Silicon Motion Technology CORP
Form 6-K
October 02, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer Pursuant to Rule 13a-16 or 15d-16 under

the Securities Exchange Act of 1934

October 1, 2013

Commission File Number: 000-51380

Silicon Motion Technology Corporation

(Exact name of Registrant as specified in its charter)

8F-1, No. 36, Taiyuan St.

Jhubei City, Hsinchu County 302

Taiwan

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ¨ No x

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ¨ No x

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant s home country), or under the rules of the home country exchange on which the registrant s securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the

registrant s security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

Not applicable

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Exhibits

Exhibit 99.1 Press Release issued by the Company on October 1, 2013.

SIGNATURE

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.

	Silicon Motion Technology Corporation
Date: October 1, 2013	By: /s/ Riyadh Lai
	Name: Riyadh Lai
	Title: Chief Financial Officer

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th="0%" valign="bottom" style="padding:0pt .7pt 0pt 0pt;width:.82%;">

)

Proceeds on sale of property, plant and equipment

7

23

38

Proceeds on sale of investments

38

Other investing activities, net

6

18

56

120

Net cash used in investing activities of continuing operations

(742

)

(362

)

(158

)

(1,680

)

(950

)

(756

)

Net cash provided by (used in) investing activities of discontinued operations

653

28

(18

)

Net cash used in investing activities

(89

)

(334

)

(176

)

(1,680

)

(950

)

(756

)

Cash flows from financing activities:

Increase (decrease) in short-term debt

(242

)

277

1

579

(106

)

787

Proceeds from issuance of long-term debt

5

403

14

1,995

1,554

949

Principal payments and retirements of long-term debt and mandatorily redeemable preferred securities

(16

)

(417

)

(360

)

(1,121

)

(761

)

(1,304

)

Proceeds from employee stock ownership plans

173

106

187

Purchases of Textron common stock

(761

)

(597

)

(415

)

Dividends paid

(244

)

(189

)

(135

)

Dividends paid to Manufacturing group

(80

)

(100

)

(71

)

Capital contributions paid to Finance group

(18

)

18

Excess tax benefit received on share-based payments

31

14

Net cash provided by (used in) financing activities of continuing operations

(1,072

)

(403

)

(708

)

1,391

587

361

Net cash provided by (used in) financing activities of discontinued operations

2

(1

)

Net cash provided by (used in) financing activities

(1,070

)

(404

)

(708

)

1,391

587

361

Effect of exchange rate changes on cash and cash equivalents

22

(27

)

29

1

2

4

Net (decrease) increase in cash and cash equivalents

(53

)

216

119

37

(117

)

(230

)

Cash and cash equivalents at beginning of year

786

570

451

10

127

357

Cash and cash equivalents at end of year

$

733

$

786

$

570

$

47

$

10

$

127

Supplemental schedule of non-cash investing and financing activities from continuing operations:

Capital expenditures financed through capital leases

$

16

$

15

$

44

$

$

$

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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.*

See Notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation and Financial Statement Presentation

Our consolidated financial statements include the accounts of Textron Inc. and all of its majority-owned subsidiaries and variable interest entities that are required to be consolidated. See Note 18 for the variable interest entities included within these consolidated financial statements.

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 in consolidation.

Certain amounts have been reclassified to conform to the current year presentation.

Use of Estimates

We prepare our financial statements in conformity with generally accepted accounting principles, which require us to make estimates and assumptions that affect the amounts reported in the financial statements. Estimates are used in accounting for, among other items, long-term contracts, inventory valuation, residual values of leased assets, allowance for credit losses on receivables, the amount and timing of future cash flows expected to be received on impaired loans, product liability, workers compensation, actuarial assumptions for the pension and postretirement plans, future cash flows associated with goodwill and long-lived asset valuations, and environmental and warranty reserves. Our estimates are based on the facts and circumstances available at the time estimates are made, historical experience, risk of loss, general economic conditions and trends, and our assessments of the probable future outcomes of these matters. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically, and the effects of changes, if any, are reflected in the statement of operations in the period that they are determined.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term, highly liquid investments with original maturities of three months or less.

Revenue Recognition

We generally recognize revenue from the sale of our products that are not under long-term contracts upon delivery. For commercial aircraft, delivery is upon completion of manufacturing, customer acceptance, and the transfer of the risk and rewards of ownership. Service revenue is recognized when the service is performed.

When a sale arrangement involves multiple elements, such as sales of products that include customization and other services, we evaluate the arrangement to determine whether there are separate items that are required to be delivered under the arrangement that qualify to be recorded as separate units of accounting. We then allocate the total fee from the arrangement to each unit of accounting based on its relative fair value, taking into consideration any performance, cancellation, termination or refund type provisions. Fair value generally is established for each unit of accounting using the sales price charged when the same or similar items are sold separately. We recognize revenue when the recognition

criteria for each unit of accounting are met.

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Leases Certain qualifying noncancelable aircraft and other product lease contracts are accounted for as sales-type leases. Upon delivery, we record the present value of all payments (net of executory costs and any guaranteed residual values) under these leases as revenues, and the related costs of the product are charged to cost of sales. For lease financing transactions that do not qualify as sales-type leases, we record revenue as earned over the lease period.

Aircraft sales in which we guarantee our customer a minimum future resale value are viewed as leases in accordance with Emerging Issues Task Force No. 95-1, Revenue Recognition on Sales with a Guaranteed Minimum Resale Value. To determine whether the transaction should be classified as an operating lease or as a sales-type lease, the minimum lease payments generally represent the difference between a) the proceeds upon the equipment s initial transfer and b) the present value of the residual value guarantee to the purchaser as of the first exercise date of the guarantee, less proceeds from any residual value insurance obtained. To assess the market value of the aircraft, we use industry publications as well as actual sales of used aircraft. These market value assessments are adjusted based on available information related to the individual aircraft and any physical condition minimums required by the arrangement. Losses are recorded currently if the projected market value of the aircraft at the exercise date is less than the guaranteed amount.

Long-Term Contracts Revenues under long-term contracts are accounted for under the percentage-of-completion method of accounting in accordance with American Institute of Certified Public Accountants Statement of Position No. 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts. Under the percentage-of-completion method, we estimate profit as the difference between total estimated revenue and total estimated cost of a contract and recognize that profit over the contract term based on either input (e.g., costs incurred under the cost-to-cost method which is typically used for development effort) or output (e.g., units delivered under the units-of-delivery method, which is used for production effort), as appropriate under the circumstances. Revenues under fixed-price contracts generally are recorded using the units-of-delivery method. However, certain fixed-price contracts provide for periodic delivery after a lengthy period of time over which significant costs are incurred or require a significant amount of development effort in relation to total contract volume. Revenues under those contracts and all cost-reimbursement-type contracts are recorded using the cost-to-cost method.

Our long-term contract profits are based on estimates of total contract cost and revenue utilizing current contract specifications, expected engineering requirements and the achievement of contract milestones, including product deliveries. Certain contracts are awarded with fixed-price incentive fees which also are considered when estimating revenues and profit rates. Contract costs typically are incurred over a period of several years, and the estimation of these costs requires substantial judgment. We review and revise these estimates periodically throughout the contract term. Revisions to contract profits are recorded when the revisions to estimated revenues or costs are made. Anticipated losses on contracts are recognized in full in the period in which losses become probable and estimable.

Our Bell Helicopter business has a joint venture with The Boeing Company (Boeing) to provide engineering, development and test services related to the V-22 aircraft, as well as to produce the V-22 aircraft, under a number of separate contracts with the U.S. Government (the V-22 Contracts). The V-22 Contracts include the development contract and various production release contracts (i.e., lots) that may run concurrently with multiple earlier lots still being produced as new lots are started. The development contract and the first three production lots are under cost-reimbursement-type contracts, while subsequent lots are under fixed-price-type contracts. We account for the first three fixed-price incentive contract lots using the cost-to-cost method, primarily as a result of the significant engineering effort required over a lengthy period of time during the initial development phase in relation to total contract volume. The production releases on the first six production lots include separately contracted modifications to meet additional requirements of the U.S. Government s Blue Ribbon Panel. The development effort for new production releases was considered substantially complete at the beginning of 2003 since a consistent production specification had been met with these units incorporating many of the required modifications on the production line. Accordingly, revenue is recognized on the new production releases that began in 2003 using the units-of-delivery method.

Our joint venture agreement with Boeing creates contractual, rather than ownership, rights related to the V-22. Accordingly, we do not account for this joint venture under the equity method of accounting. We account for all of our rights and obligations under the specific requirements of the V-22 Contracts allocated to us under the joint venture agreement. Revenues and cost of sales reflect our performance under the V-22 Contracts. We include all assets used in performance of the V-22 Contracts that we own, including inventory and unpaid receivables, and all liabilities arising from our obligations under the V-22 Contracts in the consolidated balance sheets.

Finance Revenues Finance revenues include interest on finance receivables, direct loan origination costs and fees received. We recognize interest using the interest method to provide a constant rate of return over the terms of the receivables. Revenues on direct loan origination costs and fees received are deferred and amortized to finance

revenues over the contractual lives of the respective receivables using the interest method. When receivables are sold or prepaid, unamortized amounts are recognized in revenues. We generally suspend the accrual of interest income for

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accounts that are contractually delinquent by more than three months. In addition, detailed reviews of loans may result in earlier suspension. We resume the accrual of interest when the loan becomes contractually current and recognize the suspended interest income at that time. Cash payments on nonaccrual accounts, including finance charges, generally are applied to reduce loan principal.

Losses on Finance Receivables

Provisions for losses on finance receivables are charged to income in amounts sufficient to maintain the allowance at a level considered adequate to cover losses in the existing receivable portfolio. We evaluate the allowance by examining current delinquencies, characteristics of the existing accounts, historical loss experience, underlying collateral value, and general economic conditions and trends. In addition, for larger balance commercial loans, we consider borrower specific information, industry trends and estimated discounted cash flows. Finance receivables generally are written down to the fair value (less estimated costs to sell) of the related collateral at the earlier of the date when the collateral is repossessed or when no payment has been received for six months. Finance receivables are charged off when they are deemed to be uncollectible.

Loan Impairment

We periodically evaluate our finance receivables, excluding homogeneous loan portfolios and finance leases, for impairment. A loan is considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We also identify loans that are considered impaired due to the significant modification of the original loan terms. These modified loans reflect deferred principal payments, generally at market interest rates, and continue to accrue finance charges since collection of principal and interest is not doubtful. We measure impairment by comparing the fair value of a loan with its carrying amount. Fair value is based on the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s observable market price or, if the loan is collateral dependent, at the fair value of the collateral, less selling costs. If the fair value of the loan is less than its carrying amount, we establish a reserve based on this difference.

Securitized Transactions

Securitized transactions involve the sale of finance receivables to qualified special purpose trusts. Through our Finance group, we sell or securitize loans and leases and may retain an interest in the assets sold in the form of servicing responsibilities and subordinated interests, including interest-only securities, seller certificates and cash reserves. These retained interests are subordinate to other investors interests in the securitizations. A gain or loss on the sale of the loans or leases depends, in part, on the previous carrying amount of the finance assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair values at the date of transfer.

Retained interests are recorded at fair value in other assets. We estimate the fair value based on the present value of future expected cash flows using our best estimates of key assumptions: credit losses, prepayment speeds, discount rates and forward interest rate yield curves commensurate with the risks involved. Each quarter we review the fair values of the retained interests using updated assumptions and compare such amounts with the carrying value of the retained interests. When the carrying value exceeds the fair value of the retained interests and the decline in fair value is determined to be other than temporary, we write down the retained interest to fair value with a corresponding charge to earnings. When a change in the fair value of the retained interest is deemed temporary, any unrealized gains or losses are included in shareholders equity as a component of accumulated other comprehensive loss.

Investments

We classify our investments in marketable equity securities as available for sale. We record these investments at fair value in other assets with any unrealized gains and losses included in shareholders equity as a component of accumulated other comprehensive loss, net of income taxes. Investments in non-marketable equity securities are accounted for under either the cost or equity method of accounting. For investments in joint ventures for which we do not have control or are not the primary beneficiary, but where we do have the ability to exercise significant influence over the venture s operating and financial policies, we use the equity method.

We periodically review our investment securities for impairment based on criterion that include the duration of the market value decline, our ability to hold to recovery, information regarding the market and industry trends for the investee s business, the investee s financial strength and specific prospects, and investment analyst reports, if available. If a decline in the fair value of an investment security is judged to be other than temporary, we write down the cost basis to fair value with a corresponding charge to earnings.

Inventories

Inventories are stated at the lower of cost or estimated net realizable value. We value our inventories generally using the first-in, first-out method (FIFO) or the last-in, first-out (LIFO) method for certain qualifying inventories in the U.S. We determine costs for our commercial helicopters on an average cost basis by model considering the expended and estimated costs for the current production release. Costs on long-term contracts represent costs incurred for production, allocable operating overhead, advances to suppliers, and, in the case of contracts with the

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U.S. Government, allocable research and development and general and administrative expenses. Pursuant to contract provisions, agencies of the U.S. Government have title to, or security interest in, inventories related to such contracts as a result of advances, performance-based payments and progress payments. Such advances and payments are reflected as an offset against the related inventory balances. In accordance with industry practice, our inventoried costs include amounts related to contracts with long production cycles, a portion of which is not expected to be realized within one year.

Customer deposits are recorded against inventory when the right of offset exists. All other customer deposits are recorded in accrued liabilities.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated primarily using the straight-line method. Land improvements and buildings are depreciated primarily over estimated lives ranging from five to 40 years, while machinery and equipment are depreciated primarily over three to 15 years. We capitalize expenditures for improvements that increase asset values and extend useful lives.

Long-Lived Assets

Long-lived assets, including intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. If the carrying value of the asset held for use exceeds the sum of the undiscounted expected future cash flows, the carrying value of the asset is written down to fair value. Long-lived assets held for sale are stated at the lower of cost or fair value less cost to sell. Fair value is determined using pertinent market information, including appraisals or brokers estimates and/or estimated future discounted cash flows.

Goodwill

We evaluate the recoverability of goodwill annually or more frequently if events or changes in circumstances, such as declines in sales, earnings or cash flows, or material adverse changes in the business climate, indicate that the carrying value of a reporting unit might be impaired. The reporting unit represents the operating segment unless discrete financial information is prepared and reviewed by segment management for businesses one level below that operating segment (a component), in which case such component is the reporting unit. In certain instances, we have aggregated components of an operating segment into a single reporting unit based on similar economic characteristics. Goodwill is considered to be potentially impaired when the net book value of a reporting unit exceeds its estimated fair value. Fair values are established primarily using a discounted cash flow methodology. The determination of discounted cash flows is based on the businesses strategic plans and long-range planning forecasts. When available, comparative market multiples are used to corroborate discounted cash flow results.

Derivative Financial Instruments

We are exposed to market risk primarily from changes in interest rates, currency exchange rates and securities pricing. To manage the volatility relating to these exposures, we net these exposures on a consolidated basis to take advantage of natural offsets. For the residual portion, we enter into various derivative transactions pursuant to our policies in areas such as counterparty exposure and hedging practices. All derivative instruments are reported on the consolidated balance sheets at fair value. Designation to support hedge accounting is performed on a specific exposure basis. We record changes in fair value of financial instruments qualifying as fair value hedges in income, offset, in part or in whole, by corresponding changes in the fair value of the underlying exposures being hedged. Changes in fair values of derivatives accounted for as cash flow hedges, to the extent they are effective as hedges, are recorded in other comprehensive (loss) income, net of deferred taxes. We report changes in fair value of derivatives not qualifying as hedges in income. We do not hold or issue derivative financial instruments for trading or speculative purposes.

Foreign currency denominated assets and liabilities are translated into U.S. dollars with the adjustments from the currency rate changes recorded in the cumulative translation adjustment account in shareholders equity until the related foreign entity is sold or substantially liquidated. We use foreign currency financing transactions, including currency swaps, to effectively hedge long-term investments in foreign operations with the same corresponding currency. Foreign currency gains and losses on the hedge of the long-term investments are recorded in the cumulative translation adjustment account with the offset recorded as an adjustment to the non-U.S. dollar financing liability.

Fair Values of Financial Instruments

The fair value of our cash and cash equivalents, accounts receivable, accounts payable, and variable-rate receivables and debt approximates the carrying value of these financial instruments. We determine the estimated fair values of other financial instruments, including debt, equity and

risk management instruments, using available market information and valuation methodologies, primarily discounted cash flow analysis or independent investment bankers.

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Product and Environmental Liabilities

We accrue product liability claims on the occurrence method when a loss is probable and reasonably estimable based on historical experience and the insurance coverage and deductibles in effect at the date of the incident.

Liabilities for environmental matters are recorded on a site-by-site basis when it is probable that an obligation has been incurred and the cost can be reasonably estimated. Our environmental liabilities are undiscounted and do not take into consideration possible future insurance proceeds or significant amounts from claims against other third parties.

Research and Development Costs

Research and development costs that are either not specifically covered by contracts or represent our share under cost-sharing arrangements are charged to expense as incurred. Research and development costs incurred under contracts with others are reported as cost of sales over the period that revenue is recognized.

Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between the financial reporting and tax bases of assets and liabilities, applying enacted tax rates expected to be in effect for the year in which the differences are expected to reverse. Based on the evaluation of available evidence, we recognize future tax benefits, such as net operating loss carryforwards, to the extent that we believe it is more likely than not that we will realize these benefits. We periodically assess the likelihood that we will be able to recover our deferred tax assets and reflect any changes in our estimates in the valuation allowance, with a corresponding adjustment to earnings or other comprehensive income (loss), as appropriate. In assessing the need for a valuation allowance, we look to the future reversal of existing taxable temporary differences, taxable income in carryback years, the feasibility of tax planning strategies and estimated future taxable income.

Recently Announced Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes An interpretation of FASB Statement No. 109 (FIN 48). This Interpretation provides a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. We will adopt this Interpretation in the first quarter of 2007 and do not expect the adoption to have a material impact on our financial position or results of operations.

In July 2006, the FASB issued FASB Staff Position FAS 13-2, Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction. This Staff Position amends Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases and requires a recalculation of returns on leveraged leases if there is a change or projected change in the timing of cash flows related to income taxes generated by the leveraged lease. In accordance with this guidance, the difference between the revised calculation of earnings since lease inception and the actual amount of cumulative earnings recognized is recorded in income from continuing operations. We are required to adopt this guidance in the first quarter of 2007. Upon adoption, the estimated change in the projected cash flows must be reported as an adjustment to retained earnings. The adoption of this Staff Position resulted in a $33 million reduction in retained earnings at the beginning of fiscal 2007.

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

Note 2. Discontinued Operations

Our consolidated financial statements and related footnote disclosures reflect the sold businesses of Fastening Systems, InteSys, OmniQuip and the Small Business Direct financing business as discontinued operations, net of applicable income taxes, for all periods presented in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

We generally use a centralized approach to the cash management and financing of our manufacturing operations and, accordingly, do not allocate debt or interest expense to our discontinued businesses. Any debt and related interest expense of a specific entity within a business is recorded by the respective entity. General corporate overhead previously allocated to the businesses for reporting purposes is excluded from amounts reported as discontinued operations.

In August 2006, we completed the sale of our Fastening Systems business to Platinum Equity, a private equity investment firm, for approximately $613 million in cash and the assumption of $16 million of net indebtedness and certain liabilities. There was no gain or loss recorded upon completion of the sale. The purchase price is subject to final adjustment based on the audited net asset value, net debt and cash balances at the closing date. We currently are negotiating with Platinum Equity and expect to finalize the purchase price in early 2007.

Prior to the consummation of the sale of the Fastening Systems business, we recorded impairment and other charges of $120 million in 2006 and $387 million in 2005, which are described below.

In September 2005, our Board of Directors approved management s recommendation to explore strategic alternatives for the Fastening Systems business. Based on the approval of this recommendation and the likelihood of execution, we determined that an impairment indicator existed for both the Fastening Systems goodwill and its long-lived assets. In our assessment of potential impairment of the goodwill, we estimated the fair value of the business using independent third-party valuations. This fair value amount then was compared with the carrying amount of the business. As the carrying amount exceeded the fair value, we then measured the amount of goodwill impairment loss. The excess of the fair value of the business over the fair value amounts assigned to its assets and liabilities represents the implied fair value of goodwill. The carrying amount of the goodwill exceeded the implied fair value of that goodwill, resulting in an impairment loss of $335 million, which was recorded in the third quarter of 2005.

In December 2005, our Board of Directors authorized the divestiture of the Fastening Systems business, and we recorded an after-tax charge of approximately $52 million, which included $37 million related to previously deferred foreign currency translation losses and $7 million in curtailment losses for employee retirement plans. After these charges, we assessed the estimated fair value of the business and determined that no further adjustment to the carrying value was required at that time. In the second quarter of 2006, we recorded an additional $120 million after-tax impairment charge to record the business at the estimated fair value less cost to sell at that time based on offers received from potential purchasers.

In 2005, we recorded a net $46 million gain on disposal primarily related to a tax benefit recorded upon the sale of InteSys.

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

(In millions)	2006	2005	2004
Revenue	$ 1,101	$ 1,936	$ 1,994
(Loss) income from discontinued operations before special charges	(94)	(388)	72
Special charges		(11)	(91)
Loss from discontinued operations	(94)	(399)	(19)
Income tax (expense) benefit	(11)	40	9
Operating loss from discontinued operations, net of income taxes	(105)	(359)	(10)
Gain on disposal, net of income taxes		46	
Loss from discontinued operations, net of income taxes	$ (105)	$ (313)	$ (10)

At December 30, 2006, assets of discontinued operations included current assets of $69 million related to the sale of the Fastening Systems business, and liabilities of discontinued operations included current liabilities of $57 million, representing liabilities retained upon the sale of the Fastening Systems business.

Note 3. Business Acquisitions, Goodwill and Intangible Assets

Business Acquisitions

In 2006, we acquired three businesses for a total cost of $338 million in the Bell segment and $164 million in the Finance segment, all of which were paid for in cash. These acquisitions include the following:

- Overwatch Systems (Overwatch), a developer and provider of intelligence analysis software tools for the defense industry, was acquired on December 1.

- Innovative Survivability Technologies, Inc., a supplier of innovative defensive systems to military and homeland security customers, was acquired on July 19.

- Electrolux Financial Corporation s dealer inventory finance business, which provides consumer appliance and electronics dealers with wholesale inventory financing, was acquired on June 30.

The operating results of these businesses have been included in the consolidated financial statements since the date of each respective acquisition. Pro forma information has not been included as the amounts are immaterial.

In connection with these acquisitions, we recorded $259 million of goodwill in the Bell segment and $112 million of identifiable intangible assets. The intangible assets and the weighted-average amortization periods are as follows: $37 million in unpatented technology (nine years), $35 million in customer agreements (15 years), $17 million in trademarks (nine years) and $23 million in other intangible assets (five to 10 years).

The purchase price for Overwatch is subject to adjustment based on actual working capital, cash and debt balances at the closing date. We have allocated the purchase price of this business to the estimated fair value of the net tangible and intangible assets acquired, with any excess recorded as goodwill. These estimates are preliminary as of the end of 2006 as we are awaiting the completion of the identification and valuation of intangible assets acquired. We expect these analyzes to be completed during the first half of 2007, along with the finalization of the purchase price.

CitationShares is our joint venture with TAG Aviation USA, Inc. (TAG) to sell fractional share interests in business jets and limited advance purchase jet charter. On June 30, 2004, we acquired an additional 25% interest in CitationShares from TAG for cash and the assumption of debt guarantees previously provided by TAG. As a result of this transaction, we owned 75% of CitationShares and consolidated its financial results prospectively as of June 30, 2004. In 2006 and 2005, our ownership interest was 86% and 82% as a result of additional capital contributions of $11 million and $26 million, respectively.

Additional cash consideration also may be payable to TAG based on CitationShares future operating results. TAG has the right to sell its remaining interest to us in the years 2009 through 2011, and we have the right to purchase the remaining interest in 2010 or 2011 for an amount based on a multiple of earnings.

Goodwill

The changes in the carrying amount of goodwill, by segment, are as follows:

(In millions)	**Bell**	**Cessna**	**Industrial**	**Finance**	**Total**
Balance at January 3, 2004	$ 101	$ 306	$ 593	$ 169	$ 1,169
Acquisitions/dispositions		16	(20)		(4)
Foreign currency translation			20		20
Other			(14)		(14)
Balance at January 1, 2005	$ 101	$ 322	$ 579	$ 169	$ 1,171
Acquisitions	1		4		5
Foreign currency translation			(22)		(22)
Other			(6)		(6)
Balance at December 31, 2005	$ 102	$ 322	$ 555	$ 169	$ 1,148
Acquisitions	259				259

Foreign currency translation			21		21
Other			(2)		(2)
Balance at December 30, 2006	$ 361	$ 322	$ 574	$ 169	$ 1,426

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Intangible Assets

All of our acquired intangible assets are subject to amortization and are composed of the following:

(Dollars in millions)	Weighted-Average Amortization Period (In years)	December 30, 2006 Gross Carrying Amount	Accumulated Amortization	Net	December 31, 2005 Gross Carrying Amount	Accumulated Amortization	Net
Trademarks	16	$ 46	$ 8	$ 38	$ 29	$ 7	$ 22
Unpatented technology	9	39	1	38	2		2
Customer agreements	15	35	1	34			
Patents	16	15	9	6	12	8	4
Other	6	32	11	21	12	8	4
		$ 167	$ 30	$ 137	$ 55	$ 23	$ 32

We amortize intangible assets using the straight-line method over the useful lives of the assets. Amortization expense totaled $7 million in 2006, $4 million in 2005 and $6 million in 2004. Amortization expense is estimated to be approximately $15 million in both 2007 and 2008, $14 million in both 2009 and 2010, and $12 million in 2011.

Note 4. Accounts Receivable

Accounts receivable is composed of the following:

(In millions)	December 30, 2006	December 31, 2005
Commercial	$ 690	$ 660
U.S. Government contracts	308	269
	998	929
Less allowance for doubtful accounts	(34)	(38)
	$ 964	$ 891

We have unbillable receivables on U.S. Government contracts that arise when the revenues we have appropriately recognized based on performance cannot be billed yet under terms of the contract. Unbillable receivables within accounts receivable totaled $144 million at December 30, 2006 and $125 million at December 31, 2005. Long-term contract receivables due from the U.S. Government exclude significant amounts billed but unpaid due to contractual retainage provisions or subject to collection uncertainty.

Note 5. Finance Receivables and Securitizations

Finance Receivables

Through our Finance group, we provide financial services primarily to the aircraft, golf, vacation interval resort, dealer floorplan and middle market industries under a variety of financing vehicles with various contractual maturities. The contractual maturities of finance receivables outstanding at December 30, 2006 were as follows:

	Contractual Maturities						Finance Receivables Outstanding	
(In millions)	2007	2008	2009	2010	2010	Thereafter	2006	2005
Distribution finance receivables	$ 1,519	$ 559	$ 233	$ 44	$ 66	$ 2	$ 2,423	$ 1,654
Revolving loans	1,422	287	127	60	28	24	1,948	1,633
Installment contracts	273	185	188	165	215	648	1,674	1,374
Golf course and resort mortgages	149	171	137	146	167	290	1,060	1,020
Leveraged leases	(11)	70	35	(5)	14	512	615	569
Finance leases	202	124	101	87	14	62	590	513
	$ 3,554	$ 1,396	$ 821	$ 497	$ 504	$ 1,538	8,310	6,763
Less allowance for credit losses							93	96
							$ 8,217	$ 6,667

This table does not necessarily reflect future cash collections as receivables are often repaid or refinanced prior to contractual maturity.

Distribution finance receivables and revolving loans generally mature within one to five years. Distribution finance receivables generally are secured by the inventory of the financed distributor and include floorplan financing for third-party dealers for inventory sold by the E-Z-GO and Jacobsen businesses. Revolving loans are secured by trade receivables, inventory, plant and equipment, pools of vacation interval notes receivables, pools of residential and recreational land loans, and the underlying property.

Installment contracts and finance leases have initial terms ranging from two to 20 years and primarily are secured by the financed equipment. Installment contracts generally require the customer to pay a significant down payment, along with periodic scheduled principal payments that reduce the outstanding balance through the term of the loan. Finance leases include residual values expected to be realized at contractual maturity. Leases with no significant residual value at the end of the contractual term are classified as installment contracts, as their legal and economic substance is more equivalent to a secured borrowing than a finance lease with a significant residual value. Contractual maturities for finance leases classified as installment contracts in the table above include the minimum lease payments, net of the unearned income to be recognized over the life of the lease. Total minimum lease payments and unearned income related to these contracts were $719 million and $222 million, respectively, at December 30, 2006 and $751 million and $164 million, respectively, at December 31, 2005. Minimum lease payments due under these contracts for each of the next five years are as follows: $132 million in 2007, $117 million in 2008, $104 million in 2009, $88 million in 2010 and $97 million in 2011.

Golf course and resort mortgages are secured by real property and generally are limited to 75% or less of the property's appraised market value at loan origination. Golf course mortgages have initial terms ranging from five to seven years with amortization periods from 15 to 25 years. Resort mortgages generally represent construction and inventory loans with terms up to two years.

Leveraged leases are secured by the ownership of the leased equipment and real property and have initial terms up to approximately 30 years. Leveraged leases reflect contractual maturities net of contractual nonrecourse debt payments and include residual values expected to be realized at contractual maturity.

The net investments in finance leases, excluding leases classified as installment contracts, and leveraged leases are provided below:

(In millions)	2006	2005
Finance leases:		
Total minimum lease payments receivable	$ 517	$ 457
Estimated residual values of leased equipment	267	241
	784	698
Less unearned income	(194)	(185)
Net investment in finance leases	$ 590	$ 513
Leveraged leases:		
Rental receivable, net of nonrecourse debt	$ 546	$ 520
Estimated residual values of leased assets	329	311
	875	831
Less unearned income	(260)	(262)
Investment in leveraged leases	615	569
Deferred income taxes	(410)	(349)
Net investment in leveraged leases	$ 205	$ 220

Minimum lease payments due under finance leases for each of the next five years are as follows: $144 million in 2007, $104 million in 2008, $70 million in 2009, $34 million in 2010 and $8 million in 2011.

Our Finance group manages and services finance receivables for a variety of investors, participants and third-party portfolio owners. The total managed and serviced finance receivable portfolio, including owned finance receivables, was $11.4 billion at the end of 2006 and $9.9 billion at the end of 2005. Managed receivables include owned finance receivables and finance receivables sold in securitizations and private transactions where we retain some element of credit risk and continue to service the portfolio.

Our finance receivables are diversified across geographic region, borrower industry and type of collateral. At December 30, 2006, 83% of our finance receivables were distributed throughout the United States, compared with 86% at the end of 2005. The most significant collateral concentration was in general aviation, which accounted for 19% of managed receivables at the end of 2006 and 2005. Industry concentrations in the golf and vacation interval industries each accounted for 16% and 13%, respectively, of managed receivables at December 30, 2006, compared with 17% and 13%, respectively at the end of 2005.

Transactions between Finance and Manufacturing Groups

A portion of our Finance group s business involves financing retail purchases and leases for new and used aircraft and equipment manufactured by our Manufacturing group. The captive finance receivables for these inventory sales that are included in our Finance group s balance sheets are composed of the following:

(In millions)	December 30, 2006	December 31, 2005
Installment contracts	$ 912	$ 628
Distribution finance	73	51
Finance leases	487	400
Total	$ 1,472	$ 1,079

Operating agreements specify that our Finance group has recourse to our Manufacturing group for certain uncollected amounts related to these transactions. Our Manufacturing group has established reserves for losses on its balance sheet within accrued and other liabilities for the receivables it guarantees. These reserves are established for amounts that potentially are uncollectible or if the collateral values are considered insufficient to cover the outstanding receivable. If an account is deemed uncollectible and the collateral is repossessed by our Finance group, our Manufacturing group is charged for the deficiency. If the collateral is not repossessed, the receivable is transferred from the Finance group s balance sheet to the Manufacturing group s balance sheet. The Manufacturing group then is responsible for any additional collection efforts. When this occurs, any related reserve previously established by the Manufacturing group is reclassified from accrued or other liabilities and netted against the receivable or asset transferred from the Finance group.

In 2006, 2005 and 2004, our Finance group paid the Manufacturing group $1.0 billion, $0.8 billion and $0.9 billion, respectively, related to the sale of Textron-manufactured products that were financed by the Finance group. Our Manufacturing group also received proceeds in those years of $63 million, $41 million and $77 million, respectively, from the sale of equipment to the Finance group for use under operating lease agreements. At the end of 2006 and 2005, the amounts guaranteed by the Manufacturing group totaled $335 million and $414 million, respectively, which included equipment leases with Collins & Aikman Corporation (C&A) that had an outstanding balance of $61 million at the end of 2006 and $70 million at the end of 2005.

Impairment

Nonaccrual finance receivables include accounts that are contractually delinquent by more than three months for which the accrual of interest income is suspended. These receivables are considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired accrual finance receivables represent loans with original loan terms that have been significantly modified to reflect deferred principal payments, generally at market interest rates, for which collection of principal and interest is not doubtful. The impaired finance receivables and related reserves at the end of 2006 and 2005 are as follows:

(In millions)	**December 30, 2006**	**December 31, 2005**
Impaired nonaccrual finance receivables	$ 60	$ 67
Impaired accrual finance receivables	101	36
Total impaired finance receivables	$ 161	$ 103
Impaired nonaccrual finance receivables with identified reserve requirements	$ 36	$ 53
Allowance for losses on finance receivables related to impaired loans	$ 17	$ 18

The average recorded investment in impaired finance receivables during 2006 was $142 million, compared with $106 million in 2005. The increase primarily reflects one restructured loan in golf finance for which payments are being made.

The table above excludes finance receivables for which the Finance group has recourse to the Manufacturing group. The Finance group continues to recognize income on past-due receivables that meet the nonaccrual criteria that are guaranteed by the Manufacturing group. On a consolidated basis, there are no earnings for these receivables since the Manufacturing group is charged for its obligation to the Finance group. At the end of 2006 and 2005, these past-due loans totaled $2 million and $8 million, respectively. In addition, while C&A continues to make payments on its equipment leases, these leases are considered impaired since C&A currently is under bankruptcy protection and the lease terms have expired. The Manufacturing group has total reserves for losses for its guarantees to the Finance group of $39 million at the end of 2006 and $40 million at the end of 2005.

Securitizations

We received proceeds from the securitization and sale (with servicing rights retained) of finance receivables of $50 million in 2006, $361 million in 2005 and $394 million in 2004. Gains from securitized trust sales were approximately $42 million in 2006, $49 million in 2005 and $56 million in 2004. For securitizations in 2006, key economic assumptions used in measuring the retained interests at the date of securitization included a weighted-average life of three months, expected annual credit losses of 0.2% and a residual cash flows discount rate of 10%.

We retain subordinated interests in the trusts, which are approximately 2% to 10% of the total trust. Servicing fees range from 75 to 150 basis points. At the end of 2006, $2.1 billion in securitized loans were outstanding, with $13 million in past-due loans. Our Finance group has securitized certain receivables for which it has retained full recourse to our Manufacturing group.

At the end of 2006, we had $179 million in retained interest recorded in other assets, which primarily included $111 million in distribution finance receivables and $56 million in general aviation loans. In comparison, retained interest totaled $208 million at the end of 2005. Cash flows received on these retained interests totaled $63 million in 2006, $64 million in 2005 and $70 million in 2004. At the end of 2006, key economic assumptions used in measuring our retained interests were as follows: for the distribution finance receivables: weighted-average life of three months, expected annual credit loss rate of 0.2% and residual cash flow discount rate of 10.2%; and for general aviation loans: weighted-average life of 1.7 years, annual prepayment speed of 25%, expected annual credit loss rate of 0.3% and residual cash flow discount rate of 5.5%.

Note 6. Inventories

Inventories are composed of the following:

(In millions)	December 30, 2006	December 31, 2005
Finished goods	$ 665	$ 527
Work in process	1,562	1,410
Raw materials	435	267
	2,662	2,204
Less progress/milestone payments	593	492
	$ 2,069	$ 1,712

Inventories valued by the LIFO method totaled $1.5 billion and $1.3 billion at the end of 2006 and 2005, respectively. Had our LIFO inventories been valued at current costs, their carrying values would have been approximately $276 million and $251 million higher at those respective dates. Inventories related to long-term contracts, net of progress/milestone payments were $380 million at the end of 2006 and $350 million at the end of 2005.

Bell Helicopter s H-1 program with the U.S. Government is currently transitioning to the production phase of the program with manufacturing of the first three production lots for Low Rate Initial Production (LRIP) aircraft. Inventories related to the H-1 LRIP Lot 1 and Lot 2 contracts have been written down to net realizable value to reflect charges related to these contracts as discussed below.

During 2006, we estimated that the costs to complete H-1 LRIP Lot 1 would exceed contractual reimbursement. Through the third quarter of 2006, we recorded $29 million in charges related to the H-1 LRIP Lot 1 contract. These charges primarily reflected the impact of higher estimated incremental costs for resources added to meet the contractual schedule requirements and higher anticipated efforts in final assembly. At the end of the third quarter, we had anticipated that acceptance of the initial H-1 LRIP Lot 1 aircraft by the U.S. Government would occur in the fourth quarter of 2006. However, acceptance was delayed and no aircraft were delivered. This delay was due to changes in the development and engineering requirements that were identified in the final stages of assembly and acceptance testing. Due to this delay and the costs associated with the additional development efforts, rework of in-process units and resulting inefficiencies, we increased our estimate of the completion costs in the fourth quarter. Accordingly, we recorded an additional $20 million charge related to the H-1 LRIP Lot 1 contract in the fourth quarter of 2006. In January 2007, the U.S. Government accepted two aircraft, and we expect the remaining seven H-1 LRIP Lot 1 units to be accepted later in 2007.

The H-1 LRIP Lot 2 contract is in the early stages of production, with first aircraft delivery anticipated in the second half of 2007. We now anticipate that the disruption and delays experienced with the H-1 LRIP Lot 1 contract in the fourth quarter will result in increased costs for the H-1 LRIP Lot 2 contract due to delays in its completion, as well as a reduction in previously anticipated learning curve improvements. Due to these higher cost estimates, the H-1 LRIP Lot 2 contract now is in a loss position resulting in a fourth quarter charge of $33 million.

The net H-1 program charge, including favorable performance on the Engineering and Manufacturing Development contract of $3 million, was $50 million in the fourth quarter of 2006.

Note 7. Property, Plant and Equipment, net

Our Manufacturing group s property, plant and equipment, net are composed of the following:

(In millions)	December 30, 2006	December 31, 2005
Land and buildings	$ 1,093	$ 1,008
Machinery and equipment	2,827	2,565
	3,920	3,573
Less accumulated depreciation and amortization	2,147	1,999
	$ 1,773	$ 1,574

Depreciation expense for the Manufacturing group totaled $243 million in 2006, $250 million in 2005 and $229 million in 2004.

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We have incurred asset retirement obligations primarily related to costs to remove and dispose of underground storage tanks and asbestos materials used in insulation, adhesive fillers and floor tiles. There is no legal requirement to remove these items, and there currently is no plan to remodel the related facilities or otherwise cause the impacted items to require disposal. As a result, these asset retirement obligations are not estimable, and in accordance with the provisions of FASB Interpretation No. 47, Conditional Asset Retirement Obligations, we have not recorded a liability.

Note 8. Debt and Credit Facilities

Debt and credit facilities are composed of the following:

(In millions)	December 30, 2006	December 31, 2005
Manufacturing group:		
Short-term debt:		
Revolving lines of credit	$ 41	$ 267
Current portion of long-term debt	39	8
Total short-term debt	$ 80	$ 275
Long-term senior debt:		
Medium-term notes due 2010 to 2011 (average rate of 9.85%)	17	17
6.375% due 2008	300	300
4.50% due 2010	250	250
6.50% due 2012	300	300
3.875% due 2013	396	356
6.625% due 2020	295	260
Other long-term debt (average rate of 5.3% and 6.2%, respectively)	201	184
	1,759	1,667
Current portion of long-term debt	(39)	(8)
Total long-term debt	1,720	1,659
Total Manufacturing group debt	$ 1,800	$ 1,934
Finance group:		
Borrowings under or supported by credit facilities*	$ 1,779	$ 1,200
Fixed-rate debt at average rate of 5.03% and 4.71%, respectively	3,264	3,209
Variable-rate notes at average rate of 5.52% and 4.73%, respectively	1,819	1,011
Total Finance group debt	$ 6,862	$ 5,420

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* *The weighted-average interest rates on these borrowings before the effect of interest rate exchange agreements were 5.3% and 4.4% at the end of 2006 and 2005, respectively, and 5.0% for the year 2006 and 3.3% for the year 2005.*

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 December 30, 2006 or December 31, 2005. Our Manufacturing group had no commercial paper outstanding at December 30, 2006 or December 31, 2005. The Manufacturing group s weighted-average interest rate on its commercial paper borrowings throughout the year was 5.3% in 2006 and 3.0% in 2005. Our primary committed credit facilities at December 30, 2006 include the following:

(In millions)	Facility Amount	Commercial Paper Outstanding	Letters of Credit Outstanding	Amount Not Reserved as Support for Commercial Paper and Letters of Credit
Manufacturing group - multi-year facility expiring in 2011*	$ 1,250	$	$ 23	$ 1,227
Finance group - multi-year facility expiring in 2011	$ 1,750	$ 1,719	$ 13	$ 18

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

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Lending agreements limit our Finance group s net assets available for dividends and other payments to the Manufacturing group to approximately $304 million of the Finance group s net assets of $1.1 billion at the end of 2006. These lending agreements also contain various restrictive provisions regarding additional debt (not to exceed 800% of consolidated net worth and qualifying subordinated obligations), minimum net worth ($200 million), the creation of liens and the maintenance of a fixed charges coverage ratio (no less than 125%).

The following table shows required payments during the next five years on debt outstanding at the end of 2006. The payment schedule excludes amounts that are payable under or supported by the primary revolving credit facilities or revolving lines of credit:

(In millions)	**2007**	**2008**	**2009**	**2010**	**2011**
Manufacturing group	$ 80	$ 351	$ 3	$ 254	$ 19
Finance group	1,118	966	1,562	833	442
	$ 1,198	$ 1,317	$ 1,565	$ 1,087	$ 461

Under a support agreement, our Manufacturing group has agreed to ensure that the Finance group maintains certain minimum levels of financial performance. No payments have ever been required to meet these standards.

Note 9. Derivatives and Other Financial Instruments

Fair Value Interest Rate Hedges

We manage interest cost for our Manufacturing group using a mix of fixed- and variable-rate debt. To manage this mix in a cost efficient manner, we enter into interest rate exchange agreements to swap, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. These hedges are considered perfectly effective since the critical terms of the debt and the interest rate exchange match and the other conditions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, are met. The mark-to-market values of both the fair value hedge instruments and underlying debt obligations are recorded as equal and offsetting amounts in interest expense. Our Manufacturing group had interest rate exchange agreements with a fair value liability of $8 million at the end of 2006 and $10 million at the end of 2005.

Our Finance group enters into interest rate exchange agreements to mitigate exposure to changes in the fair value of its fixed-rate receivables and debt due to fluctuations in interest rates. By using these agreements, we are able to convert our fixed-rate cash flows to floating-rate cash flows. At December 30, 2006, the Finance group had interest rate exchange agreements with a fair value liability of $45 million designated as fair value hedges, compared with a $43 million liability at December 31, 2005.

Our Finance group has a Canadian dollar functional currency subsidiary with $60 million in U.S. dollar-denominated fixed-rate debt. To hedge our exposure to changes in both foreign currency exchange rates and Canadian Banker s Acceptance rates, we utilize foreign currency interest rate exchange agreements. At December 30, 2006 and December 31, 2005, these instruments had a fair value liability of $9 million. Our fair value hedges are highly effective, resulting in an immaterial net impact to earnings due to hedge ineffectiveness.

Cash Flow Interest Rate Hedges

We experience variability in the cash flows we receive from our Finance group s investments in interest-only securities due to fluctuations in interest rates. To mitigate our exposure to this variability, our Finance group enters into interest rate exchange, cap and floor agreements. The combination of these instruments converts net residual floating-rate cash flows expected to be received by our Finance group to fixed-rate cash flows. Changes in the fair value of these instruments are recorded net of the income tax effect in other comprehensive income (loss). At December 30, 2006, these instruments had a fair value liability of less than $1 million, compared with a $5 million liability at December 31, 2005. We do not expect a significant amount of deferred gains, net of tax to be reclassified to earnings related to these hedge relationships in 2007.

For cash flow hedges, our Finance group recorded an after-tax gain of $1 million in 2006 and after-tax losses of $5 million and $7 million in 2005 and 2004, respectively, to accumulated other comprehensive loss with no impact to the statements of operations. We have not incurred a significant net gain or loss in earnings as the result of the ineffectiveness, or the exclusion of any component from our assessment of hedge effectiveness, in 2006 or 2005.

Our exposure to loss from nonperformance by the counterparties to our interest rate exchange agreements at the end of 2006 is minimal. We do not anticipate nonperformance by counterparties in the periodic settlements of amounts due. We currently minimize this potential for risk by entering into contracts exclusively with major, financially sound counterparties having no less than a long-term bond rating of A, by

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continuously monitoring such credit ratings and by limiting exposure to any one financial institution. The credit risk generally is limited to the amount by which the counterparties contractual obligations exceed our obligations to the counterparty.

Cash Flow Foreign Exchange Rate Hedges

Since we manufacture and sell our products in a number of countries throughout the world, we are exposed to movements in foreign currency exchange rates. The primary purpose of our foreign currency hedging activities is to manage the volatility associated with foreign currency purchases of materials, foreign currency sales of its products, and other assets and liabilities created in the normal course of business. We primarily utilize forward exchange contracts and purchased options with maturities of no more than 18 months that qualify as cash flow hedges. These are intended to offset the effect of exchange rate fluctuations on forecasted sales, inventory purchases and overhead expenses. The fair value of these instruments at December 30, 2006 was a $13 million asset. At year-end 2006, $8 million in after-tax income was reported in accumulated other comprehensive loss from qualifying cash flow hedges. This income generally is expected to be reclassified to earnings in the next 12 months as the underlying transactions occur.

Our Manufacturing group also enters into certain foreign currency derivative instruments that do not meet hedge accounting criteria and primarily are intended to protect against exposure related to intercompany financing transactions and income from international operations. The fair value of these instruments at the end of 2006 and 2005 and the net impact of the related gains and losses on selling and administrative expense in 2006 and 2005 were not material.

Net Investment Hedging

We hedge our net investment position in major currencies and generate foreign currency interest payments that offset other transactional exposures in these currencies. To accomplish this, we borrow directly in foreign currency and designate a portion of foreign currency debt as a hedge of net investments. We also may utilize currency forwards as hedges of our related foreign net investments. Currency effects of these hedges, which are reflected in the cumulative translation adjustment account within other comprehensive income (loss), produced a $49 million after-tax loss during 2006, leaving an accumulated net loss balance of $19 million.

Stock-Based Compensation Hedging

We manage the expense related to stock-based compensation awards using cash settlement forward contracts on our common stock. The use of these forward contracts modifies compensation expense exposure to changes in the stock price with the intent to reduce potential variability. The fair value of these instruments at December 30, 2006 and December 31, 2005 was a receivable of $24 million and $10 million, respectively. Gains and losses on these instruments are recorded as an adjustment to compensation expense when the award is charged to expense. These contracts increased net income by $21 million in 2006, $8 million in 2005 and $28 million in 2004. Cash received or paid on the contract settlement is included in cash flows from operating activities, consistent with the classification of the cash flows on the underlying hedged compensation expense.

Fair Values of Financial Instruments

The carrying amounts and estimated fair values of our financial instruments that are not reflected in the financial statements at fair value are as follows:

	December 30, 2006		December 31, 2005	
(In millions)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Manufacturing group:				
Debt	$ (1,800)	$ (1,833)	$ (1,934)	$ (2,012)
Finance group:				
Finance receivables	$ 7,019	$ 6,982	$ 5,589	$ 5,515
Debt	$ (6,862)	$ (6,868)	$ (5,420)	$ (5,423)

Finance receivables exclude the fair value of finance and leveraged leases totaling $1.2 billion at December 30, 2006 and $1.1 billion at December 31, 2005 as these leases are recorded at fair value in the consolidated balance sheets.

Note 10. Shareholders Equity

Capital Stock

We have authorization for 15,000,000 shares of preferred stock and 500,000,000 shares of 12.5 cent per share par value common stock. Each share of $2.08 Preferred Stock ($23.63 approximate stated value) is convertible into 4.4 shares of common stock, and we can redeem it for $50 per share. Each share of $1.40 Preferred Dividend Stock ($11.82 approximate stated value) is convertible into 3.6 shares of common stock, and we can redeem it for $45 per share.

Reserved Shares of Common Stock

At the end of 2006, common stock reserved for the subsequent conversion of preferred stock and shares reserved for the exercise of stock options were 2,546,000 and 5,420,000, respectively.

Income per Common Share

A reconciliation of income from continuing operations and basic to diluted share amounts is presented below:

(Dollars in millions, shares in thousands)	2006 Income	2006 Average Shares	2005 Income	2005 Average Shares	2004 Income	2004 Average Shares
Income from continuing operations available to common shareholders	$ 706	127,549	$ 516	133,531	$ 375	137,337
Dilutive effect of convertible preferred stock and stock options		2,673		2,915		2,832
Available to common shareholders and assumed conversions	$ 706	130,222	$ 516	136,446	$ 375	140,169

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are presented below:

(In millions)	Currency Translation Adjustment	Unrealized Gains (Losses) on Securities	Pension and Post-retirement Benefits Adjustments	Deferred Gains (Losses) on Hedge Contracts	Total
Balance at January 3, 2004	$ 47	$ 3	$ (132)	$ 18	$ (64)
Other comprehensive income (loss), net of tax	97		(131)	4	(30)
Reclassification adjustment, net of tax		(3)			(3)
Balance at January 1, 2005	$ 144	$	$ (263)	$ 22	$ (97)
Other comprehensive income (loss), net of tax	(17)		34	2	19
Balance at December 31, 2005	$ 127	$	$ (229)	$ 24	$ (78)
Transition adjustment due to change in accounting, net of taxes			(647)		(647)
Other comprehensive income (loss), net of tax	45		58	(5)	98
Reclassification due to sale of Fastening Systems, net of tax	(47)		39		(8)
Reclassification adjustment, net of tax				(9)	(9)
Balance at December 30, 2006	$ 125	$	$ (779)	$ 10	$ (644)

Included in other comprehensive income (loss) is an income tax benefit (expense) of $359 million, $(12) million and $(22) million in 2006, 2005 and 2004, respectively. In 2006, pension and postretirement benefit adjustments included a $348 million income tax benefit related to the transition adjustment due to the adoption of SFAS No. 158.

Note 11. Share-Based Compensation

Summary of Share-Based Compensation Plans

Our 1999 Long-Term Incentive Plan (the Plan) authorizes awards to our key employees in the form of options to purchase our shares and restricted stock. Options to purchase our shares have a maximum term of 10 years and vest ratably over a three-year period. Restricted stock grants vest one-third each in the third, fourth and fifth year following the grant. The maximum number of shares authorized under the Plan includes 17.5 million options to purchase our shares and 2 million shares of restricted stock. We also provide share-based compensation awards payable in cash, including retention awards to certain executives and performance share units. Payouts under performance share units vary based on certain performance criteria measured over a three-year period. The performance share units vest at the end of three years.

Through our Deferred Income Plan for Textron Key Executives (the DIP), we provide participants the opportunity to voluntarily defer up to 25% of their base salary and up to 100% of annual and long-term incentive compensation and other compensation. Elective deferrals may be put into either a stock unit account or an interest bearing account. We generally contribute a 10% premium on amounts deferred into the stock unit account. Executives who are eligible to participate in the DIP who have not achieved and/or maintained the required minimum stock ownership level are required to defer annual incentive compensation in excess of 100% of the executive s annual target into a deferred stock unit account and are not entitled to the 10% premium contribution on the amount deferred. Participants cannot move amounts between the two accounts while actively employed by us and cannot receive distributions until termination of employment.

Change in Accounting for Share-Based Compensation

We adopted SFAS No. 123 (Revised 2004), Share-Based Payment (SFAS No. 123-R), which replaces SFAS No. 123, Accounting for Stock-Based Compensation and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25), in the first quarter of 2005 using the modified prospective transition method. SFAS No. 123-R requires companies to measure compensation costs for share-based payments to employees, including stock options, at fair value and to expense such compensation over the service period. Under the transition method, compensation expense recognized in 2005 includes: a) compensation cost for all stock options and restricted stock granted prior to but not yet vested as of January 1, 2005, based on the grant-date fair value estimated and recognized in accordance with the provisions of SFAS No. 123 and b) compensation cost for all stock options and restricted stock granted subsequent to January 1, 2005 and all share-based compensation awards accounted for as liabilities, based upon the measurement and recognition provisions of SFAS No. 123-R. For awards granted or modified in 2005 and prospectively, compensation costs for awards with only service conditions that vest ratably are recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award. Compensation costs for awards granted prior to 2005 are recognized using the attribution methods required under SFAS No. 123. Prior to 2005, we accounted for share-based payments, including stock options issued under our Plan, using the intrinsic value method of APB No. 25.

Upon adoption, we remeasured our share-based compensation awards that are accounted for as liabilities at fair value. The cumulative effect of adoption upon this remeasurement increased net income by approximately $1 million in the first quarter of 2005, which is not considered to be material and is recorded in selling and administrative expense. SFAS No. 123-R requires that the excess tax benefits received related to stock option exercises be presented as financing cash inflows. For 2006 and 2005, $31 million and $14 million, respectively, of these excess tax benefits have been presented as cash provided by financing activities in the consolidated statement of cash flows.

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

(In millions)	**2006**	**2005**	**2004**
Compensation expense, net of hedge income or expense	$ 71	$ 64	$ 31
Income tax benefit	(28)	(24)	(11)
Total net compensation cost included in net income	$ 43	$ 40	$ 20
Net compensation costs included in discontinued operations	(2)	2	1
Net compensation costs included in continuing operations	$ 45	$ 38	$ 19

Share-based compensation costs are reflected primarily in selling and administrative expenses. For 2006 and 2005, the expense includes attribution of the fair value of options issued, as well as the portion of previously granted options for which the requisite service was rendered, totaling approximately $16 million in 2006 and $17 million in 2005. Of this amount, approximately $18 million and $15 million, respectively, have been recorded in continuing operations and $(2) million and $2 million, respectively, in discontinued operations. During 2006, Textron recorded approximately $4 million of share-based award forfeitures related to discontinued operations.

The net impact of the adoption of SFAS No. 123-R was as follows for the year ended December 31, 2005:

(In millions, except per share data)	Upon Adoption	If Not Adopted
Income from continuing operations before income taxes	$ 739	$ 755
Net income	$ 203	$ 214
Cash flows from operating activities of continuing operations	$ 952	$ 966
Cash flows from financing activities of continuing operations	$ 284	$ 270
Basic earnings per share	$ 1.52	$ 1.60
Diluted earnings per share	$ 1.49	$ 1.57

Impact of SFAS No. 123-R Adoption on Prior Periods

For the year ended January 1, 2005, no compensation expense related to stock option grants has been recorded in the consolidated statements of operations as the options granted had an exercise price equal to the market value of the underlying stock on the date of grant. Results for prior periods have not been restated.

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions required by SFAS No. 123-R prior to January 2, 2005:

(In millions, except per share data)	2004
Net income, as reported	$ 365
Add back: Share-based employee compensation expense included in reported net income*	20
Deduct: Total share-based employee compensation expense determined under fair value based method for all awards*	(26)
Pro forma net income	$ 359
Income per share:	
Basic - as reported	$ 2.66
Basic - pro forma	$ 2.61
Diluted - as reported	$ 2.61
Diluted - pro forma	$ 2.56

** Amounts are net of related taxes and hedge income or expense.*

Stock Options

The stock option compensation cost calculated under the fair value approach is recognized over the vesting period of the stock options. The weighted-average fair value of options granted per share was $25, $20 and $14 for 2006, 2005 and 2004, 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:

	2006	2005	2004
Dividend yield	2 %	2 %	2 %
Expected volatility	25 %	25 %	37 %
Risk-free interest rate	4 %	4 %	3 %
Expected term (In years)	6.0	6.0	3.7

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

(In millions)	2006	2005	2004
Intrinsic value of options exercised	$ 120	$ 59	$ 81
Cash received from option exercises	$ 173	$ 106	$ 187
Actual tax benefit realized for tax deductions from option exercises	$ 38	$ 18	$ 26

Stock option activity under the Plan is summarized as follows:

	2006		2005		2004	
(Shares in thousands)	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Outstanding at beginning of year	8,146	$ 56.23	9,261	$ 52.05	13,158	$ 49.24
Granted	1,000	87.97	1,208	76.69	1,532	54.07
Exercised	(3,319)	52.34	(2,151)	48.62	(4,363)	42.48
Canceled, expired or forfeited	(407)	65.54	(172)	70.09	(1,066)	59.52
Outstanding at end of year	5,420	$ 63.77	8,146	$ 56.23	9,261	$ 52.05
Exercisable at end of year	3,473	$ 55.64	6,206	$ 52.41	7,176	$ 52.70

Options that were outstanding and exercisable as of December 30, 2006 are as follows:

	Number of Options (In thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (In years)	Aggregate Intrinsic Value (In millions)
Outstanding	5,420	$ 63.77	6.08	$ 163
Exercisable	3,473	$ 55.64	4.76	$ 132

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 2006, 2005 and 2004 was approximately $82, $71 and $57 per share, respectively.

Restricted stock activity under the Plan for 2006 is as follows:

(Shares in thousands)	Number of Shares	Weighted-Average Grant Date Fair Value
Outstanding at beginning of year, nonvested	1,156	$ 55.99
Granted	408	82.39
Vested	(117)	42.02
Forfeited*	(228)	60.16
Outstanding at end of year, nonvested	1,219	$ 65.38

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

Share-Based Compensation Awards Accounted for as Liabilities

The fair value of share-based compensation awards accounted for as liabilities includes performance share units, retention awards and DIP stock unit awards. The fair value of these awards is based on the trading price of our common stock, less adjustments to reflect the fair value of the award as dividends are not paid or accrued until vested, and is remeasured at each reporting period date.

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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:

(In millions)	2006	2005	2004
Subject only to service conditions:			
Value of shares, options or units vested	$ 32	$ 21	$ 36
Intrinsic value of cash awards paid	$ 13	$ 9	$ 8
Subject to performance vesting conditions:			
Value of units vested	$ 42	$ 37	$ 26
Intrinsic value of cash awards paid	$ 37	$ 25	$ 15
Intrinsic value of amounts paid under DIP	$ 1	$ 18	$ 7

As of December 30, 2006, we had not recognized $58 million in the total compensation cost associated with unvested awards subject only to service conditions. As of December 30, 2006, we had not recognized $28 million in the total compensation cost associated with unvested share-based compensation awards subject to performance vesting conditions. We expect to recognize compensation expense for these awards over a weighted-average period of approximately two years.

Note 12. Retirement Plans

Our defined benefit and defined contribution pension plans together cover substantially all of our employees. Our defined contribution plans cost approximately $50 million in 2006, $45 million in 2005 and $23 million in 2004. In 2005, the cost related to these defined contribution plans increased in comparison to 2004 primarily due to changes in our matching contribution rate. A significant number of our U.S.-based employees participate in the Textron Master Retirement Plan (TMRP), which is subject to the provisions of the Employee Retirement Income Security Act of 1974 and primarily is a noncontributory defined benefit pension plan. Certain U.S.-based employees also are eligible for supplemental pension benefit plans that are not separately funded. In addition, we sponsor both funded and unfunded pension plans for certain of our foreign subsidiaries. We also provide postretirement benefits other than pensions for certain retired employees, which include healthcare and life insurance benefits.

In October 2006, we transferred $281 million of plan assets from the TMRP to a plan established by the purchaser of our Fastening Systems business. This settled our obligation to the U.S.-based employees of this business. Upon this settlement, we recognized a loss of $35 million, which is included in discontinued operations. Obligations related to the Fastening Systems business foreign plans were assumed by the purchaser.

Impact of Adoption of New Accounting Standard

On December 30, 2006, we adopted SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - An amendment of FASB Statement Nos. 87, 88, 106, and 132(R). This Statement requires an employer to: (a) recognize in its statement of financial position an asset for a plan s overfunded status or a liability for a plan s underfunded status; (b) measure a plan s assets and its obligations that determine its funded status as of the end of the employer s fiscal year; and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur and report these changes in comprehensive income. The measurement date provisions did not impact us as all of our plans have a measurement date of December 30 of the current fiscal year.

The impact of implementing SFAS No. 158 reduced total assets by $313 million, increased total liabilities by $334 million and reduced shareholders equity (increase to accumulated other comprehensive loss) by $647 million, net of tax. In addition, we have classified an additional $92 million of pension and postretirement benefit liabilities as current. The adoption did not affect our consolidated balance sheet at December 31, 2005 or our consolidated statement of operations for each of the three years in the period ended December 30, 2006.

The adjustment to accumulated other comprehensive loss upon the adoption of SFAS No. 158 represents the net unrecognized actuarial losses, unrecognized prior service costs (credits) and unrecognized transition obligation remaining from the initial adoption of SFAS No. 87. These amounts were previously netted against the plan s funded status in our consolidated balance sheet. We will recognize these amounts in future periods as net periodic pension cost pursuant to our accounting policy for amortizing such amounts.

In addition, with the adoption of this Statement, actuarial gains and losses that are not immediately recognized as net periodic pension cost will be recognized as a component of other comprehensive loss and amortized into net periodic pension cost in future periods.

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Periodic Benefit Cost (Income)

The components of our net periodic benefit cost (income) and other amounts we recognized in other comprehensive income are as follows:

(In millions)	Pension Benefits 2006	2005	2004	Postretirement Benefits Other Than Pensions 2006	2005	2004
Net periodic benefit cost (income):						
Service cost	$ 142	$ 129	$ 106	$ 10	$ 9	$ 8
Interest cost	283	271	265	40	37	37
Expected return on plan assets	(386)	(387)	(400)			
Amortization of unrecognized transition asset	1	1	1			
Amortization of prior service cost (credit)	19	18	16	(5)	(6)	(9)
Amortization of net loss	44	35	7	19	13	9
Net periodic benefit cost (income)	$ 103	$ 67	$ (5)	$ 64	$ 53	$ 45
Other changes in plan assets and benefit obligations recognized in other comprehensive loss (including foreign exchange):						
Net loss (gain)	$ 538	$ (49)	$ 95	$ 246	$	$
Prior service cost (credit)	160			(12)		
Total recognized in other comprehensive loss	$ 698	$ (49)	$ 95	$ 234	$	$
Total recognized in net periodic benefit cost (income) and other comprehensive loss	$ 801	$ 18	$ 90	$ 298	$ 53	$ 45

We estimate that the net loss and prior service cost for the defined benefit pension plans that will be amortized from other comprehensive income into net periodic benefit costs in 2007 will be $47 million and $18 million, respectively. The estimated net loss and prior service credit for postretirement benefits other than pensions that will be amortized from other comprehensive income into net periodic benefit costs in 2007 will be $22 million and $(5) million, respectively.

Obligations and Funded Status

The changes in the projected benefit obligation and in the fair value of plan assets, along with our funded status are as follows:

(In millions)	Pension Benefits 2006	2005	Postretirement Benefits Other Than Pensions 2006	2005
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 5,119	$ 4,931	$ 744	$ 658
Service cost	142	129	10	9
Interest cost	283	271	40	37
Amendments	18	16	6	1
Plan participants contributions	3	3	5	5
Actuarial losses	39	97	12	108
Benefits paid	(288)	(277)	(67)	(73)
Foreign exchange rate changes	66	(51)		(1)
Benefit obligation at end of year	$ 5,382	$ 5,119	$ 750	$ 744
Change in fair value of plan assets:				
Fair value of plan assets at beginning of year	$ 4,746	$ 4,537	$	$
Actual return on plan assets	595	506		
Employer contributions	33	20		
Plan participants contributions	3	3		
Benefits paid	(288)	(277)		
Foreign exchange rate changes	58	(43)		
Fair value of plan assets at end of year	$ 5,147	$ 4,746	$	$
Funded status at end of year	$ (235)	$ (373)	$ (750)	$ (744)

Amounts recognized in the balance sheets are as follows:

(In millions)	Pension Benefits 2006	Pension Benefits 2005	Postretirement Benefits Other Than Pensions 2006	Postretirement Benefits Other Than Pensions 2005
Non-current assets	$ 294	$ 906	$	$
Current liabilities	(13)		(79)	
Non-current liabilities	(516)	(326)	(671)	(515)
Amounts recognized in accumulated other comprehensive income (loss):				
Net loss	748	210	246	
Prior service cost (credit)	160		(12)	

Assumptions

The weighted-average assumptions and the healthcare trend assumptions we used for our postretirement plans are as follows:

	Pension Benefits 2006	Pension Benefits 2005	Pension Benefits 2004	Postretirement Benefits Other Than Pensions 2006	Postretirement Benefits Other Than Pensions 2005	Postretirement Benefits Other Than Pensions 2004
Net periodic benefit cost (income):						
Discount rate	5.55 %	5.69 %	6.17 %	5.66 %	5.78 %	6.31 %
Expected long-term rate of return on assets	8.54 %	8.57 %	8.72 %			
Rate of compensation increase	4.36 %	4.35 %	4.33 %			
Benefit obligations at year-end:						
Discount rate	5.57 %	5.55 %	5.69 %	5.67 %	5.66 %	5.78 %
Rate of compensation increases	4.38 %	4.36 %	4.35 %			
Healthcare cost trend rates:						
Initial medical drug rate*				8.0 %	11.0 %	10.0 %
Initial prescription drug rate*				12.0 %	11.0 %	

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* *For 2006, we estimate that the medical cost trend rate will decline to 5% for 2009 and thereafter, and the prescription drug cost trend rate will decline to 5% for 2013 and thereafter.*

Assumed healthcare cost trend rates have a significant effect on the amounts reported for the postretirement benefits other than pensions. A one-percentage-point change in assumed healthcare cost trend rates would have the following effects:

(In millions)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service and interest cost components	$ 4	$ (4)
Effect on postretirement benefit obligations other than pensions	$ 54	$ (47)

Pension Benefits

The accumulated benefit obligation for all defined benefit pension plans was $4.9 billion at December 30, 2006 and $4.7 billion at December 31, 2005. Pension plans with accumulated benefit obligations exceeding the fair value of plan assets were as follows:

(In millions)	2006	2005
Projected benefit obligation	$ 862	$ 2,202
Accumulated benefit obligation	$ 737	$ 1,949
Fair value of plan assets	$ 433	$ 1,643

In addition to the plans in the above table, we have plans with the projected benefit obligation in excess of the fair value of plan assets at year-end as follows:

(In millions)	2006	2005
Projected benefit obligation	$ 1,449	$
Accumulated benefit obligation	$ 1,336	$
Fair value of plan assets	$ 1,350	$

Pension Assets

We invest our pension assets with the objective of achieving a total rate of return, over the long term, sufficient to fund future pension obligations and to minimize future pension contributions. We are willing to tolerate a commensurate level of risk to achieve this objective based on the funded status of the plans and the long-term nature of our pension liability. Risk is controlled by maintaining a portfolio of assets that is diversified across a variety of asset classes, investment styles and investment managers. All of the assets are managed by external investment managers, and the majority of the assets are actively managed. Where possible, investment managers are prohibited from owning our stock in the portfolios that they manage on our behalf.

For U.S. plan assets, comprising the majority of plan assets, asset allocation target ranges were established consistent with the investment objectives, and the assets are rebalanced periodically. The expected long-term rate of return on plan assets was determined based on a variety of considerations, including the established asset allocation targets and expectations for those asset classes, historical returns of the plans assets and the advice of outside advisors. At December 30, 2006, the target allocation range is 44% to 70% for equity securities, 13% to 33% for debt securities and 7% to 13% for each of real estate and other alternative assets. For foreign plan assets, allocations are based on expected cash flow needs and assessments of the local practices and markets. The percentages of the fair value of total pension plan assets by major category are as follows:

Asset Category	December 30, 2006	December 31, 2005
Equity securities	59 %	58 %
Debt securities	22 %	23 %
Real estate	10 %	9 %
Other	9 %	10 %
Total	100 %	100 %

Estimated Future Cash Flow Impact

Defined benefits under salaried plans are based on salary and years of service. Hourly plans generally provide benefits based on stated amounts for each year of service. Our funding policy is consistent with applicable laws and regulations. In 2007, we expect to contribute in the range of $45 million to $50 million to fund our qualified pension plans. We do not expect to contribute to our other postretirement benefit plans. The benefit payments provided below reflect expected future employee service, as appropriate, that are expected to be paid, net of estimated participant contributions. The benefit payments are based on the same assumptions used to measure our benefit obligation at the end of fiscal 2006. While pension benefit payments primarily will be paid out of qualified pension trusts, we will pay postretirement benefits other than pensions out of our general corporate assets as follows:

(In millions)	Pension Benefits	Post-retirement Benefits Other Than Pensions	Expected Medicare Part D Subsidy
2007	$ 292	$ 79	$ (6)
2008	298	75	(6)
2009	305	76	(6)
2010	311	77	(7)
2011	316	77	(7)
2012 - 2016	1,792	352	(34)

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Note 13. Income Taxes

We file a consolidated federal income tax return for all of our U.S. subsidiaries and separate returns for our foreign subsidiaries. Income from continuing operations before income taxes is as follows:

(In millions)	2006	2005	2004
United States	$ 796	$ 574	$ 333
Foreign	179	165	207
Total	$ 975	$ 739	$ 540

Income tax expense for continuing operations is summarized as follows:

(In millions)	2006	2005	2004
Current:			
Federal	$ 152	$ 128	$ 49
State	8	17	2
Foreign	43	26	59
	203	171	110
Deferred:			
Federal	44	64	59
State	28	(7)	9
Foreign	(6)	(5)	(13)
	66	52	55
Income tax expense	$ 269	$ 223	$ 165

The following table reconciles the federal statutory income tax rate to our effective income tax rate:

	2006	2005	2004
Federal statutory income tax rate	35.0 %	35.0 %	35.0 %
Increase (decrease) in taxes resulting from:			
Valuation allowance on contingent receipts		2.1	
State income taxes	2.3	0.9	1.3
Special foreign dividend		0.1	2.1
Favorable tax settlements	(2.4)		
Canadian dollar functional currency	(1.2)		
Foreign tax rate differential	(2.7)	(5.0)	(4.8)
Export sales benefit	(0.8)	(1.1)	(1.0)
Other, net	(2.6)	(1.8)	(2.0)
Effective income tax rate	27.6 %	30.2 %	30.6 %

The amount of income taxes we pay is subject to ongoing audits by federal, state and foreign tax authorities, which may result in proposed assessments. Our estimate for the potential outcome for any uncertain tax issue is highly judgmental. We believe we have adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our estimated tax liabilities due to closure of income tax examinations, new regulatory or judicial pronouncements, or other relevant events. As a result, our effective tax rate may fluctuate significantly on a quarterly basis.

The tax effects of temporary differences that give rise to significant portions of our net deferred tax assets and liabilities were as follows:

(In millions)	December 30, 2006	December 31, 2005
Deferred tax assets:		
Deferred revenue	$ 16	$ 18
Warranty and product maintenance reserves	115	109
Self-insured liabilities, including environmental	97	83
Deferred compensation	190	170
Allowance for credit losses	57	59
Amortization of goodwill and other intangibles		22
Loss carryforwards	79	45
Obligation for postretirement benefits	330	6
Foreign currency debt	21	
Other, principally timing of other expense deductions	147	157
Total deferred tax assets	1,052	669
Valuation allowance for deferred tax assets	(159)	(116)
	$ 893	$ 553
Deferred tax liabilities:		
Finance group transactions, principally leasing	$ (597)	$ (525)
Property, plant and equipment, principally depreciation	(76)	(94)
Inventory	(53)	(62)
Amortization of goodwill and other intangibles	(19)	
Foreign currency debt		(10)
Total deferred tax liabilities	(745)	(691)
Net deferred tax asset (liability)	$ 148	$ (138)

We have recognized a valuation allowance at December 30, 2006 and December 31, 2005 of $159 million and $116 million, respectively, to offset certain deferred tax assets due to the uncertainty of realizing the related benefits.

We have net operating loss and credit carryforwards at the end of each year as follows:

(In millions)	December 30, 2006	December 31, 2005
Non-U.S. net operating loss carryforwards with no expiration	$ 146	$ 78
Non-U.S. net operating loss carryforwards expiring through 2021	$ 15	$ 17
Federal credit carryforwards beginning to expire in 2015 discontinued operations	$ 60	$ 18
Federal and state credit carryforwards beginning to expire in 2015	$ 11	$ 5

Our income taxes payable for federal and state purposes have been reduced by the tax benefits we receive from employee stock options. The income tax benefits we receive for certain stock options are calculated as the difference between the fair market value of the stock issued at the time of exercise and the option price, tax effected. See Note 11 for the net tax benefits to employee stock options.

The undistributed earnings of our foreign subsidiaries approximated $376 million at the end of 2006. We consider the undistributed earnings on which taxes have not previously been provided to be indefinitely reinvested; therefore, tax is not provided on these earnings. If the earnings on which tax has not been provided had been distributed in 2006, our taxes, net of foreign tax credits, would have increased by approximately $19 million.

On October 22, 2004, the American Jobs Creation Act (AJCA) was signed into law and includes a deduction of 85% of certain foreign earnings that are repatriated, as defined in the AJCA. During 2005, we repatriated $435 million in cash from foreign subsidiaries under this provision related to continuing operations. Tax expense of $0.9 million and $11 million was recognized in 2005 and 2004, respectively, related to this repatriation. In addition, we repatriated approximately $183 million in cash related to discontinued operations and recorded related tax expense of $2 million in 2005.

Note 14. Special Charges

Special charges totaled $118 million for 2005 and included $112 million in charges related to the 2001 disposition of the Automotive Trim business (Trim) and $6 million in restructuring expense in the Industrial segment. In 2004, special charges totaled $59 million and included $71 million in restructuring expense principally in the Industrial segment, partially offset by a $12 million gain on the sale of common stock acquired in connection with the Trim disposition.

In connection with the disposition of Trim to subsidiaries of C&A, we acquired preferred stock in C&A Products Co. (C&A Products) and C&A common stock. In the first quarter of 2005, we recorded a $52 million impairment charge to write down the preferred stock based on an agreement to sell the stock to a third party. In the second quarter of 2005, based on C&A Products filing for Chapter 11 bankruptcy protection and relevant market considerations, we wrote off the remaining book value of the preferred stock of $39 million.

In connection with the Trim disposition, our Finance group has recourse to our Manufacturing group for equipment leases with the subsidiaries of C&A. The outstanding balance on these leases totaled approximately $61 million at December 30, 2006. Based on uncertainties related to these leases, our Manufacturing group recorded a $10 million reserve to special charges in the fourth quarter of 2005.

Certain other operating leases were transferred and assigned to subsidiaries of C&A upon the sale of Trim. As discussed in Note 17, we guaranteed C&A s payments under these operating leases and for an environmental matter. In the fourth quarter of 2005, based on C&A s failure to pay certain leases, as well as the negotiations entered into at the time for the sale of C&A s European operations, we recorded an $11 million charge to cover our exposure under these leases, along with certain environmental and workers compensation matters.

Restructuring Our company-wide restructuring program was substantially completed at the end of 2005. We approved and committed to a restructuring program in the fourth quarter of 2000 to improve returns at core businesses and to complete the integration of certain acquisitions. This program subsequently was expanded as part of our strategic effort to improve operating efficiencies. This restructuring program included corporate and segment direct and indirect workforce reductions, consolidation of facilities, rationalization of certain product lines, outsourcing of non-core production activity, the divestiture of non-core businesses, and the streamlining of sales and administrative overhead. Under this program, we reduced our workforce by approximately 8,000 employees from continuing operations, representing approximately 19% of our global workforce since the program was first announced, and closed 85 facilities.

Since inception of this program through December 31, 2005, we incurred total program costs of $306 million, which is composed of $164 million in severance costs, $44 million in contract termination costs, $34 million in asset impairment charges (net of gains on the sale of fixed assets) and $64 million in other associated costs. Total program costs incurred by segment include $219 million in the Industrial segment, $38 million in the Cessna segment, $29 million in the Bell segment, $9 million in the Finance segment and $11 million at Corporate.

An analysis of restructuring reserves is summarized below:

(In millions)	Severance Costs	Contract Terminations	Fixed Asset Impairments	Other Associated Costs	Total
Balance at January 3, 2004	$ 9	$ 2	$	$	$ 11
Additions	30	37	4	6	77
Reserves deemed unnecessary	(2)				(2)
Gains on sale of fixed assets			(4)		(4)
Cash paid	(25)	(3)		(6)	(34)
Balance at January 1, 2005	$ 12	$ 36	$	$	$ 48
Additions	2			4	6
Cash paid	(11)	(2)		(4)	(17)
Balance at December 31, 2005	$ 3	$ 34	$	$	$ 37

During 2006, our restructuring reserves were reduced to $30 million by cash payments and immaterial refinements to previous estimates. The remaining reserve primarily is related to contract termination costs for one lease in the Industrial segment, which will be paid out over the next 13 years.

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Note 15. 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 it will be reversed through the appellate process.

During the fourth quarter of 2005, we developed a plan to institute a retirement program for approximately 5,100 crankshafts, representing the remaining crankshafts manufactured by the former supplier using the same forging technique as the crankshafts covered by prior service bulletins. A service bulletin was issued in the first quarter of 2006 implementing this plan, which requires the retirement of an affected crankshaft at the next crankshaft access or scheduled overhaul, whichever occurs first, but not to exceed three years from the issuance of the service bulletin. On September 29, 2006, the U.S. Federal Aviation Administration issued an Airworthiness Directive requiring compliance within 12 years of that date, or the next access. These crankshafts have not been the subject of a recall. As of December 30, 2006, reserves to cover costs for this program totaled $9 million.

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. At December 30, 2006, $182 million of deferred tax liabilities are recorded on our consolidated balance sheets related to these leases. 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.

Armed Reconnaissance Helicopter Program

The Armed Reconnaissance Helicopter (ARH) System Development and Demonstration (SDD) contract is a cost plus incentive fee contract under which our eligibility for fees is reduced as total contract costs increase. During 2006, we continued our development activities for this program and expensed $14 million in unreimbursed costs related to this effort. We continue to work with the U.S. Government on development issues, configuration changes and schedule requirements. We no longer are eligible to earn fees under this contract; however, we anticipate that any subsequent cost increases are reimbursable by the U.S. Government.

The U.S. Government had two firm fixed-price options under this program, representing the first two LRIP lots for the delivery of 24 to 48 aircraft. Certain development requirements under the ARH SDD contract must be met before the U.S. Government can exercise the options. We presently anticipate that the development requirements will be met in mid-2007. The option for the first LRIP lot (for 6-12 aircraft) has expired, while the option for the second lot (for 18-36 aircraft) expires in December 2007.

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 includes aircraft configuration changes required by the U.S. Government. Our cost estimates based on this configuration, which include anticipated transition to production costs, exceed the fixed pricing contained in the options. We currently are in discussions with the U.S. Government related to the possible reinstatement of the ARH Lot 1 option, extension of the options, delivery schedule, number of units to be exercised under the options and possible additional aircraft to be contracted, in addition to those under the options, at

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revised pricing. We also are reviewing our ability to claim equitable adjustment recovery from the U.S. Government related to certain costs that potentially could be incurred related to the exercise of these options.

Depending on the results of the SDD contract, our cost-containment efforts, the availability of U.S. Government funding, the number of aircraft exercised or ultimately contracted for, and the resolution of our discussions with the U.S. Government, we currently estimate that it is reasonably possible that our exposure could be in the range of no loss to a possible loss of $4 million per aircraft. This estimate excludes the impact of discussions with the U.S. Government or any potential recoveries including claims for equitable adjustment under the contracts. Due to the uncertainty of this exposure and the ultimate outcome of our discussions, we do not believe that a loss is probable under the guidelines established by SFAS No.5, Accounting for Contingencies. Accordingly, we have not established a reserve at December 30, 2006.

Environmental Remediation

As with other industrial enterprises engaged in similar businesses, we are involved in a number of remedial actions under various federal and state laws and regulations relating to the environment that impose liability on companies to clean up, or contribute to the cost of cleaning up, sites on which hazardous wastes or materials were disposed or released. Expenditures to evaluate and remediate contaminated sites approximated $7 million, $6 million and $6 million in 2006, 2005 and 2004, respectively.

We estimate our accrued environmental liabilities using currently available facts, existing technology, and presently enacted laws and regulations, which all are subject to a number of factors and uncertainties. Our accrued liabilities relate to disposal costs, U.S. Environmental Protection Agency oversight costs, legal fees, and operating and maintenance costs for both currently and formerly owned or operated facilities. Circumstances that can affect the reliability and precision of the accruals include the identification of additional sites, environmental regulations, level of cleanup required, technologies available, number and financial condition of other contributors to remediation, and the time period over which remediation may occur. We believe that any changes to the accruals that may result from these factors and uncertainties will not have a material effect on our financial position or results of operations. Based upon information currently available, we estimate that our potential environmental liabilities are within the range of $51 million to $168 million. At the end of 2006, environmental reserves of approximately $85 million, of which $10 million are classified as current liabilities, have been established to address these specific estimated potential liabilities. We estimate that we will likely pay our accrued environmental remediation liabilities over the next five to 10 years.

Leases

Rental expense approximated $89 million for each year in 2006, 2005 and 2004. Future minimum rental commitments for noncancelable operating leases in effect at the end of 2006 approximated $63 million for 2007, $54 million for 2008, $46 million for 2009, $39 million for 2010, $31 million for 2011 and a total of $202 million thereafter.

Loan Commitments

At December 30, 2006, our Finance group had unused commitments to fund new and existing customers under $1.3 billion of committed revolving lines of credit, compared with $1.2 billion at December 31, 2005. These loan commitments generally have an original duration of less than three years and do not necessarily represent future cash requirements, since many of the agreements will not be used to the extent committed or will expire unused. We are not exposed to interest rate changes on these commitments since the interest rates are not set until the loans are funded.

Note 16. Research and Development

Company-funded and customer-funded research and development costs are as follows:

(In millions)	**2006**	**2005**	**2004**
Company-funded	$ 351	$ 326	$ 291
Customer-funded	435	366	283
Total research and development	$ 786	$ 692	$ 574

Our customer-funded research and development costs primarily are related to U.S. Government contracts, including the ARH, V-22 and H-1 development contracts.

As part of the realignment of Bell/Agusta Aerospace Company LLC (BAAC) (see Note 18), Bell Helicopter, Agusta S.p.A. and two of its affiliated companies (collectively, Agusta) agreed to share certain Model BA609 development costs. On behalf of BAAC, Agusta will incur

development costs to enhance its investment in BAAC. We record these development costs in consolidation as research and development expense, with a credit to minority interest for Agusta s share. Agusta also may make cash contributions to reimburse portions of Bell Helicopter s development

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costs incurred on behalf of BAAC. Based on development costs incurred, Bell Helicopter received $19 million and $43 million in cash contributions from Agusta, which were recorded in income in 2006 and 2005, respectively.

During 2005, Bell Helicopter entered into four separate risk-sharing arrangements. Two of the arrangements are with commercial participants in the development of the Bell Model 429 aircraft. The arrangements require contributions from the participants totaling $20 million, which are due once the development effort reaches certain predetermined milestones, as well as in-kind development contributions from one participant. The other two arrangements are with Canadian governmental organizations. These arrangements, which currently include the Model 429 aircraft and may potentially include certain future aircraft, each require cash contributions of up to CAD 115 million from the participants, based on a percentage of qualifying research and development costs incurred.

Each of the participants under these arrangements is entitled to payments from Bell Helicopter, with the commercial participants also entitled to discounts, based on future sales of the Model 429 aircraft. In addition, there are certain requirements related to production of future Model 429 aircraft in Canada, and one of the commercial participants is entitled to perform certain manufacturing functions for the Model 429 aircraft. Based on the development activities completed and costs incurred, we have recorded income of $22 million in 2006 and $35 million in 2005 related to these arrangements.

In 2006 and 2005, we received, or were due to receive, $41 million and $78 million, respectively, in cost reimbursements of company-funded amounts from our risk-sharing partners. Based on these reimbursements, our net company-funded costs totaled $310 million in 2006 and $248 million in 2005.

Note 17. Guarantees and Indemnifications

We extend a variety of financial and performance guarantees to third parties as provided in the table below:

	December 30, 2006		**December 31, 2005**	
(In millions)	**Maximum Potential Payment***	**Carrying Amount of Liability**	**Maximum Potential Payment***	**Carrying Amount of Liability**
Manufacturing group:				
Performance guarantee	$ 227	$	$ 114	$
Guaranteed minimum resale contracts	30	3	31	3
Guarantees related to dispositions	46	23	29	8
Debt obligations of joint ventures	4		10	
Finance group:				
Loss-sharing agreements	$ 29	$	$ 71	$ 13

** These agreements include uncapped guarantees as described below.*

Performance Guarantee

In 2004, through our Bell Helicopter business, we formed AgustaWestlandBell LLC (AWB LLC) with AgustaWestland North America Inc. (AWNA). This venture was created for the joint design, development, manufacture, sale, customer training and product support of the VH-71 helicopter, and certain variations and derivatives thereof, to be offered and sold to departments or agencies of the U.S. Government. In March 2005, AWB LLC received a $1.2 billion cost reimbursement-type subcontract from Lockheed Martin for the System Development and Demonstration phase of the U.S. Marine Corps Helicopter Squadron Program. We guaranteed to Lockheed Martin the due and prompt performance by AWB LLC of all its obligations under this subcontract, provided that our liability under the guaranty shall not exceed 49% of AWB LLC s aggregate liability to Lockheed Martin under the subcontract. AgustaWestland N.V., AWNA s parent company, has guaranteed the remaining 51% to Lockheed Martin. We have entered into cross-indemnification agreements with AgustaWestland N.V. in which each party indemnifies the other related to any payments required under these agreements that result from the indemnifying party s workshare under any subcontracts received.

For 2006, AWB LLC s maximum obligation was 40% of the total contract value, which equates to $464 million based on the current contract value of $1.2 billion. In 2007 and thereafter, AWB LLC s maximum obligation increases to 50%, or $580 million. Accordingly, the maximum amount of our liability under the guarantee was $227 million at December 30, 2006 and will be $284 million thereafter through completion.

Guaranteed Minimum Resale Contracts

We have a number of guaranteed minimum resale value contracts associated with certain past aircraft sales. If the fair value of an aircraft falls below a minimum guaranteed amount, we may be required to make a future payment to the customer or provide a minimum trade-in value toward a new aircraft. These agreements generally include operating restrictions such as maximum usage over the contract period or minimum maintenance requirements. We also have guaranteed the minimum resale value of certain customer-owned aircraft anticipated to be traded in upon completion of a model currently under development. These contracts expire as follows: $2 million in 2008, $3 million in 2009, $3 million in 2010, $3 million in 2011 and $19 million in 2012.

Guarantees Related to Dispositions

We have guaranteed payment on certain credit facilities and bank-issued letters of credit and guarantees of the Fastening Systems business, where the total guarantee is capped at approximately $9 million, for which the buyer has provided a letter of credit of approximately $4 million as collateral. We also have guaranteed payment and performance on certain other credit facilities and leases of the Fastening Systems business totaling approximately $14 million, where we also are liable for unpaid interest, fees and other costs associated with claims that may arise from these guarantees. While potential interest and fees are not capped, we have monitoring provisions that mitigate the exposure to these additional costs. The buyer has provided a letter of credit of approximately $9 million as collateral on these guarantees.

We also have indemnified the purchaser of the Fastening Systems business for remediation costs related to pre-existing environmental conditions to the extent they exist at the sold locations. We have estimated the fair value of these indemnifications at approximately $12 million. Potential payments under these obligations are not capped, and as a result the maximum potential obligation cannot be determined.

In connection with the disposition of Trim to subsidiaries of C&A, certain equipment and operating leases were transferred and assigned to subsidiaries of C&A. We guaranteed C&A s payments under these leases and for an environmental matter.

We also have obligations arising from sales of certain other businesses, including representations and warranties and related indemnities for environmental, health and safety, and tax and employment matters. The maximum potential payment related to these obligations is not a specified amount as a number of the obligations do not contain financial caps.

Loss-Sharing Agreements

In connection with the sale of a note receivable in 2005, our Finance group has indemnified the purchaser against potential losses in limited circumstances. The maximum potential exposure of the indemnity is estimated to be $29 million, but due to the extremely low probability of occurrence and several other mitigating factors, including a specific indemnification from the original note issuer, no significant fair value has been attributed to the indemnity.

In connection with the sale of the Small Business Direct financing business in 2003, our Finance group entered into a loss-sharing agreement. This agreement required us to reimburse the purchaser for 50% of losses incurred on the portfolio above a 4% annual level. A liability of $14 million was originally recorded representing the estimated fair value of the guarantee. During the fourth quarter of 2006, we entered into a settlement agreement with the purchaser, which terminated our obligation to reimburse the purchaser for future losses. The settlement resulted in a $1 million loss, net of tax, from discontinued operations in 2006.

At December 31, 2005, our Finance group had a contingent liability related to the sale of equipment lease streams with a maximum liability of $42 million. These lease streams were sold in 2006, and we had no remaining liability at the end of 2006.

Software Indemnifications

With the acquisition of Overwatch Systems in 2006, we now are a party to software license agreements with customers. These software license agreements generally include certain provisions for indemnifying customers against liabilities if our software products infringe a third party s intellectual property rights. To date, we have not incurred any material costs as a result of such indemnifications and have not accrued any liabilities related to such obligations in our consolidated financial statements.

Forward Contract

We enter into a forward contract in our common stock on an annual basis. The contract is intended to hedge the earnings and cash volatility of stock-based incentive compensation indexed to our stock. The forward contract requires annual cash settlement between the counterparties based upon a number of shares multiplied by the difference between the strike price and the prevailing common stock price. As of December 30, 2006,

the contract was for approximately 1.5 million shares with a strike price of $77.62. The market price of the stock was $93.77 at December 30, 2006, resulting in a receivable of $24 million, compared with a receivable of $10 million at December 31, 2005.

Warranty and Product Maintenance Contracts

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

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

(In millions)	2006	2005	2004
Accrual at beginning of year	$ 318	$ 280	$ 302
Provision	189	188	146
Settlements	(167)	(149)	(151)
Adjustments to prior accrual estimates	(25)	(1)	(17)
Accrual at end of year	$ 315	$ 318	$ 280

Note 18. Variable Interest Entities

BAAC is a joint venture established in 1998 between our Bell Helicopter unit and a predecessor of Agusta S.p.A. to share certain costs and profits for the joint design, development, manufacture, marketing, sale, customer training and product support of the civil tiltrotor Model BA609 and, through December 2005, the commercial helicopter Model AB139. This venture is a variable interest entity since it relies on its partners to fund the development and to provide services for substantially all of the venture s operations.

On December 20, 2005, we entered into an agreement with Agusta to realign BAAC. Under this agreement, we sold our 25% profit interest in the Model AB139 medium twin helicopter program to Agusta. Agusta assumed ownership of all aspects of the Model AB139 program from BAAC, including all existing customer obligations. In exchange for our interest, we received $10 million in cash, a $20 million note and a note for contingent payments from Agusta based on future Model AB139 sales. We recognized a $30 million pre-tax gain upon the sale of our interest, which is included in segment profit. The contingent receipts are expected to begin with aircraft deliveries in 2008 and will be recorded into income prospectively as the future sales occur.

The realignment also allows Agusta to increase its profit interest in the Model BA609 to a maximum of 40% by increasing its investment during the development phase. These development activities may include cash contributions to reimburse us for certain development costs incurred on behalf of BAAC (see Note 16). At year-end, Agusta s profit interest was approximately 30%.

Prior to the realignment, only certain marketing and administrative costs were charged to BAAC, while development costs were recorded separately by the parties, with our share of the development costs charged to our earnings as a period expense. As a result of the realignment, BAAC now includes only the Model BA609 tiltrotor, and we have a controlling voting interest in BAAC. Accordingly, we will absorb more than half of BAAC s expected losses and residual returns. As its primary beneficiary, we have consolidated BAAC prospectively as of December 20, 2005.

Note 19. Supplemental Cash Flow and Other Information

Supplemental Cash Flow Information

We have made the following cash payments:

(In millions)	2006	2005	2004
Interest paid:			
Manufacturing group	$ 111	$ 108	$ 106
Finance group	$ 341	$ 204	$ 157
Taxes paid, net of refunds received:			
Manufacturing group	$ 173	$ 107	$ (16)
Finance group	$ 2	$ 22	$ 61
Discontinued operations	$ (40)	$ (33)	$ (16)

Cash paid for interest by the Manufacturing group includes amounts paid to our Finance group of $4 million, $5 million and $4 million in 2006, 2005 and 2004, respectively. Cash paid for the Manufacturing group includes the excess tax benefit received on share-based payments of $31 million in 2006 and $14 million in 2005.

Accrued Liabilities

The accrued liabilities of our Manufacturing group are composed of the following:

(In millions)	**December 30, 2006**	**December 31, 2005**
Customer deposits	$ 663	$ 521
Warranty and product maintenance contracts	315	318
Salaries, wages and employer taxes	276	258
Deferred revenue	107	102
Accrued interest	39	37
Dividends payable		46
Other	558	467
Total accrued liabilities	$ 1,958	$ 1,749

Note 20. Segment and Geographic Data

Our four reportable segments are: Bell, Cessna, Industrial and Finance. These segments reflect the manner in which we manage our operations. The accounting policies of the segments are the same as those described in Note 1.

Bell products include military and commercial helicopters, tiltrotor aircraft, piston aircraft engines, armored security vehicles, smart weapons, munitions airborne and ground surveillance systems, aircraft landing systems, aircraft and missile control actuators and networking, situational awareness and intelligence analysis software for U.S. and non-U.S. governments in the defense and aerospace industries and general aviation markets.

Cessna products include business jets, single engine turboprop and piston aircraft and aftermarket services sold to a diverse base of corporate and individual buyers.

Industrial products and markets include the following:

- Kautex products include blow-molded fuel systems, windshield and headlamp washer systems, metal fuel fillers, engine camshafts and other parts that are marketed primarily to automobile original equipment manufacturers;

- E-Z-GO and Jacobsen products include golf cars, professional turf-maintenance equipment and off-road, multipurpose utility and specialized turf care vehicles that are marketed primarily to golf courses, resort communities, municipalities, commercial and industrial users and consumers;

- Greenlee products include hand, hydraulic and electrically powered tools, wire and cable terminations, electrical and communications testing/measurement, and bending and pulling equipment, principally used in the electrical construction and maintenance, telecommunications and plumbing industries; and

- Fluid & Power products include industrial and hydraulic pumps, mechanical transmission systems, gears and extrusion equipment marketed to original equipment manufacturers, governments, and the oil, gas, petrochemical and desalinization industries.

Finance provides secured commercial loans and leases primarily in North America to the asset-based lending, aviation, distribution finance, golf finance, resort finance and structured capital markets.

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.

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

	Revenues			Segment Profit		
(In millions)	2006	2005	2004	2006	2005	2004
Bell	$ 3,408	$ 2,881	$ 2,254	$ 249	$ 368	$ 250
Cessna	4,156	3,480	2,473	645	457	267
Industrial	3,128	3,054	3,046	163	150	194
Finance	798	628	545	210	171	139
	$ 11,490	$ 10,043	$ 8,318	1,267	1,146	850
Special charges					(118)	(59)
Corporate expenses and other, net				(202)	(199)	(157)
Interest expense, net				(90)	(90)	(94)
Income from continuing operations before income taxes				$ 975	$ 739	$ 540

Revenues by product type within each segment are summarized below:

	Revenues		
(In millions)	2006	2005	2004
Bell:			
Rotor aircraft	$ 2,347	$ 2,075	$ 1,615
Armored vehicles, advanced military systems and piston aircraft engines	1,061	806	639
Cessna: Fixed-wing aircraft	4,156	3,480	2,473
Industrial:			
Fuel systems and functional components	1,542	1,523	1,582
Golf and turf-care products	696	705	708
Industrial and hydraulic pumps, gears and other	517	495	463
Powered tools, testing and measurement equipment and other	373	331	293
Finance	798	628	545
	$ 11,490	$ 10,043	$ 8,318

Our revenues include sales to the U.S. Government of approximately $2.2 billion in 2006, $1.8 billion in 2005 and $1.3 billion in 2004, primarily in the Bell segment.

Other information by segment is provided below:

	Assets		
(In millions)	2006	2005	2004
Bell	$ 2,598	$ 1,966	$ 1,674
Cessna	2,091	1,866	1,751
Industrial	2,495	2,383	2,601
Finance	9,000	7,441	6,738
Corporate	1,293	1,721	1,478
Discontinued operations	73	1,122	1,633
	$ 17,550	$ 16,499	$ 15,875

(In millions)	Capital Expenditures* 2006	2005	2004	Depreciation and Amortization 2006	2005	2004
Bell	$ 225	$ 152	$ 62	$ 67	$ 54	$ 49
Cessna	121	105	98	78	84	71
Industrial	82	101	100	91	104	107
Finance	12	9	12	39	46	46
Corporate	7	13	22	15	15	7
	$ 447	$ 380	$ 294	$ 290	$ 303	$ 280

** Capital expenditures includes amounts financed through capital leases.*

Geographic Data

Presented below is selected financial information of our continuing operations by geographic area:

(In millions)	Revenues* 2006	2005	2004	Property, Plant and Equipment, net** 2006	2005	2004
United States	$ 7,006	$ 6,390	$ 5,260	$ 1,381	$ 1,211	$ 1,093
Europe	2,099	1,737	1,696	259	237	311
Canada	462	323	247	75	68	61
Latin America and Mexico	631	533	404	21	23	30
Asia and Australia	636	617	547	65	62	52
Middle East and Africa	656	443	164	6	6	7
	$ 11,490	$ 10,043	$ 8,318	$ 1,807	$ 1,607	$ 1,554

** Revenues are attributed to countries based on the location of the customer.*

*** Property, plant and equipment, net are based on the location of the asset.*

Quarterly Data

(Unaudited)	2006				2005			
(Dollars in millions, except per share amounts)	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenues								
Bell	$ 965	$ 855	$ 805	$ 783	$ 805	$ 674	$ 786	$ 616
Cessna	1,232	1,050	1,005	869	967	890	910	713
Industrial	792	720	818	798	744	686	824	800
Finance	212	212	192	182	185	155	147	141
Total revenues	$ 3,201	$ 2,837	$ 2,820	$ 2,632	$ 2,701	$ 2,405	$ 2,667	$ 2,270
Segment profit								
Bell	$ 48	$ 67	$ 65	$ 69	$ 121	$ 89	$ 83	$ 75
Cessna	213	162	153	117	132	117	121	87
Industrial	32	28	54	49	16	21	58	55
Finance	52	53	56	49	51	43	44	33
Total segment profit	345	310	328	284	320	270	306	250
Special charges					(21)	(2)	(41)	(54)
Corporate expenses and other, net	(60)	(45)	(48)	(49)	(54)	(47)	(55)	(43)
Interest expense, net	(20)	(23)	(25)	(22)	(21)	(23)	(22)	(24)
Income taxes	(69)	(67)	(78)	(55)	(56)	(52)	(70)	(45)
Income from continuing operations	196	175	177	158	168	146	118	84
(Loss) income from discontinued operations, net of income taxes	(1)	(6)	(108)	10	(50)	(310)	5	42
Net income (loss)	$ 195	$ 169	$ 69	$ 168	$ 118	$ (164)	$ 123	$ 126
Earnings per common share								
Basic:								
Income from continuing operations	$ 1.57	$ 1.39	$ 1.38	$ 1.21	$ 1.28	$ 1.10	$ 0.88	$ 0.62
(Loss) income from discontinued operations, net of income taxes	(0.01)	(0.05)	(0.84)	0.08	(0.38)	(2.33)	0.04	0.31
Net income (loss)	$ 1.56	$ 1.34	$ 0.54	$ 1.29	$ 0.90	$ (1.23)	$ 0.92	$ 0.93
Basic average shares outstanding *(In thousands)*	125,544	125,809	128,453	130,093	131,569	132,910	134,603	135,127
Diluted:								
Income from continuing operations	$ 1.54	$ 1.36	$ 1.34	$ 1.19	$ 1.25	$ 1.07	$ 0.86	$ 0.61
(Loss) income from discontinued operations, net of income taxes	(0.01)	(0.04)	(0.81)	0.07	(0.37)	(2.27)	0.03	0.30
Net income (loss)	$ 1.53	$ 1.32	$ 0.53	$ 1.26	$ 0.88	$ (1.20)	$ 0.89	$ 0.91
Diluted average shares outstanding *(In thousands)*	128,023	128,379	131,294	132,856	134,300	135,629	137,582	138,283
Segment profit margins								
Bell	5.0 %	7.8 %	8.1 %	8.8 %	15.0 %	13.2 %	10.6 %	12.2 %
Cessna	17.3	15.4	15.2	13.5	13.7	13.1	13.3	12.2
Industrial	4.0	3.9	6.6	6.1	2.2	3.1	7.0	6.9
Finance	24.5	25.0	29.2	26.9	27.6	27.7	29.9	23.4
Segment profit margin	10.8 %	10.9 %	11.6 %	10.8 %	11.8 %	11.2 %	11.5 %	11.0 %
Common stock information								
Price range: High	$ 98.38	$ 93.13	$ 98.10	$ 94.40	$ 80.00	$ 78.80	$ 78.30	$ 80.05
Low	$ 88.19	$ 81.10	$ 82.51	$ 75.76	$ 69.00	$ 65.85	$ 71.11	$ 68.61
Dividends per share	$ 0.3875	$ 0.3875	$ 0.3875	$ 0.3875	$ 0.350	$ 0.350	$ 0.350	$ 0.350

Schedule II Valuation and Qualifying Accounts

(In millions)	2006	2005	2004
Manufacturing Group			
Allowance for Doubtful Accounts			
Balance at beginning of year	$ 38	$ 54	$ 55
Charged to costs and expenses	4	16	16
Deductions from reserves*	(8)	(32)	(17)
Balance at end of year	$ 34	$ 38	$ 54
Reserves for Recourse Liability to Finance Group Continuing Operations*			
Balance at beginning of year	$ 40	$ 37	$ 46
Charged to costs and expenses		12	10
Reclassifications to other assets			(14)
Deductions from reserves*	(1)	(9)	(5)
Balance at end of year	$ 39	$ 40	$ 37
Inventory FIFO Reserves			
Balance at beginning of year	$ 85	$ 91	$ 100
Charged to costs and expenses	29	25	33
Deductions from reserves*	(25)	(31)	(42)
Balance at end of year	$ 89	$ 85	$ 91
Finance Group			
Allowance for Losses on Finance Receivables			
Balance at beginning of year	$ 96	$ 99	$ 119
Provision for losses	26	29	58
Deduction from reserves*	(29)	(32)	(78)
Balance at end of year	$ 93	$ 96	$ 99

* *Represents uncollectible accounts written off (less recoveries), inventory disposals, acquisitions and translation adjustments*

** *These reserves exclude discontinued operations liabilities of $6 million in 2006, $18 million in 2005 and $22 million in 2004. The decline in these reserves is primarily due to write-offs.*

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Disclosure 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 (our CEO) and our Executive Vice President and Chief Financial Officer (our 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 year 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.

Report of Management See page 33.

Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting See page 34.

Changes in Internal Controls There have been no changes in our internal control over financial reporting during the fourth quarter of the fiscal year covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors and Executive Officers of the Registrant

The information appearing under Audit Committee, Nominees for Director, Directors Continuing in Office, Corporate Governance, Code of Ethics and Section 16(a) Beneficial Ownership Reporting Compliance in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 25, 2007, is incorporated by reference into this Annual Report on Form 10-K.

Information regarding our executive officers is contained in Part I of this Annual Report on Form 10-K.

Item 11. Executive Compensation

The information appearing under Compensation of Directors, Compensation Discussion and Analysis and Executive Compensation in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 25, 2007, is incorporated by reference into this Annual Report on Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information appearing under Security Ownership of Certain Beneficial Holders, Security Ownership of Management and Equity Compensation Plan Information in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 25, 2007, is incorporated by reference into this Annual Report on Form 10-K.

Item 13. Certain Relationships and Related Transactions

The information appearing under Director Independence and Transactions with Management and Others in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 25, 2007, is incorporated by reference into this Annual Report on Form 10-K.

Item 14. Principal Accountant Fees and Services

The information appearing under Fees to Independent Auditors in the Proxy Statement for our Annual Meeting of Shareholders to be held on April 25, 2007, is incorporated by reference into this Annual Report on Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

Financial Statements and Schedules - See Index on Page 32.

Exhibits

3.1	Restated Certificate of Incorporation of Textron as filed January 29, 1998. Incorporated by reference to Exhibit 3.1 to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 1998.
3.2	By-Laws of Textron. Incorporated by reference to Exhibit 3.1 to Textron s Current Report on Form 8-K filed April 29, 2006.
4.1A	Indenture dated as of December 9, 1999, between Textron Financial Corporation and SunTrust Bank (formerly known as Sun Trust Bank, Atlanta) (including form of debt securities). Incorporated by reference to Exhibit 4.1 to Amendment No. 2 to Textron Financial Corporation s Registration Statement on Form S-3 (No. 333-88509).
4.1B	First Supplemental Indenture dated November 16, 2006, between Textron Financial Corporation and U.S. Bank National Association (successor trustee to Sun Trust Bank) to Indenture dated as of December 9, 1999. Incorporated by reference to Exhibit 4.3 of Textron Financial Corporation s Form S-3 (File No. 333-138755).
4.1C	Form of Medium-Term Note of Textron Financial Corporation. Incorporated by reference to Exhibit 4.3 to Textron Financial Corporation s Current Report on Form 8-K filed November 17, 2006.
4.2A	Indenture dated as of November 30, 2001, between Textron Financial Canada Funding Corp. and SunTrust Bank, guaranteed by Textron Financial Corporation. Incorporated by reference to Exhibit 4.2 to Amendment No. 1 to Textron Financial Corporation s Registration Statement on Form S-3 (No. 333-108464).
4.2B	First Supplemental Indenture, dated November 16, 2006, between Textron Financial Canada Funding Corp., Textron Financial Corporation and U.S. Bank National Association (successor trustee to Sun Trust Bank) to Indenture dated November 30, 2001. Incorporated by reference to Exhibit 4.4 of Textron Financial Corporation s Form S-3 (File No. 333-138755).
4.2C	Form of Medium-Term Note of Textron Financial Canada Funding Corp. Incorporated by reference to Exhibit 4.4 to Textron Financial Corporation s Current Report on Form 8-K filed November 17, 2006.
4.3A	Amended and Restated Indenture, dated as of May 26, 2005, by and between Textron Financial Floorplan Master Note Trust and The Bank of New York, as indenture trustee. Incorporated herein by reference to Exhibit 4.1 of Textron Financial Corporation s Current Report on Form 8-K filed June 1, 2005.
4.3B	Amended and Restated Series 2001-1 Supplement, dated as of May 26, 2005, to the Amended and Restated Indenture, dated as of May 26, 2005, by and among Textron Financial Floorplan Master Note Trust, The Bank of New York, as indenture trustee, and Textron Financial, as servicer. Incorporated herein by reference to Exhibit 4.2 of Textron Financial Corporation s Current Report on Form 8-K filed June 1, 2005.
4.3C	Series 2005-A Supplement, dated as of May 26, 2005, to the Amended and Restated Indenture, dated as of May 26, 2005, by and among Textron Financial Floorplan Master Note Trust, The Bank of New York, as indenture trustee, and Textron Financial, as servicer. Incorporated herein by reference to Exhibit 4.3 of Textron Financial Corporation s Current Report on Form 8-K filed June 1, 2005.

4.3D Series 2006-A Supplement, dated as of April 19, 2006, to the Amended and Restated Indenture, dated as of May 26, 2005, by and among Textron Financial Floorplan Master Note Trust, The Bank of New York, as indenture trustee, and Textron Financial, as servicer. Incorporated herein by reference to Exhibit 4.1 of Textron Financial Corporation s Current Report on Form 8-K filed April 24, 2006.

4.4 Support Agreement dated as of May 25, 1994, between Textron Inc. and Textron Financial Corporation. Incorporated by reference to Exhibit 10.1 to Textron Financial Corporation s Registration Statement on Form 10 (File No. 0-27559).

NOTE: Instruments defining the rights of holders of certain issues of long-term debt of Textron have not been filed as exhibits because the authorized principal amount of any one of such issues does not exceed 10% of the total assets of Textron and its subsidiaries on a consolidated basis. Textron agrees to furnish a copy of each such instrument to the Commission upon request.

NOTE: Exhibits 10.1 through 10.20 below are management contracts or compensatory plans, contracts or agreements.

10.1A Annual Incentive Compensation Plan for Textron Employees. Incorporated by reference to Exhibit 10.1 to Textron s Annual Report on Form 10-K for the fiscal year ended December 30, 1995.

10.1B Amendment to Annual Incentive Compensation Plan for Textron Employees. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 1999.

10.1C Objectives for Executive Officers Under Annual Incentive Compensation Plan for Textron Employees.

10.2 Deferred Income Plan for Textron Key Executives. Incorporated by reference to Exhibit 10.2 to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2004.

10.3 Description of Textron Spillover Pension Plan. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2006.

10.4 Supplemental Retirement Plan for Textron Key Executives. Incorporated by reference to Exhibit 10.4 to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2004.

10.5 Survivor Benefit Plan For Textron Key Executives, as amended. Incorporated by reference to Exhibit 10.5 to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2004.

10.6A Textron 1994 Long-Term Incentive Plan (1994 Plan). Incorporated by reference to Exhibit 10 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 1994.

10.6B Amendment to 1994 Plan. Incorporated by reference to Exhibit 10.9B to Textron s Annual Report on Form 10-K for the fiscal year ended January 2, 1999.

10.6C Amendment to 1994 Plan. Incorporated by reference to Exhibit 10.6 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 1999.

10.6D Amendment to 1994 Plan. Incorporated by reference to Exhibit 10.8D to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2000.

10.7A Textron 1999 Long-Term Incentive Plan for Textron Employees (April 26, 2005 Restatement). Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2005.

10.7B Form of Non-Qualified Stock Option Agreement. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 2004.

10.7C Form of Incentive Stock Option Agreement. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 2004.

10.7D Form of Restricted Stock Grant Agreement. Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 2004.

10.8A	Performance Share Unit Plan for Textron Employees. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2005.
10.8B	Performance Factors for Executive Officers for Performance Share Units.

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10.9	Form of Indemnity Agreement between Textron and its directors and executive officers. Incorporated by reference to Exhibit A to Textron s Proxy Statement for its Annual Meeting of Shareholders on April 29, 1987.
10.10	Deferred Income Plan for Non-Employee Directors. Incorporated by reference to Exhibit 10.1 to Textron s Annual Report on Form 10-K for the fiscal year ended December 28, 2002.
10.11A	Amended and Restated Employment Agreement between Textron and John D. Butler dated May 4, 2006. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2006.
10.11B	Restricted Stock Equivalent Award granted to John D. Butler on January 15, 2002. Incorporated by reference to Exhibit 10.1 of Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2002.
10.12A	Employment Agreement between Textron and Lewis B. Campbell dated July 23, 1998. Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended October 3, 1998.
10.12B	Amendment dated May 6, 2005, to Employment Agreement between Textron and Lewis B. Campbell. Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2005.
10.12C	Second Amendment, dated May 4, 2006, to Employment Agreement between Textron and Lewis B. Campbell. Incorporated by reference to Exhibit 10.4 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2006.
10.12D	Retention Award granted to Lewis B. Campbell on December 14, 1995. Incorporated by reference to Exhibit 10.16B to Textron s Annual Report on Form 10-K for the fiscal year ended December 30, 1995.
10.12E	Retention Award granted to Lewis B. Campbell on June 1, 1999. Incorporated by reference to Exhibit 10.13C to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2000.
10.12F	Retention Award granted to Lewis B. Campbell on January 1, 2001, and revision of vesting schedule for the Retention Award granted on June 1, 1999. Incorporated by reference to Exhibit 10.14D to Textron s Annual Report on Form 10-K for the fiscal year ended December 30, 2000.
10.12G	Amendments to Retention Awards granted to Lewis B. Campbell. Incorporated by reference to Exhibit 10.14D to Textron s Annual Report on Form 10-K for the fiscal year ended December 29, 2001.
10.13A	Employment Agreement between Textron and Ted R. French dated December 21, 2000. Incorporated by reference to Exhibit 10.15A to Textron s Annual Report on Form 10-K for the fiscal year ended December 30, 2000.
10.13B	Retention Award granted to Ted R. French on January 1, 2001. Incorporated by reference to Exhibit 10.15B to Textron s Annual Report on Form 10-K for the fiscal year ended December 30, 2000.
10.14A	Amended and Restated Employment Agreement between Textron and Mary L. Howell dated May 4, 2006. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2006.
10.14B	Restricted Stock Equivalent Award granted to Mary L. Howell on January 15, 2002. Incorporated by reference to Exhibit 10.2 of Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2002.
10.15A	Amended and Restated Employment Agreement between Textron and Terrence O Donnell dated May 4, 2006. Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2006.
10.15B	Restricted Stock Equivalent Award granted to Terrence O Donnell on January 15, 2002. Incorporated by reference to Exhibit 10.3 of Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2002.
10.16	Employment Agreement between Textron and Kenneth C. Bohlen dated July 18, 2000. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2000.
10.17	Director Compensation.

10.18	Director Stock Awards. Incorporated by reference to Exhibit 10.17 to Textron s Annual Report on Form 10-K for the fiscal year ended December 28, 2002.

10.19	CitationShares Director s Evaluation Program. Incorporated by reference to Exhibit 10.17 to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2005.
10.20	Amendment to 13 plans to comply with the American Jobs Creation Act of 2004. Incorporated by reference to Exhibit 10.18 to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2005.
10.21A	5-Year Credit Agreement, dated as of March 28, 2005, among Textron, the Banks listed therein, JPMorgan Chase Bank, N.A., as Administrative Agent, and Citibank, N.A., as Syndication Agent (the 5-Year Credit Agreement). Incorporated by reference to Exhibit 10.1 to Textron s Current Report on Form 8-K filed March 31, 2005.
10.21B	Amendment No. 1, dated as of April 21, 2006, to 5-Year Credit Agreement. Incorporated by reference to Exhibit 10.1 to Textron s Current Report on Form 8-K filed April 25, 2006.
10.22A	364-Day Credit Agreement dated March 31, 2003, among Textron Inc., the Banks listed therein and JPMorgan Chase Bank as Administrative Agent (the 364-Day Credit Agreement). Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2003.
10.22B	Amendment, dated as of July 28, 2003, to the 364-Day Credit Agreement. Incorporated by reference to Exhibit 10.19 to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2004.
10.22C	Amendment No. 2, dated as of March 29, 2004, to the 364-Day Credit Agreement. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2004.
10.23A	364-Day Credit Agreement dated July 28, 2003, among Textron Financial Corporation, the Banks listed therein, and JPMorgan Chase Bank, as Administrative Agent. Incorporated by reference to Exhibit 10.1 to Textron Financial Corporation s Current Report on Form 8-K as filed on August 26, 2003.
10.23B	Amendment, dated as of July 26, 2004, to 364-Day Credit Agreement dated July 28, 2003, among Textron Financial Corporation, the Banks listed therein, and JPMorgan Chase Bank, as Administrative Agent. Incorporated by reference to Exhibit 10.1 to Textron Financial Corporation s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004.
10.23C	Amendment No. 2, dated as of July 25, 2005, to the 364-Day Credit Agreement dated as of July 28, 2003, among Textron Financial, the Banks listed therein, and JPMorgan Chase Bank N.A., as Administrative Agent. Incorporated by reference to Exhibit 10.2 of Textron Financial Corporation s Current Report on Form 8-K filed July 27, 2005.
10.24A	Five-Year Credit Agreement dated July 28, 2003 among Textron Financial Corporation, the Banks listed therein, and JPMorgan Chase Bank, as Administrative Agent. Incorporated by reference to Exhibit 10.2 to Textron Financial Corporation s Current Report on Form 8-K as filed on August 26, 2003.
10.24B	Amendment No. 1, dated as of July 25, 2005, to the Five-Year Credit Agreement dated as of July 28, 2003 among Textron Financial, the Banks listed therein, and JPMorgan Chase Bank N.A., as Administrative Agent. Incorporated by reference to Exhibit 10.1 of Textron Financial Corporation s Current Report on Form 8-K filed July 27, 2005.
10.24C	Amendment No. 2, dated as of April 28, 2006, to the Five-Year Credit Agreement dated as of July 28, 2003 among Textron Financial, the Banks listed therein, and JPMorgan Chase Bank N.A., as Administrative Agent. Incorporated by reference to Exhibit 10.1 of Textron Financial Corporation s Current Report on Form 8-K filed May 1, 2006.
10.25	Master Services Agreement between Textron Inc. and Computer Sciences Corporation dated October 27, 2004. Confidential treatment has been requested for portions of this agreement. Incorporated by reference to Exhibit 10.26 to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2005.
12.1	Computation of ratio of income to combined fixed charges and preferred stock dividends of Textron Manufacturing.
12.2	Computation of ratio of income to combined fixed charges and preferred stock dividends of Textron including all majority-owned subsidiaries.

	Certain subsidiaries of Textron. Other subsidiaries, which considered in the aggregate do not constitute a significant subsidiary, are omitted from such list.
23	Consent of Independent Registered Public Accounting Firm.

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24	Power of attorney.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

Signatures

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized on this 21st day of February 2007.

TEXTRON INC.
Registrant

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

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Pursuant to the requirements of the Securities and Exchange Act of 1934, this Annual Report on Form 10-K has been signed below on this 21st day of February 2007, by the following persons on behalf of the registrant and in the capacities indicated:

Name	Title
/s/ Lewis B. Campbell Lewis B. Campbell	Chairman, President and Chief Executive Officer, Director
* H. Jesse Arnelle	Director
* Kathleen M. Bader	Director
* R. Kerry Clark	Director
* Ivor J. Evans	Director
* Lawrence K. Fish	Director
* Joe T. Ford	Director
* Paul E. Gagné	Director
* Dain M. Hancock	Director
* Lord Powell of Bayswater KCMG	Director
* Thomas B. Wheeler	Director
/s/ Ted R. French Ted R. French	Executive Vice President and Chief Financial Officer (principal financial officer)
/s/ Richard L. Yates Richard L. Yates	Senior Vice President and Corporate Controller (principal accounting officer)

*By: /s/ Michael D. Cahn
Michael D. Cahn
Attorney-in-fact

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EXHIBIT INDEX

Exhibits

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3.2	By-Laws of Textron. Incorporated by reference to Exhibit 3.1 to Textron s Current Report on Form 8-K filed April 29, 2006.
4.1A	Indenture dated as of December 9, 1999, between Textron Financial Corporation and SunTrust Bank (formerly known as Sun Trust Bank, Atlanta) (including form of debt securities). Incorporated by reference to Exhibit 4.1 to Amendment No. 2 to Textron Financial Corporation s Registration Statement on Form S-3 (No. 333-88509).
4.1B	First Supplemental Indenture dated November 16, 2006, between Textron Financial Corporation and U.S. Bank National Association (successor trustee to Sun Trust Bank) to Indenture dated as of December 9, 1999. Incorporated by reference to Exhibit 4.3 of Textron Financial Corporation s Form S-3 (File No. 333-138755).
4.1C	Form of Medium-Term Note of Textron Financial Corporation. Incorporated by reference to Exhibit 4.3 to Textron Financial Corporation s Current Report on Form 8-K filed November 17, 2006.
4.2A	Indenture dated as of November 30, 2001, between Textron Financial Canada Funding Corp. and SunTrust Bank, guaranteed by Textron Financial Corporation. Incorporated by reference to Exhibit 4.2 to Amendment No. 1 to Textron Financial Corporation s Registration Statement on Form S-3 (No. 333-108464).
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4.3A	Amended and Restated Indenture, dated as of May 26, 2005, by and between Textron Financial Floorplan Master Note Trust and The Bank of New York, as indenture trustee. Incorporated herein by reference to Exhibit 4.1 of Textron Financial Corporation s Current Report on Form 8-K filed June 1, 2005.
4.3B	Amended and Restated Series 2001-1 Supplement, dated as of May 26, 2005, to the Amended and Restated Indenture, dated as of May 26, 2005, by and among Textron Financial Floorplan Master Note Trust, The Bank of New York, as indenture trustee, and Textron Financial, as servicer. Incorporated herein by reference to Exhibit 4.2 of Textron Financial Corporation s Current Report on Form 8-K filed June 1, 2005.
4.3C	Series 2005-A Supplement, dated as of May 26, 2005, to the Amended and Restated Indenture, dated as of May 26, 2005, by and among Textron Financial Floorplan Master Note Trust, The Bank of New York, as indenture trustee, and Textron Financial, as servicer. Incorporated herein by reference to Exhibit 4.3 of Textron Financial Corporation s Current Report on Form 8-K filed June 1, 2005.
4.3D	Series 2006-A Supplement, dated as of April 19, 2006, to the Amended and Restated Indenture, dated as of May 26, 2005, by and among Textron Financial Floorplan Master Note Trust, The Bank of New York, as indenture trustee, and Textron Financial, as servicer. Incorporated herein by reference to Exhibit 4.1 of Textron Financial Corporation s Current Report on Form 8-K filed April 24, 2006.

4.4	Support Agreement dated as of May 25, 1994, between Textron Inc. and Textron Financial Corporation. Incorporated by reference to Exhibit 10.1 to Textron Financial Corporation s Registration Statement on Form 10 (File No. 0-27559).
NOTE:	Instruments defining the rights of holders of certain issues of long-term debt of Textron have not been filed as exhibits because the authorized principal amount of any one of such issues does not exceed 10% of the total assets of Textron and its subsidiaries on a consolidated basis. Textron agrees to furnish a copy of each such instrument to the Commission upon request.
NOTE:	Exhibits 10.1 through 10.20 below are management contracts or compensatory plans, contracts or agreements.
10.1A	Annual Incentive Compensation Plan for Textron Employees. Incorporated by reference to Exhibit 10.1 to Textron s Annual Report on Form 10-K for the fiscal year ended December 30, 1995.
10.1B	Amendment to Annual Incentive Compensation Plan for Textron Employees. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 1999.
10.1C	Objectives for Executive Officers Under Annual Incentive Compensation Plan for Textron Employees.
10.2	Deferred Income Plan for Textron Key Executives. Incorporated by reference to Exhibit 10.2 to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2004.
10.3	Description of Textron Spillover Pension Plan. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2006.
10.4	Supplemental Retirement Plan for Textron Key Executives. Incorporated by reference to Exhibit 10.4 to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2004.
10.5	Survivor Benefit Plan For Textron Key Executives, as amended. Incorporated by reference to Exhibit 10.5 to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2004.
10.6A	Textron 1994 Long-Term Incentive Plan (1994 Plan). Incorporated by reference to Exhibit 10 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 2, 1994.
10.6B	Amendment to 1994 Plan. Incorporated by reference to Exhibit 10.9B to Textron s Annual Report on Form 10-K for the fiscal year ended January 2, 1999.
10.6C	Amendment to 1994 Plan. Incorporated by reference to Exhibit 10.6 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 1999.
10.6D	Amendment to 1994 Plan. Incorporated by reference to Exhibit 10.8D to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2000.
10.7A	Textron 1999 Long-Term Incentive Plan for Textron Employees (April 26, 2005 Restatement). Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2005.
10.7B	Form of Non-Qualified Stock Option Agreement. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 2004.
10.7C	Form of Incentive Stock Option Agreement. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 2004.
10.7D	Form of Restricted Stock Grant Agreement. Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 3, 2004.
10.8A	Performance Share Unit Plan for Textron Employees. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2005.

10.8B	Performance Factors for Executive Officers for Performance Share Units.
10.9	Form of Indemnity Agreement between Textron and its directors and executive officers. Incorporated by reference to Exhibit A to Textron s Proxy Statement for its Annual Meeting of Shareholders on April 29, 1987.

10.10	Deferred Income Plan for Non-Employee Directors. Incorporated by reference to Exhibit 10.1 to Textron s Annual Report on Form 10-K for the fiscal year ended December 28, 2002.
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10.12C	Second Amendment, dated May 4, 2006, to Employment Agreement between Textron and Lewis B. Campbell. Incorporated by reference to Exhibit 10.4 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2006.
10.12D	Retention Award granted to Lewis B. Campbell on December 14, 1995. Incorporated by reference to Exhibit 10.16B to Textron s Annual Report on Form 10-K for the fiscal year ended December 30, 1995.
10.12E	Retention Award granted to Lewis B. Campbell on June 1, 1999. Incorporated by reference to Exhibit 10.13C to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2000.
10.12F	Retention Award granted to Lewis B. Campbell on January 1, 2001, and revision of vesting schedule for the Retention Award granted on June 1, 1999. Incorporated by reference to Exhibit 10.14D to Textron s Annual Report on Form 10-K for the fiscal year ended December 30, 2000.
10.12G	Amendments to Retention Awards granted to Lewis B. Campbell. Incorporated by reference to Exhibit 10.14D to Textron s Annual Report on Form 10-K for the fiscal year ended December 29, 2001.
10.13A	Employment Agreement between Textron and Ted R. French dated December 21, 2000. Incorporated by reference to Exhibit 10.15A to Textron s Annual Report on Form 10-K for the fiscal year ended December 30, 2000.
10.13B	Retention Award granted to Ted R. French on January 1, 2001. Incorporated by reference to Exhibit 10.15B to Textron s Annual Report on Form 10-K for the fiscal year ended December 30, 2000.
10.14A	Amended and Restated Employment Agreement between Textron and Mary L. Howell dated May 4, 2006. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2006.
10.14B	Restricted Stock Equivalent Award granted to Mary L. Howell on January 15, 2002. Incorporated by reference to Exhibit 10.2 of Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2002.
10.15A	Amended and Restated Employment Agreement between Textron and Terrence O Donnell dated May 4, 2006. Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 1, 2006.
10.15B	Restricted Stock Equivalent Award granted to Terrence O Donnell on January 15, 2002. Incorporated by reference to Exhibit 10.3 of Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 30, 2002.
10.16	Employment Agreement between Textron and Kenneth C. Bohlen dated July 18, 2000. Incorporated by reference to Exhibit 10.2 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2000.
10.17	Director Compensation.
10.18	Director Stock Awards. Incorporated by reference to Exhibit 10.17 to Textron s Annual Report on Form 10-K for the fiscal year ended December 28, 2002.

10.19	CitationShares Director s Evaluation Program. Incorporated by reference to Exhibit 10.17 to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2005.

10.20	Amendment to 13 plans to comply with the American Jobs Creation Act of 2004. Incorporated by reference to Exhibit 10.18 to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2005.
10.21A	5-Year Credit Agreement, dated as of March 28, 2005, among Textron, the Banks listed therein, JPMorgan Chase Bank, N.A., as Administrative Agent, and Citibank, N.A., as Syndication Agent (the 5-Year Credit Agreement). Incorporated by reference to Exhibit 10.1 to Textron s Current Report on Form 8-K filed March 31, 2005.
10.21B	Amendment No. 1, dated as of April 21, 2006, to 5-Year Credit Agreement. Incorporated by reference to Exhibit 10.1 to Textron s Current Report on Form 8-K filed April 25, 2006.
10.22A	364-Day Credit Agreement dated March 31, 2003, among Textron Inc., the Banks listed therein and JPMorgan Chase Bank as Administrative Agent (the 364-Day Credit Agreement). Incorporated by reference to Exhibit 10.3 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended March 29, 2003.
10.22B	Amendment, dated as of July 28, 2003, to the 364-Day Credit Agreement. Incorporated by reference to Exhibit 10.19 to Textron s Annual Report on Form 10-K for the fiscal year ended January 3, 2004.
10.22C	Amendment No. 2, dated as of March 29, 2004, to the 364-Day Credit Agreement. Incorporated by reference to Exhibit 10.1 to Textron s Quarterly Report on Form 10-Q for the fiscal quarter ended April 3, 2004.
10.23A	364-Day Credit Agreement dated July 28, 2003, among Textron Financial Corporation, the Banks listed therein, and JPMorgan Chase Bank, as Administrative Agent. Incorporated by reference to Exhibit 10.1 to Textron Financial Corporation s Current Report on Form 8-K as filed on August 26, 2003.
10.23B	Amendment, dated as of July 26, 2004, to 364-Day Credit Agreement dated July 28, 2003, among Textron Financial Corporation, the Banks listed therein, and JPMorgan Chase Bank, as Administrative Agent. Incorporated by reference to Exhibit 10.1 to Textron Financial Corporation s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2004.
10.23C	Amendment No. 2, dated as of July 25, 2005, to the 364-Day Credit Agreement dated as of July 28, 2003, among Textron Financial, the Banks listed therein, and JPMorgan Chase Bank N.A., as Administrative Agent. Incorporated by reference to Exhibit 10.2 of Textron Financial Corporation s Current Report on Form 8-K filed July 27, 2005.
10.24A	Five-Year Credit Agreement dated July 28, 2003 among Textron Financial Corporation, the Banks listed therein, and JPMorgan Chase Bank, as Administrative Agent. Incorporated by reference to Exhibit 10.2 to Textron Financial Corporation s Current Report on Form 8-K as filed on August 26, 2003.
10.24B	Amendment No. 1, dated as of July 25, 2005, to the Five-Year Credit Agreement dated as of July 28, 2003 among Textron Financial, the Banks listed therein, and JPMorgan Chase Bank N.A., as Administrative Agent. Incorporated by reference to Exhibit 10.1 of Textron Financial Corporation s Current Report on Form 8-K filed July 27, 2005.
10.24C	Amendment No. 2, dated as of April 28, 2006, to the Five-Year Credit Agreement dated as of July 28, 2003 among Textron Financial, the Banks listed therein, and JPMorgan Chase Bank N.A., as Administrative Agent. Incorporated by reference to Exhibit 10.1 of Textron Financial Corporation s Current Report on Form 8-K filed May 1, 2006.
10.25	Master Services Agreement between Textron Inc. and Computer Sciences Corporation dated October 27, 2004. Confidential treatment has been requested for portions of this agreement. Incorporated by reference to Exhibit 10.26 to Textron s Annual Report on Form 10-K for the fiscal year ended January 1, 2005.
12.1	Computation of ratio of income to combined fixed charges and preferred stock dividends of Textron Manufacturing.
12.2	Computation of ratio of income to combined fixed charges and preferred stock dividends of Textron including all majority-owned subsidiaries.
21	Certain subsidiaries of Textron. Other subsidiaries, which considered in the aggregate do not constitute a significant subsidiary, are omitted from such list.
23	Consent of Independent Registered Public Accounting Firm.

24	Power of attorney.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.