
Dividends in excess of pre-tax income of Textron Finance		83
Fixed charges		34
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Adjusted income	\$	401
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Ratio of income to fixed charges		11.79
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\* Excludes interest expense related to unrecognized tax benefits.

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

(unaudited)

(In millions, except ratio)

		Three Months Ended March 31, 2007
<b>Fixed charges:</b>		
Interest expense*	\$	128
Estimated interest portion of rents		7
<hr/>		
Total fixed charges	\$	135
<hr/>		
<b>Income:</b>		
Income from continuing operations before income taxes	\$	284
Fixed charges		135
<hr/>		
Adjusted income	\$	419
<hr/>		
<b>Ratio of income to fixed charges</b>		<b>3.10</b>

\* Excludes interest expense related to unrecognized tax benefits.

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

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

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

Date: April 30, 2007

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

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

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

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

Date: April 30, 2007

/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 March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lewis B. Campbell, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: April 30, 2007

/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 March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ted R. French, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Date: April 30, 2007

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