TEXTRON INC

FORM 10-Q
(Quarterly Report)

Filed 08/10/98 for the Period Ending 07/04/98

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

TEXTRON INC

FORM 10-Q
(Quarterly Report)

Filed 8/10/1998 For Period Ending 7/4/1998

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

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal quarter ended July 4, 1998
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

Commission file number 1-5480

TEXTRON INC.

(Exact name of registrant as specified in its charter)

Delaware	05-0315468
(State or other jurisdiction of incorporation or organization)	(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 X No

Common stock outstanding at August 1, 1998 - 163,880,000 shares

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

TEXTRON INC.
Condensed Consolidated Statement of Income (unaudited)
(Dollars in millions except per share amounts)

	Three Months Ended		Six Months Ended	
	July 4, 1998	June 28, 1997	July 4, 1998	June 28, 1997
Revenues				
Manufacturing sales	$ 2,393	$2,117	$4,560	$4,138
Finance revenues	560	550	1,111	1,080
Total revenues	2,953	2,667	5,671	5,218
Costs and expenses				
Cost of sales	1,947	1,730	3,712	3,386

Selling and administrative	409	380	798	742
Gain on sale of division	(97)	-	(97)	-
Special charges	87	-	87	-
Interest	191	180	380	363
Provision for losses on collection of finance receivables	64	63	127	127
Other	66	67	139	137
Total costs and expenses	2,667	2,420	5,146	4,755
Income before income taxes and distributions on preferred securities of subsidiary trust	286	247	525	463
Income taxes	(115)	(95)	(206)	(180)
Distributions on preferred securities of subsidiary trust, net of income taxes	(7)	(7)	(13)	(13)
Net income	$ 164	$ 145	$ 306	$ 270
Earnings per common share:				
Basic	$ 1.00	$ .88	$ 1.87	$ 1.63
Diluted	$ .98	$ .86	$ 1.83	$ 1.59
Average shares outstanding:				
Basic	163,613,000	165,173,000	163,189,000	165,442,000
Diluted	168,027,000	169,797,000	167,541,000	169,993,000
Dividends per share:				
$2.08 Preferred stock, Series A	$ .52	$ .52	$ 1.04	$ 1.04
$1.40 Preferred stock, Series B	$ .35	$ .35	$ .70	$ .70
Common stock	$ .285	$ .25	$ .57	$ .50

See notes to condensed consolidated financial statements.

Item 1. FINANCIAL STATEMENTS (Continued)

TEXTRON INC.
Condensed Consolidated Balance Sheet (unaudited)
(Dollars in millions)

	July 4, 1998	January 3, 1998
Assets		
Cash	$ 132	$ 87
Investments	883	844
Receivables - net:		
Finance	10,456	10,226
Commercial and U.S. government	1,077	920
	11,533	11,146
Inventories	1,602	1,349
Property, plant, and equipment, less accumulated depreciation of $1,917 and $1,827	2,016	1,860
Goodwill, less accumulated amortization of $495 and $465	1,986	1,753
Other (including net prepaid income taxes)	1,827	1,571
Total assets	$ 19,979	$ 18,610
Liabilities and shareholders' equity		
Liabilities		
Accounts payable	$ 985	$ 963
Accrued postretirement benefits other than pensions	804	799
Other accrued liabilities (including income taxes)	2,840	2,641
Debt:		
Parent Group	1,873	1,221
Finance Group	9,532	9,275
	11,405	10,496
Total liabilities	16,034	14,899
Textron - obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Textron junior subordinated debt securities	483	483
Shareholders' equity		
Capital stock:		
Preferred stock	13	13
Common stock	24	24
Capital surplus	881	830
Retained earnings	3,575	3,362
Accumulated other comprehensive income	(92)	(62)
	4,401	4,167
Less cost of treasury shares	939	939
Total shareholders' equity	3,462	3,228
Total liabilities and shareholders' equity	$ 19,979	$ 18,610
Common shares outstanding	163,772,000	162,343,000

See notes to condensed consolidated financial statements.

Item 1. FINANCIAL STATEMENTS (Continued)

TEXTRON INC.
Condensed Consolidated Statement of Cash Flows (Unaudited)
(In millions)

	Six Months Ended July 4, 1998	Six Months Ended June 28, 1997
Cash flows from operating activities:		
Net income	$ 306	$ 270
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	145	127
Amortization	88	83
Gain on sale of division	(97)	-
Special charges	87	-
Provision for losses on receivables	129	129
Changes in assets and liabilities excluding those related to acquisitions and divestitures:		
Increase in commercial and U.S. government receivables	(113)	(61)
Increase in inventories	(198)	(171)
Increase in other assets	(127)	(66)
Increase (decrease) in accounts payable	(40)	1
Increase in accrued liabilities	184	27
Other - net	(69)	(29)
Net cash provided by operating activities	295	310
Cash flows from investing activities:		
Purchases of investments	(264)	(126)
Proceeds from disposition of investments	157	311
Maturities and calls of investments	67	34
Finance receivables:		
Originated or purchased	(5,302)	(3,777)
Repaid or sold	4,886	3,349
Cash used in acquisitions	(441)	(367)
Cash received from dispositions	160	571
Capital expenditures	(207)	(156)
Other investing activities - net	9	21
Net cash used by investing activities	(935)	(140)
Cash flows from financing activities:		
Increase (decrease) in short-term debt	900	(246)
Proceeds from issuance of long-term debt	1,126	778
Principal payments on long-term debt	(1,286)	(420)
Proceeds from exercise of stock options	39	27
Purchases of Textron common stock	-	(112)
Dividends paid	(94)	(83)
Net cash provided (used) by financing activities	685	(56)
Net increase in cash	45	114
Cash at beginning of period	87	47
Cash at end of period	$ 132	$ 161

See notes to condensed consolidated financial statements.

TEXTRON INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1: Basis of presentation

The financial statements should be read in conjunction with the financial statements included in Textron's Annual Report on Form 10-K for the year ended January 3, 1998. The financial statements reflect all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of Textron's consolidated financial position at July 4, 1998, and its consolidated results of operations for each of the respective three and six month periods ended July 4, 1998 and June 28, 1997 and consolidated cash flows for each of the six month periods ended July 4, 1998 and June 28, 1997. The results of operations for the six months ended July 4, 1998 are not necessarily indicative of results for the full year. Business segment data has been reclassified to reflect the transfer of Lycoming from the Aircraft segment to the Industrial segment.

Note 2: Earnings per Share

In 1997, Textron adopted FAS 128 "Earnings Per Share." FAS 128 requires companies to present basic and diluted earnings per share amounts. The dilutive effect of convertible preferred stock and stock options was 4,352,000 and 4,551,000 shares for the six month periods ending July 4, 1998 and June 28, 1997, respectively. Income available to common shareholders used to calculate both basic and diluted earnings per share approximated net income for both periods.

Note 3: Inventories

	July 4, 1998	January 3, 1998
	(In millions)	
Finished goods	$ 475	$ 454
Work in process	855	675
Raw materials	425	366
	1,755	1,495
Less progress payments and customer deposits	153	146
	$1,602	$1,349

Note 4: Textron-obligated mandatorily redeemable preferred securities of
subsidiary trust holding solely Textron junior subordinated debt securities

In 1996, a trust sponsored and wholly-owned by Textron issued preferred securities to the public (for $500 million) and shares of its common securities to

Textron (for $15.5 million), the proceeds of which were invested by the trust in $515.5 million aggregate principal amount of Textron's newly issued 7.92% Junior Subordinated Deferrable Interest Debentures, due 2045. The debentures are the sole asset of the trust. The amounts due to the trust under the debentures

Note 4: Textron-obligated mandatorily redeemable preferred securities of
subsidiary trust holding solely Textron junior subordinated debt securities (continued)

and the related income statement amounts have been eliminated in Textron's consolidated financial statements.

The preferred securities accrue and pay cash distributions quarterly at a rate of 7.92% per annum. Textron has guaranteed, on a subordinated basis, distributions and other payments due on the preferred securities. The guarantee, when taken together with Textron's obligations under the debentures and in the indenture pursuant to which the debentures were issued and Textron's obligations under the Amended and Restated Declaration of Trust governing the trust, provides a full and unconditional guarantee of amounts due on the preferred securities.

The preferred securities are mandatorily redeemable upon the maturity of the debentures on March 31, 2045, or earlier to the extent of any redemption by Textron of any debentures. The redemption price in either such case will be $25 per share plus accrued and unpaid distributions to the date fixed for redemption.

Note 5: Contingencies

Textron is subject to a number of lawsuits, investigations and claims arising out of the conduct of its business, including those relating to commercial transactions, government contracts, product liability, and environmental, safety and health matters. Some seek compensatory, treble or punitive damages in substantial amounts; fines, penalties or restitution; or remediation of contamination. Some are or purport to be class actions. Under federal government procurement regulations, some could result in suspension or debarment of Textron or its subsidiaries from U.S. government contracting for a period of time. On the basis of information presently available, Textron believes that any liability for these suits and proceedings would not have a material effect on Textron's net income or financial condition.

Note 6: Comprehensive Income

In 1998, Textron adopted FAS 130, "Reporting Comprehensive Income." FAS 130 establishes new rules for

the reporting and display of comprehensive income and its components; however, the adoption of this Statement had no impact on Textron's net income or shareholders' equity. FAS 130 requires unrealized gains or losses on the Company's available-for-sale securities and foreign currency translation adjustments, which prior to adoption were reported separately in shareholders' equity, to be included in other comprehensive income. Prior year financial statements have been reclassified to conform to the requirements of FAS 130.

During the first six months of 1998 and 1997, comprehensive income amounted to $276 million and $228 million, respectively.

Note 7: New Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board issued FAS 131 "Disclosures about Segments of an Enterprise and Related Information." FAS 131 requires public companies to report financial and descriptive information about its reportable operating segments. Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. This statement is effective for financial statements of fiscal years beginning after December 15, 1997. Textron is evaluating the impact of this statement on future reporting.

In March 1998, the Accounting Standards Executive Committee issued Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 requires that companies capitalize certain internal-use software once certain criteria are met. This statement is effective for financial statements of fiscal years beginning after December 15, 1998. Textron is evaluating the impact of this statement on future reporting.

In April 1998, the Accounting Standards Executive Committee issued Statement of Position 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 will require all costs of start-up activities, including organization costs, to be expensed as incurred. This statement is effective for financial statements of fiscal years beginning after December 15, 1998. SOP 98-5 will not have a material effect on Textron's net income and financial condition.

In June 1998, the Financial Accounting Standards Board issued FAS 133 "Accounting for Derivative Instruments and Hedging Activities." FAS 133 requires an entity to recognize all derivatives as either assets or liabilities and measure those instruments at fair value. This statement is effective for fiscal years beginning after June 15, 1999. Textron is evaluating the impact of this statement on future reporting.

Note 8: Financial information by borrowing group

Textron consists of two borrowing groups - the Textron Parent Company Borrowing Group (Parent Group) and Textron's finance subsidiaries (Finance Group). The Parent Group consists of all entities of Textron (primarily manufacturing) other than its wholly-owned finance subsidiaries. The Finance Group consists of Avco Financial Services (AFS) and Textron Financial Corporation (TFC). Summarized financial information for the Parent Group includes the Finance Group on a one- line basis under the equity method of accounting.

PARENT GROUP
(unaudited) (In millions)

	Three Months Ended		Six Months Ended	
	July 4, 1998	June 28, 1997	July 4, 1998	June 28, 1997
Condensed Statement of Income				
Sales	$2,393	$2,117	$4,560	$4,138
Costs and expenses				
Cost of sales	1,947	1,730	3,712	3,386
Selling and administrative	234	211	455	417
Gain on sale of division	(97)	-	(97)	-
Special charges	87	-	87	-
Interest	40	30	76	69
Total costs and expenses	2,211	1,971	4,233	3,872
	182	146	327	266
Pretax income on Finance Group	104	101	198	197
Income before income taxes and distributions on preferred securities of subsidiary trust	286	247	525	463
Income taxes	(115)	(95)	(206)	(180)
Distributions on preferred securities of subsidiary trust, net of income taxes	(7)	(7)	(13)	(13)
Net income	$ 164	$ 145	$ 306	$ 270

Condensed Balance Sheet	July 4, 1998	January 3, 1998
Assets		
Cash	$ 77	$ 30
Receivables - net	1,077	920
Inventories	1,602	1,349
Investments in Finance Group	1,617	1,620
Property, plant and equipment - net	1,917	1,761
Goodwill	1,807	1,567
Other assets (including net prepaid income taxes)	1,595	1,311
Total assets	$9,692	$8,558
Liabilities and shareholders' equity		
Accounts payable and accrued liabilities (including income taxes)	$3,874	$3,626
Debt	1,873	1,221
Textron - obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Textron junior subordinated debt securities	483	483
Shareholders' equity	3,462	3,228
Total liabilities and shareholders' equity	$9,692	$8,558

PARENT GROUP
(unaudited) (In millions)

Condensed Statement of Cash Flows	Six Months Ended July 4, 1998	Six Months Ended June 28, 1997
Cash flows from operating activities:		
Net income	$ 306	$ 270
Adjustments to reconcile net income to cash provided by operating activities:		
Earnings of Finance Group (greater than) less than distributions to Parent Group	13	(40)
Depreciation	132	116
Amortization	30	28
Gain on sale of division	(97)	-
Special charges	87	-
Changes in assets and liabilities excluding those related to acquisitions and divestitures:		
Increase in receivables	(113)	(61)
Increase in inventories	(198)	(171)
Increase in other assets	(188)	(52)
Increase in accounts payable and accrued liabilities	109	22
Other - net	2	12
Net cash provided by operating activities	83	124
Cash flows from investing activities:		
Capital expenditures	(191)	(140)
Cash used in acquisitions	(424)	(324)
Cash received from disposition of businesses	160	571
Proceeds from disposition of investments	-	245
Other investing activities - net	22	16
Net cash provided (used) by investing activities	(433)	368
Cash flows from financing activities:		
Increase (decrease) in short-term debt	548	(461)
Proceeds from issuance of long-term debt	107	277
Principal payments on long-term debt	(180)	(58)
Proceeds from exercise of stock options	39	27
Purchases of Textron common stock	-	(112)
Dividends paid	(94)	(83)
Contributions paid to Finance Group	(23)	-
Net cash provided (used) by financing activities	397	(410)
Net increase in cash	47	82
Cash at beginning of period	30	24
Cash at end of period	$ 77	$ 106

Item 1. FINANCIAL STATEMENTS (Continued)
Note 8: Financial information by borrowing group (continued)

FINANCE GROUP
(unaudited) (In millions)

Condensed Statement of Income	Three Months Ended June 30, 1998	Three Months Ended June 30, 1997	Six Months Ended June 30, 1998	Six Months Ended June 30, 1997
Revenues	$ 560	$ 550	$1,111	$1,080
Costs and expenses				
Selling and administrative	175	169	343	325
Interest	151	150	304	294
Provision for losses on collection of finance receivables	64	63	127	127
Other	66	67	139	137
Total costs and expenses	456	449	913	883
Income before income taxes	104	101	198	197
Income taxes	(40)	(39)	(76)	(76)
Net income	$ 64	$ 62	$ 122	$ 121

Condensed Balance Sheet	June 30, 1998	December 31, 1997
Assets		
Cash	$ 55	$ 57
Investments	883	844
Finance receivables - net	10,456	10,226
Other	803	783
Total assets	$12,197	$11,910
Liabilities and equity		
Accounts payable and accrued liabilities (including income (taxes)	$ 1,048	$ 1,015
Debt	9,532	9,275
Equity	1,617	1,620

Total liabilities and equity	$12,197	$11,910

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

TEXTRON INC.
Revenues and Income by Business Segment
(In millions)

	Three Months Ended July 4, 1998	Three Months Ended June 28, 1997	Six Months Ended July 4, 1998	Six Months Ended June 28, 1997
REVENUES				
Aircraft	$ 858	$ 755	$1,514	$1,434
Automotive	583	523	1,201	1,080
Industrial	952	839	1,845	1,624
Finance	560	550	1,111	1,080
Total revenues	$2,953	$2,667	$5,671	$5,218
INCOME				
Aircraft	$ 91	$ 79	$ 152	$ 139
Automotive	43	33	99	83
Industrial	108	94	203	176
Finance	104	101	198	197
	346	307	652	595
Gain on sale of division*	97	-	97	-
Special charges*	(87)	-	(87)	-
Segment income	356	307	662	595
Corporate expenses and other - net	(30)	(30)	(61)	(63)
Interest expense - net	(40)	(30)	(76)	(69)
Income before income taxes and distributions on preferred securities of subsidiary trust	$ 286	$ 247	$ 525	$ 463

*Special charges include restructuring charges of $10 million for the Aircraft segment, $25 million for the Automotive segment and $52 million for the Industrial segment. The gain on sale of division relates to the Industrial segment.

Liquidity and Capital Resources

The Statements of Cash Flows for Textron Inc. and the Parent Group detailing the changes in cash balances are on pages 4 and 9, respectively. The Parent Group's operating cash flow includes dividends received from the Finance Group of $135 million and $81 million during the first six months of 1998 and 1997, respectively.

The Parent Group's debt to total capital ratio was 32% at July 4, 1998, up from 25% at year end. The Parent Group has credit facilities outstanding at July 4, 1998 aggregating $2.0 billion, $895 million of which was not used or reserved as support for outstanding commercial paper or bank borrowings. At June 30, 1998, the Finance Group had credit facilities outstanding of approximately $5.4 billion, $88 million of which was available at quarter end. The Parent Group and the Finance Group had $311 million and $607 million, respectively, available at quarter end under their shelf registration statement with the Securities and Exchange Commission and, for the Finance Group, the Canadian Provincial Security Exchanges. During the six months ended June 30, 1998, the Finance Group issued $719 million of unsecured debt securities, including $406 million under its shelf registration statements. In the first six months of 1998, the Finance Group increased its medium-term note facility by $750 million and issued $300 million medium-term notes under this facility. The Finance Group had $542 million available under the facility at June 30, 1998.

In the first quarter, Textron acquired the capital stock of Ransomes PLC, a UK- based manufacturer of commercial turf-care machinery, and Sukosim, a German fastener manufacturer. The cost of these acquisitions was approximately $290 million (including notes issued for approximately $80 million), plus the assumption of debt. In the second quarter, Textron acquired Peiner, a German-based fastener company, and Ring Screw Works, a Michigan-based supplier of specialty threaded fasteners to the automotive industry. The cost of these acquisitions was approximately $200 million, plus the assumption of debt.

In the first six months of 1998, the Finance Group had $267 million of interest rate exchange agreements expire and $198 million of interest rate exchange agreements go into effect. The new agreements, which have a weighted average original term of 2.9 years and expire through 2002, had the effect of fixing the rate of interest at approximately 6.5% on $198 million of variable rate borrowings at June 30, 1998. Also, during the first six months, the Parent Group terminated $275 million of fixed-pay interest rate exchange agreements.

In the second quarter of 1998, Textron announced that it is reviewing its strategic alternatives for its consumer finance subsidiary, Avco Financial Services (AFS). This review will include evaluation of a sale, spin-off, or other disposition of AFS, and is targeted for completion in the third quarter of 1998.

Management believes that the Parent Group will continue to have adequate access to credit markets and that its credit facilities and cash flows from operations -- including dividends received from Textron's Finance Group -- will continue to be more than sufficient to meet its operating needs and to finance growth.

Results of Operations - Three months ended July 4, 1998 vs Three months ended June 28, 1997

Diluted earnings per share in the second quarter 1998 were $0.98 per share, up 14% from the 1997 amount of $0.86. Net income in 1998 of $164 million was up 13% from $145 million for 1997. Revenues increased 11% to $3.0 billion in 1998 from $2.7 billion in 1997. During the second quarter, Textron recorded a gain on sale of a division and special charges. On an after-tax basis, the net of these two transactions had no impact on earnings per share.

Gain On Sale of Division -Fuel Systems Textron was sold to Woodward Governor Company for $160 million in cash on June 15, 1998, at a pretax gain of $97 million ($54 million after-tax, or $0.32 per diluted share).

Special Charges - To enhance the competitiveness and profitability of its core businesses, Textron recorded a pretax charge of $87 million in the second quarter ($54 million after-tax or $0.32 per diluted share). This charge was recorded to cover asset impairments ($28 million), severance costs ($40 million), and other exit-related costs ($9 million) associated with its decision to exit several small, non-strategic product lines in Automotive and the former Systems and Components divisions which did not meet Textron's return criteria, and to realign certain operations in the Industrial segment. The pretax charges recorded in the Automotive and Industrial segments were $25 million and $52 million, respectively, and also included the cost of a litigation settlement of $10 million in the Aircraft segment.

The Aircraft segment's revenues increased $103 million (14%) and income before special charges increased $12 million (15%). Cessna's revenues and income increased as a result of higher sales of business jets, single engine aircraft and Caravans. Bell's revenues increased due to higher commercial helicopter and spares sales ($62 million) as well as increased revenues on the V-22 program and other U.S. Government programs, primarily the Huey and Cobra upgrade contract ($44 million). These higher revenues were partially offset by the completion in 1997 of the three-year contract for model 412 helicopters with the Canadian Forces ($44 million) and lower foreign military sales ($31 million). Bell's income, however, decreased due to a change in product mix, primarily resulting in lower margins on U.S. Government contracts.

The Automotive segment's revenues increased $60 million (11%), while income before special charges increased $10 million (30%). The revenue increase was due to higher volume at Kautex associated with capacity expansion in North America and higher sales in the Trim operations, due primarily to increased Chrysler production, which was depressed in 1997 by a strike at Chrysler. These revenue increases were partially offset by the impact of a strike at General Motors in 1998. Income increased due to the higher sales and improved performance at Trim.

The Industrial segment's revenues increased $113 million (14%) and income before special charges increased $14 million (15%). These increases reflected the contribution from acquisitions, principally Ransomes PLC, Sukosim, and Ring Screw Works, and internal growth combined with ongoing margin improvement. Internal growth was driven by continued strength in the fluid & power systems and industrial components businesses. These benefits were partially offset by the fourth quarter 1997 divestiture of Speidel, the impact of a one-month strike at Textron's Jacobsen plant and a strike at General Motors in 1998.

The Finance segment's revenues increased $10 million (2%), while income increased $3 million (3%). AFS' revenues and income increased $9 million, and $3 million, respectively. Revenues in its finance and related insurance business increased $9 million, due to a gain of $10 million on the sale of its centralized real estate receivable portfolio, an increase in average finance receivables, primarily in its commercial finance operations. The benefit of these revenue increases was partially offset by a decrease in yields on finance receivables, reflecting decreases in yields on both consumer and commercial finance receivables and the impact of an increase in lower-yielding commercial receivables. Income increased $6 million, due primarily to the benefit of the higher revenues, a decrease in the ratio of insurance losses to earned premiums, and an improvement in the ratio of net credit losses to average finance receivables for both the consumer and commercial finance portfolios.

In AFS' nonrelated insurance business, revenues approximated last year's level while income decreased $3 million, due to an increase in underwriting expenses, primarily insurance losses.

TFC's revenues increased $1 million, due to higher yields on receivables and an increase in other income, partially offset by a lower level of average receivables, due primarily to the securitization of $401 million of Textron- related receivables in the third quarter of 1997. The increase in other income was due primarily to portfolio servicing income. Its income equaled last year's level, as the benefit of the higher revenues and a lower provision for losses was offset by growth in businesses with higher operating expense ratios.

Interest expense-net for the Parent Group increased $10 million, due to higher average debt, resulting from the incremental debt associated with acquisitions. Income taxes - the current quarter's effective income tax rate of 40.2% was higher than the corresponding prior year rate of 38.5%, due primarily to the nontax deductibility of goodwill related to the divestiture of Fuel Systems Textron.

Results of Operations - Six months ended July 4, 1998 vs Six months ended June 28, 1997

Diluted earnings per share in the first half of 1998 were $1.83 per share, up 15% from the 1997 amount of $1.59. Net income in 1998 of $306 million was up 13% from $270 million for 1997. Revenues increased 9% to $5.7 billion in 1998 from $5.2 billion in 1997.

The Aircraft segment's revenues increased $80 million (6%) and income before special charges increased $13 million (9%). Cessna's revenues and income increased as a result of higher sales of business jets and single engine aircraft. Bell's revenues and income decreased, due primarily to the completion in 1997 of the Canadian Forces contract ($99 million). The benefit of higher commercial helicopter and spares sales ($33 million) and increased revenues on the V-22 program and Huey and Cobra upgrade contracts ($54 million) was offset by lower revenues ($26 million) and margins on other U.S. government contracts and lower foreign military sales ($35 million). In addition, the impact of a favorable profit adjustment on the V-22 EMD contract in 1997 was offset by a lower level of product development expense in 1998.

The Automotive segment's revenues increased $121 million (11%), while income before special charges increased $16 million (19%). The revenue increase was due to higher volume at Kautex associated with capacity expansion in North America and higher sales in the Trim operations, due primarily to increased Chrysler production, which was depressed in 1997 by a strike at Chrysler. These revenue increases were partially offset by the impact of a strike at General Motors in 1998. Income increased due to the higher sales and improved performance at Trim.

The Industrial segment's revenues increased $221 million (14%) and income before special charges increased $27 million (15%). These increases reflected the contribution from acquisitions, principally Ransomes PLC, Sukosim, and Ring Screw Works, and internal growth combined with ongoing margin improvement. Internal growth was driven by continued strength in the fastening systems, fluid & power systems and industrial components businesses. These benefits were partially offset by the fourth quarter 1997 divestiture of Speidel, the impact of a one-month strike at Textron's Jacobsen plant and a strike at General Motors in 1998.

The Finance segment's revenues increased $31 million (3%), while income increased $1 million. AFS' revenues increased $27 million, while income equaled last year's level. Revenues in its finance and related insurance business increased $19 million, due to an increase in average finance receivables ($7.646 billion in the first half 1998 vs $7.322 billion in the first half 1997), primarily in its commercial finance operations, a gain of $10 million on the sale of its centralized real estate receivable portfolio, and higher gains from the sale of certain underperforming branches ($8 million in the first half 1998 vs $3 million in the first half 1997). The benefit of these revenue increases was partially offset by a decrease in yields on finance receivables (17.33% in the first half 1998 vs 17.99% in the first half 1997), reflecting decreases in yields on both consumer and commercial finance receivables and the impact of an increase in lower-yielding commercial receivables. Income equaled last year's level, as the benefit of the higher revenues and an improvement in the ratio of net credit losses to average finance receivables (2.78% in the first half 1998 vs 2.98% in the first half 1997) was offset by the lower yields on finance receivables. The decrease in the net credit losses to average finance receivables was primarily attributable to the increase in commercial receivables, which have a lower loss ratio.

In AFS' nonrelated insurance business, revenues increased $8 million due primarily to higher premiums earned and an increase in investment income. Income equaled last year's level, as the benefit of the higher revenues was offset by an increase in underwriting expenses, primarily insurance losses.

TFC's revenues increased $4 million, due to an increase in other income, and higher yields on receivables (10.13% in the first half 1998 vs 9.94% in the first half 1997), partially offset by a lower level of average receivables ($3.129 billion in the first half 1998 vs $3.173 billion in the first half 1997), due primarily to the securitization of $401 million of Textron-related receivables in the third quarter of 1997. The increase in other income is due primarily to higher prepayment income, portfolio servicing income, and residual income. Its income increased $1 million as the benefit of the higher revenues and a lower provision for losses was offset by growth in businesses with higher operating expense ratios.

Corporate expenses and other -net decreased $2 million due primarily to 1997 litigation costs related to a divested operation. Interest expense-net for the Parent Group increased $7 million, due to higher average debt, resulting from the incremental debt associated with acquisitions, partially offset by the payment of debt with proceeds in 1997 from the divestiture of Paul Revere. Income taxes - the effective income tax rate of 39.2% for the first half of 1998 was higher than the corresponding prior year rate of 38.9%, due primarily to the nontax deductibility of goodwill related to the divestiture of Fuel Systems Textron.

* * * * * *

FORWARD-LOOKING INFORMATION: CERTAIN STATEMENTS IN THIS REPORT, 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 ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT MAY CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE CONTAINED IN THE STATEMENTS, INCLUDING THE FOLLOWING:
(I) CONTINUED MARKET DEMAND FOR THE TYPES OF PRODUCTS AND SERVICES PRODUCED AND SOLD BY TEXTRON, (II) CHANGES IN WORLDWIDE ECONOMIC AND POLITICAL CONDITIONS AND ASSOCIATED IMPACT ON INTEREST AND FOREIGN EXCHANGE RATES,
(III) THE LEVEL OF SALES BY ORIGINAL EQUIPMENT MANUFACTURERS OF VEHICLES FOR WHICH TEXTRON SUPPLIES PARTS, (IV) THE SUCCESSFUL INTEGRATION OF COMPANIES ACQUIRED BY TEXTRON, AND (V) CHANGES IN CONSUMER DEBT LEVELS.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See the Company's most recent annual report filed on Form 10-K (Management's Discussion and Analysis on pages 25 through 32 of Textron's Annual Report to shareholders, incorporated by reference to the Form 10-K). There has been no material change in this information.

PART II. OTHER INFORMATION

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

At Textron's annual meeting of shareholders held on April 22, 1998,
the following items were voted upon:

1. The following persons were elected to serve as directors in Class II for three year terms expiring in 2001 and received the votes listed.

Name	For	Withheld
Paul E. Gagne	135,497,850	1,979,923
James F. Hardymon	135,506,165	1,971,608
Dana G. Mead	135,539,871	1,937,902
Thomas B. Wheeler	134,609,274	2,868,499

The following directors have terms of office which continued after the meeting: H. Jesse Arnelle, Teresa Beck, Lewis B. Campbell, R. Stuart Dickson, John D. Macomber, Brian H. Rowe, Sam F. Segnar, Jean Head Sisco, John W. Snow, and Martin D. Walker.

2. The appointment of Ernst & Young LLP as Textron's independent auditors for 1998 was ratified by the following vote:

For Against Abstain Broker Non-Votes

136,306,523 631,326 539,924 0

3. A shareholder proposal requesting that the Board of Directors provide a report on Textron's foreign military sales was rejected by the following vote:

For Against Abstain Broker Non-Votes

6,275,041 115,128,060 3,490,317 12,584,355

4. A shareholder proposal regarding executive compensation was rejected by the following vote:

For Against Abstain Broker Non-Votes

12,263,414 110,271,249 2,343,275 12,599,835

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

12.1 Computation of ratio of income to combined fixed charges and preferred securities dividends of the Parent Group.

12.2 Computation of ratio of income to combined fixed charges and preferred securities dividends of Textron Inc. including all majority-owned subsidiaries.

27 Financial Data Schedule (filed electronically only)

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the second quarter ended July 4, 1998

SIGNATURES

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

TEXTRON INC.

Date: August 10, 1998 *s/R. L. Yates*

R. L. Yates
Vice President and
Controller
(principal accounting
officer)

LIST OF EXHIBITS

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

	Name of Exhibit
12.1	Computation of ratio of income to combined fixed charges and preferred securities dividends of the Parent Group
12.2	Computation of ratio of income to combined fixed charges and preferred securities dividends of Textron Inc. including all majority-owned subsidiaries
27	Financial Data Schedule (filed electronically only)

EXHIBIT 12.1

PARENT GROUP

COMPUTATION OF RATIO OF INCOME TO
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(unaudited)

(In millions except ratio)

	Six Months Ended July 4, 1998
Fixed charges:	
Interest expense	$ 76
Distributions on preferred securities of subsidiary trust, net of income taxes	13
Estimated interest portion of rents	11
Total fixed charges	$100
Income:	
Income before income taxes and distributions on preferred securities of subsidiary trust	$525
Eliminate equity in undistributed pretax income of Finance Group	87
Fixed charges *	(63)
Adjusted income	$549
Ratio of income to fixed charges	5.49

* Adjusted to exclude distributions on preferred securities of subsidiary trust, net of income taxes

EXHIBIT 12.2

TEXTRON INC. INCLUDING ALL MAJORITY-OWNED SUBSIDIARIES

COMPUTATION OF RATIO OF INCOME TO
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

(unaudited)

(In millions except ratio)

	Six Months Ended July 4,1998
Fixed charges:	
Interest expense	$ 380
Distributions on preferred securities of subsidiary trust, net of income taxes	13
Estimated interest portion of rents	20
Total fixed charges	$ 413
Income:	
Income before income taxes and distributions on preferred securities of subsidiary trust	$ 525
Fixed charges *	400
Adjusted income	$ 925
Ratio of income to fixed charges	2.24

* Adjusted to exclude distributions on preferred securities of subsidiary trust, net of income taxes

ARTICLE 5

PERIOD TYPE	6 MOS
FISCAL YEAR END	JAN 02 1999
PERIOD END	JUL 04 1998
CASH	132
SECURITIES	0
RECEIVABLES	0
ALLOWANCES	0
INVENTORY	1,620
CURRENT ASSETS	0
PP&E	3,933
DEPRECIATION	1,917
TOTAL ASSETS	19,979
CURRENT LIABILITIES	0
BONDS	11,405
COMMON	24
PREFERRED MANDATORY	0
PREFERRED	13
OTHER SE	3,425
TOTAL LIABILITY AND EQUITY	19,979
SALES	4,560
TOTAL REVENUES	5,671
CGS	3,712
TOTAL COSTS	3,851
OTHER EXPENSES	87
LOSS PROVISION	127
INTEREST EXPENSE	380
INCOME PRETAX	525
INCOME TAX	206
INCOME CONTINUING	306
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	306
EPS PRIMARY	1.87
EPS DILUTED	1.83