

TEXTRON INC
Form DEF 14A
March 19, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

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- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
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Textron Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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NOTICE OF ANNUAL MEETING

To the Shareholders of Textron Inc.:

The 2007 annual meeting of shareholders of Textron Inc. will be held on Wednesday, April 25, 2007, at 11:00 a.m. at The Westin Providence, One West Exchange Street, Providence, Rhode Island for the following purposes:

1. To elect five directors in Class II for a term of three years and until their successors are duly elected or appointed (Items 1 through 5 on the proxy card).
2. To approve the Textron Inc. Short-Term Incentive Plan, which is **recommended** by the Board of Directors (Item 6 on the proxy card).
3. To approve the Textron Inc. 2007 Long-Term Incentive Plan, which is **recommended** by the Board of Directors (Item 7 on the proxy card).
4. To ratify the appointment by the Audit Committee of Ernst & Young LLP as Textron's independent registered public accounting firm for 2007, which is **recommended** by the Board of Directors (Item 8 on the proxy card).
5. If properly presented at the meeting, to consider and act upon a shareholder proposal set forth at pages 52 and 53 in the accompanying proxy statement, which is **opposed** by the Board of Directors (Item 9 on the proxy card).
6. To transact any other business as may properly come before the meeting or any adjournment or postponement of the meeting.

You are entitled to vote all shares of common and preferred stock registered in your name at the close of business on March 2, 2007. If you attend the meeting and desire to vote in person, your proxy will not be used. If your shares are held in the name of your broker or bank and you wish to attend the meeting in person, you should request your broker or bank to issue you a proxy covering your shares.

Whether or not you plan to attend the meeting, we urge you to complete, sign and date the enclosed proxy card and return it in the accompanying postage-paid envelope as soon as possible so that your shares may be represented at the meeting. Shareholders of record also have the option of voting their shares via the Internet or by using a toll-free telephone number. Instructions on how to vote either via the Internet or by telephone are included on the proxy card.

A list of shareholders entitled to vote at the 2007 annual meeting will be open to examination by any shareholder, for any purpose germane to the meeting, for ten days prior to the meeting at Textron's principal executive office, 40 Westminster Street, Providence, Rhode Island 02903.

Sincerely,

Lewis B. Campbell
Chairman, President and Chief Executive Officer

Providence, Rhode Island
March 19, 2007

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YOUR VOTE IS IMPORTANT

If you are a shareholder of record, you can now vote your shares via the Internet or by using a toll-free telephone number by following the instructions on your proxy card. If voting by mail, please complete, date and sign your proxy card and return it as soon as possible in the enclosed postage-paid envelope.

TEXTRON INC.

PROXY STATEMENT

General

This proxy statement, which is being mailed on or about March 19, 2007, to each person entitled to receive the accompanying notice of annual meeting, is furnished in connection with the solicitation by the Board of Directors of Textron Inc. of proxies to be voted at the annual meeting of shareholders to be held on April 25, 2007, at 11:00 am, and at any adjournments or postponements thereof. Textron's principal executive office is located at 40 Westminster Street, Providence, Rhode Island 02903.

Shareholders Who May Vote

All shareholders of record at the close of business on March 2, 2007, will be entitled to vote. As of March 2, 2007, Textron had outstanding 124,908,565 shares of Common Stock; 77,195 shares of \$2.08 Cumulative Convertible Preferred Stock, Series A; and 39,797 shares of \$1.40 Convertible Preferred Dividend Stock, Series B (preferred only as to dividends), each of which is entitled to one vote with respect to each matter to be voted upon at the meeting. Proxies are solicited to give all shareholders who are entitled to vote on the matters that come before the meeting the opportunity to do so whether or not they attend the meeting in person.

Voting

All shareholders may vote by mail. *Shareholders of record can also vote via the Internet or by using the toll-free telephone number listed on the proxy card.* Internet and telephone voting information is provided on the proxy card. A control number, located on the lower right portion of the proxy card, is designated to verify a shareholder's identity and allow the shareholder to vote the shares and confirm that the voting instructions have been recorded properly. *If you vote via the Internet or by telephone, please do not return a signed proxy card.* Shareholders who hold their shares through a bank or broker can vote via the Internet or by telephone if these options are offered by the bank or broker.

If voting by mail, please complete, sign, date and return your proxy card enclosed with the proxy statement in the accompanying postage-paid envelope. You can specify how you want your shares voted on each proposal by marking the appropriate boxes on the proxy card. If your proxy card is signed and returned without specifying a vote or an abstention on any proposal, it will be voted according to the recommendation of the Board of Directors on that proposal. That recommendation is shown for each proposal on the proxy card.

If your shares are held in the name of your broker or bank and you wish to vote in person at the meeting, you should request your broker or bank to issue you a proxy covering your shares.

Savings Plan Participants

If you are a participant in a Textron savings plan with a Textron stock fund as an investment option, the accompanying proxy card shows the number of shares allocated to your account under the plan. When you vote via the Internet or by telephone, or your proxy card is returned properly signed, the plan trustee will vote your proportionate interest in the plan shares in the manner you direct, or if you vote by mail and make no direction, in proportion to directions received from the other plan participants (except for any shares allocated to your Tax Credit Account under the Textron Savings Plan, which will be voted only as you direct). All directions will be held in confidence.

Revoking a Proxy

Whether voting by mail, via the Internet or by telephone, if you are a shareholder of record you may revoke your proxy at any time before it is voted by submitting a new proxy with a later date, voting via the Internet or by telephone at a later time, delivering a written notice of revocation to Textron's corporate secretary, or voting in person at the meeting. If your shares are held in the name of your broker or bank, you may change or revoke your voting instructions by contacting the bank or brokerage firm or other nominee holding the shares or by obtaining a legal proxy from such institution and voting in person at the annual meeting.

Required Vote

A quorum is required to conduct business at the meeting. A quorum requires the presence, in person or by proxy, of the holders of a majority of the votes entitled to be cast at the meeting. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when you fail to provide voting instructions to your broker for shares owned by you but held in the name of your broker. Under those circumstances, your broker may be authorized to vote for you on some routine items but is prohibited from voting on other items. Those items for which your broker cannot vote result in broker non-votes.

Election of each of the five nominees for director requires a vote of the majority of the votes cast at the meeting, which means that the number of shares voted for a nominee for director must exceed the number of shares voted against that nominee. Abstentions and broker non-votes are not counted for this purpose and will have no effect on the outcome of the election.

Approval of the ratification of the appointment of auditors, the Textron Inc. Short-Term Incentive Plan and the shareholder proposal requires the affirmative vote of a majority of shares present in person or represented by proxy, and entitled to vote on the matter. Approval of the Textron Inc. 2007 Long-Term Incentive Plan requires the affirmative vote of a majority of the shares present in person or represented by proxy, and entitled to be voted on the matter, provided that a majority of shares outstanding vote on the matter. For those purpose, if you vote to abstain on a proposal, your shares will be treated as present and will have the same effect as if you voted against the proposal. Broker non-votes, however, are not counted for this purpose and have no effect on the outcome of the vote. All shareholders vote as one class.

Costs of Proxy Solicitation

Textron pays all the cost of this solicitation of proxies. Textron will request that persons who hold shares for others, such as banks and brokers, solicit the owners of those shares and will reimburse them for their reasonable out-of-pocket expenses for those solicitations. In addition to solicitation by mail, Textron employees may solicit proxies by telephone, by electronic means and in person, without additional compensation for these services. Textron has hired D.F. King & Co., Inc., of New York, New York, a proxy solicitation organization, to assist in this solicitation process for a fee of \$14,500, plus reasonable out-of-pocket expenses.

Confidential Voting Policy

Under Textron's policy on confidential voting, individual votes of shareholders are kept confidential from Textron's directors, officers and employees, except for certain specific and limited exceptions. Comments of shareholders written on proxies or ballots are transcribed and provided to Textron's corporate secretary. Votes are counted by employees of American Stock Transfer & Trust Company (AST), Textron's independent transfer agent and registrar, and certified by Inspectors of Election who are employees of AST.

Attending the Meeting

If your shares are held in the name of your bank or broker and you plan to attend the meeting, please bring proof of ownership with you to the meeting. A bank or brokerage account statement showing that you owned voting stock of Textron on March 2, 2007, is acceptable proof. If you are a shareholder of record, no proof is required.

ELECTION OF DIRECTORS

The Board of Directors is composed of three classes of directors, designated Class I, Class II and Class III. One class of directors is elected each year to hold office for a three-year term and until successors of such class are duly elected or appointed and qualified. It is the intention of the persons named in the accompanying proxy card, unless otherwise instructed, to vote For Kathleen M. Bader, R. Kerry Clark, Ivor J. Evans, Lord Powell of Bayswater KCMG and James L. Ziemer to Class II. Each nominee presently serves as a director of Textron. If any director nominee is unable or unwilling to serve as a nominee at the time of the annual meeting, the persons named as proxies may vote for a substitute nominee designated by the present Board to fill the vacancy or for the balance of the nominees, leaving a vacancy. Information is furnished below with respect to each nominee for election and each director continuing in office. Brian H. Rowe retired from the Board in April 2006. **The Board of Directors recommends a vote FOR each of the director nominees (Items 1 through 5 on the proxy card).**

NOMINEES FOR DIRECTOR

Class II Nominees for Terms Expiring in 2010

Kathleen M. Bader

Director Since 2004

Ms. Bader, 56, was President and Chief Executive Officer of NatureWorks LLC, which makes proprietary, corn-based plastic resins and was formerly known as Cargill Dow LLC, an equal joint venture between The Dow Chemical Company and Cargill, Incorporated and now a wholly-owned subsidiary of Cargill. She joined Dow in 1973, held various management positions in Dow's global and North American operations, before becoming Chairman, President and Chief Executive Officer of Cargill Dow LLC in February 2004. She assumed the position of President and Chief Executive Officer of NatureWorks in February 2005 following Cargill's acquisition of Dow's interest in Cargill Dow and served in that position until her retirement in January 2006.

R. Kerry Clark

Director Since 2003

Mr. Clark, 54, is President and Chief Executive Officer of Cardinal Health, Inc., the leading provider of services supporting the health care industry, a position he has held since joining Cardinal Health in April 2006. Prior to joining Cardinal Health he was Vice Chairman of the Board, P&G Family Health and a director of The Procter and Gamble Company, which markets consumer products in over 140 countries. He joined Procter and Gamble in 1974 and served in various key executive positions before becoming Vice Chairman of the Board in 2004, and held that position until leaving the company in April 2006.

Ivor J. Evans

Director Since 2003

Mr. Evans, 64, was Vice Chairman of Union Pacific Corporation, one of America's leading transportation companies. He joined Union Pacific in 1998 as President and Chief Operating Officer of the Union Pacific Railroad, and became Vice Chairman in January 2004. Mr. Evans retired in March 2005. From 1989 to 1998, he served in various executive positions at Emerson Electric Company, including Senior Vice President, Industrial Components and Equipment. Mr. Evans is a director of Cooper Industries, Arvin Meritor, Inc., Spirit Agro Systems, and is an Operating Partner of Thayer Capital Partners and Chairman of Suntron, a portfolio company.

Lord Powell of Bayswater KCMG

Director Since 2001

Lord Powell, 65, was Private Secretary and advisor on foreign affairs and defence to British Prime Ministers Lady Margaret Thatcher and John Major from 1983 to 1991. He is currently Chairman of Safinvest Limited, an international asset and investment management company, and of LVMH (UK), a luxury goods company. From 1992 until the end of 2000 he served as a member of the Board of Jardine Matheson Holdings, Ltd. and associated companies and from the end of 2000 until December 2005 served as the non-executive Chairman of Sagitta Asset Management. He is a director of Louis-Vuitton Moët Hennessy (LVMH), Caterpillar Inc., Mandarin Oriental Hotel Group, Yell Group, British Mediterranean Airways and Schindler Corporation, and a member of the Textron International Advisory Council.

James L. Ziemer

Director Since March 2007

Mr. Ziemer, 57, is the President and Chief Executive Officer of Harley-Davidson, Inc., a position he has held since April 2005, and has been a director of Harley-Davidson, Inc. since December 2004. Harley-Davidson, Inc. is the parent company for the group of companies doing business as Harley-Davidson Motor Company, Buell Motorcycle Company and Harley-Davidson Financial Services. Mr. Ziemer previously served as Vice President and Chief Financial Officer of Harley-Davidson from December 1990 to April 2005 and President of The Harley-Davidson Foundation, Inc. from 1993 to 2006. His career at Harley-Davidson has spanned more than 38 years.

DIRECTORS CONTINUING IN OFFICE

Class III Terms Expiring in 2008

H. Jesse Arnelle

Director Since 1993

Mr. Arnelle, 73, was a senior partner in the law firm of Arnelle & Hastie, San Francisco, which later became Arnelle, Hastie, McGee, Willis & Greene, with which he had been associated from 1985 through his retirement in 1996. Following his retirement, he was Of Counsel to the North Carolina law firm of Womble, Carlyle, Sandridge & Rice until his retirement in December 2005. Mr. Arnelle is a director of URS Corporation and Metropolitan Life Series Fund.

Paul E. Gagné

Director Since 1995

Mr. Gagné, 60, is Chairman of the Wajax Income Fund, a leading Canadian distributor and service support provider of mobile equipment, industrial components and power systems, a position he has held since May 2005. Prior to assuming his current position he was President and Chief Executive Officer of Avenor Inc., a Canadian forest products company. He joined Avenor in 1976, became President and Chief Operating Officer in 1990 and assumed the additional position of Chief Executive Officer in 1991, serving in that capacity until November 1997, when he left the company. In 1998, Mr. Gagné joined Kruger Inc., a major Canadian privately held producer of paper and tissue, as a consultant in corporate strategic planning, serving in that capacity until December 2002. He is a director of CAE Inc., Fraser Papers Inc. and Inmet Mining Corporation.

Dain M. Hancock

Director Since 2005

Mr. Hancock, 65, was Executive Vice President of Lockheed Martin Corporation and President of Lockheed Martin's Aeronautics Company, and is now a consultant of Lockheed Martin Aeronautics. Lockheed Martin is principally engaged in the research, design, development, manufacture and integration of advanced technology systems, products and services. He joined Lockheed Martin in 1993 as Vice President when Lockheed acquired General Dynamics Corporation's military aircraft business, with which Mr. Hancock began his industrial career. Mr. Hancock served in various key executive positions before becoming President of Lockheed Martin Tactical Aircraft Systems in 1995 and Executive Vice President of the Corporation and President, Aeronautics Company in 2000, serving in that position until he retired in January 2005.

Thomas B. Wheeler

Director Since 1993

Mr. Wheeler, 70, was the Chairman and Chief Executive Officer of Massachusetts Mutual Life Insurance Company, presently known as MassMutual Financial Group. He was a member of the Massachusetts Mutual field sales force from 1962 to 1983, served as Executive Vice President of Massachusetts Mutual's insurance and financial management line from 1983 to 1986, became President and Chief Operating Officer in 1987, President and Chief Executive Officer in 1988 and Chairman and Chief Executive Officer in 1996. He relinquished the title of Chief Executive Officer in January 1999 and retired as Chairman in January 2000. Mr. Wheeler is a director of Genworth Financial.

Class I Terms Expiring in 2009

Lewis B. Campbell

Director Since 1994

Mr. Campbell, 60, is Chairman, President and Chief Executive Officer of Textron. He joined Textron in 1992 as Executive Vice President and Chief Operating Officer, became President and Chief Operating Officer in 1994, assumed the title of Chief Executive Officer and relinquished the title of Chief Operating Officer in July 1998, assumed the title of Chairman and relinquished the title of President in February 1999, and reassumed the title of President in September 2001. Prior to joining Textron he was a Vice President of General Motors Corporation and General Manager of its GMC Truck Division. Mr. Campbell is a director of Bristol-Myers Squibb Co. and Dow Jones & Company.

Lawrence K. Fish

Director Since 1999

Mr. Fish, 62, is Chairman and Chief Executive Officer of Citizens Financial Group, Inc., a multi-state bank holding company. He was named Chairman, President and Chief Executive Officer upon joining the bank in 1992 and held that position until relinquishing the title of President in October 2005. He is a director of The Royal Bank of Scotland Group and a member of the Board of Trustees of The Brookings Institution.

Joe T. Ford

Director Since 1998

Mr. Ford, 69, is Chairman of the Board of ALLTEL Corporation, a telecommunications company. He was named President of ALLTEL upon its formation in 1983 from a merger between Allied Telephone Company and Mid-Continent Telephone Corporation, became Chief Executive Officer in 1987, assumed the title of Chairman in 1991 and retired as the Chief Executive Officer in July 2002. Mr. Ford is a director of EnPro Industries, Inc.

The Board of Directors

Meetings and Organization

During 2006, the Board of Directors met nine times and the Executive Committee of the Board met eight times. The Board has standing Audit, Nominating and Corporate Governance, and Organization and Compensation committees. Directors are expected to regularly attend Board meetings and meetings of committees on which they serve and also the annual meeting of shareholders. All directors attended at least 75% of the total number of Board and committee meetings. All then-serving directors attended the 2006 annual meeting of shareholders.

Corporate Governance

Textron's Corporate Governance Guidelines, originally adopted in 1996 and most recently revised in February 2007, meet or exceed the new listing standards adopted by the New York Stock Exchange and are posted on Textron's website, www.textron.com, under Investor Relations Corporate Governance, and are also available in print upon request to Textron's corporate secretary.

Code of Ethics

Textron's Business Conduct Guidelines, originally adopted in 1979 and most recently revised in February 2004, are applicable to all employees of Textron including the principal executive officer, the principal financial officer and the principal accounting officer. The Business Conduct Guidelines are also applicable to directors with respect to their responsibilities as members of the Board of Directors. The Business Conduct Guidelines are posted on Textron's website under Investor Relations Corporate Governance/Code of Ethics, and are also available in print upon request to Textron's corporate secretary.

Director Independence

The Board of Directors has determined that Ms. Bader, Messrs. Arnelle, Clark, Evans, Fish, Ford, Gagné, Hancock, Wheeler and Ziemer and Lord Powell, are independent as defined under the listing standards of the New York Stock Exchange, based on the criteria set forth in the Corporate Governance Guidelines. The portion of the Corporate Governance Guidelines relating to director independence is attached hereto as Appendix A. In making its determination the Board examined relationships between directors or their affiliates with Textron and its affiliates and determined that each such relationship did not impair the director's independence. Specifically, the Board considered the fact that in each of the past three years (1) ALLTEL Corporation, of which Mr. Ford is Chairman, purchased aircraft parts and services from one of our subsidiaries and various other products from another business unit, and our corporate office and certain of our business units paid ALLTEL Corporation for telephone services, in each case in aggregate amounts substantially less than 1% of either company's revenues in any such year; and (2) Textron purchased products from The Proctor and Gamble Company, where Mr. Clark served as Vice Chairman until 2006, also in aggregate amounts substantially less than 1% of either company's revenues in any such year.

Lead Director

Textron's Corporate Governance Guidelines require that the Board will meet in executive session for non-management directors without management present at each regularly scheduled Board meeting. Textron's Lead Director (currently Paul E. Gagné) presides at such sessions. Additional sessions may be convened at any time at the request of a director, and in such event the Lead Director shall preside. Shareholders or other interested parties may communicate with the Lead Director by using one of the methods described in the following section, Shareholder Communications to the Board.

Shareholder Communications to the Board

Shareholders or other interested parties wishing to communicate with the Board of Directors, the Lead Director or with any individual director may do so by calling (866) 698-6655 (toll-free) or 401-457-2269, writing to Board of Directors, Textron Inc., 40 Westminster Street, Providence, Rhode Island 02903, or by e-mail at textrondirectors@textron.com. The telephone numbers and addresses are also listed on the Textron website. All communications received via the above methods will be sent to the Board of Directors or to the specified director.

Compensation of Directors

For their service on the Board, non-employee directors are paid an annual retainer of \$110,000, plus \$1,500 for each meeting of the Board attended. Non-employee directors who serve on the Executive Committee or one of the standing committees, other than the Audit Committee, receive \$1,500 for each committee meeting attended, and the chairman of each such standing committee receives an additional \$5,000 per year. Non-employee directors who serve on the Audit Committee receive \$2,500 for each committee meeting attended, and the chairman of the Audit Committee receives an additional \$15,000 per year.

Textron maintains a deferred income plan for non-employee directors under which they may defer all or part of their cash compensation until retirement from the Board. Deferrals are made either into an interest bearing account which bears interest at the greater of 8% or the Moody's Corporate Bond Yield Index rate, or into an account consisting of Textron stock units, which are equivalent in value to Textron common stock. Directors must defer a minimum of \$65,000 of their annual retainer into the stock unit account. At the end of each calendar quarter, Textron will contribute to the stock unit account an additional amount equal to 10% of the amount deferred by the director into this account during the quarter in excess of the minimum deferral amount. One half of this additional amount will vest on December 31 of the year in which payment was deferred and one half on the next December 31. Textron also credits dividend equivalents to the stock unit account. In addition, once a year, on April 30, Textron will contribute to the stock unit account an amount equal to 20% of the then current annual retainer for each director who is serving as a director on the date of Textron's annual meeting of shareholders and has been a director for more than three months.

Each non-employee director received 1,000 restricted shares of Common Stock upon joining the Board. Except in the case of the director's death or disability, or a change in control, the director may not sell or transfer the shares until he or she has completed all of his or her successive terms as a director and at least five years of Board service.

Textron reimburses each director for his or her expenses in attending Board or committee meetings and, with respect to one meeting in 2006, for expenses of the director's spouse.

Textron sponsors a program under which it contributes up to \$1,000,000 to the Textron Charitable Trust on behalf of each director upon his or her death, and the trust donates 50% of that amount in accordance with the director's recommendation among up to five charitable organizations. Payment of the contributions ultimately are recovered from life insurance policies that Textron maintains on the lives of directors for this purpose. In 2006, Textron paid a total of approximately \$653,000 in premiums on policies covering ten current directors and eleven retired directors. The directors do not receive any direct financial benefit from this program since the insurance proceeds and charitable deductions accrue solely to Textron. The program was closed to new participants in 2004.

Non-employee directors also participate in the CitationShares Director's Evaluation Program established by Textron to provide ongoing evaluation of the performance of the CitationShares fractional ownership program, a joint venture operation by Cessna Aircraft Company, a wholly-owned subsidiary of

Textron. Under the program, Textron purchased a one-eighth ownership share of two Cessna Citation aircraft from CitationShares entitling it to a fixed number of hours of usage of the aircraft during the year, and makes ten hours of flight time per calendar year available for personal use to the non-employee directors. Following each flight, a participating director is expected to complete an evaluation of his or her travel experience to assist Textron in ensuring that CitationShares maintains its customer service focus. The aircraft also are utilized by Textron for travel by executives and directors to and from Board meetings and other Board-related activities. Directors are not charged for their participation in the program or use of the aircraft, however, directors pay tax on the imputed income attributable to their personal use of the aircraft and the program requires participating directors to reimburse Textron for its cost per hour of flight time, to the extent their personal use of the aircraft exceeds ten hours of flight time per calendar year. Textron absorbs the cost of the ownership shares to the extent the aircraft are not fully utilized.

Non-employee directors are also eligible to receive grants of options to purchase Common Stock under the 1999 Plan and, if approved by the shareholders, the proposed 2007 Textron Long-Term Incentive Plan, but no such options have ever been granted under the plan.

Employee directors do not receive fees or other compensation for their service on the Board or its committees.

Director Compensation Table

The following table provides 2006 compensation information for non-employee directors.

| Name | Fees Earned or Paid in Cash (\$) | Stock Awards (\$ (1)) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$ (2)) | All Other Compensation (\$ (3)) | Total (\$) |
|-------------------------------|----------------------------------|-----------------------|--------------------|---|--|---------------------------------|------------|
| H. Jesse Arnelle | \$ 140,000 | \$ 0 | \$ 0 | \$ 0 | \$ 4,513 | \$ 81,502 | 226,015 |
| Kathleen M. Bader | 152,000 | 10,656 | 0 | 0 | 743 | 91,955 | 255,354 |
| R. Kerry Clark | 148,500 | 9,372 | 0 | 0 | 0 | 89,602 | 247,474 |
| Ivor J. Evans | 134,000 | 8,672 | 0 | 0 | 0 | 89,513 | 232,185 |
| Lawrence K. Fish | 143,500 | 0 | 0 | 0 | 552 | 88,165 | 232,217 |
| Joe T. Ford | 141,500 | 0 | 0 | 0 | 0 | 66,707 | 208,207 |
| Paul E. Gagné | 176,500 | 0 | 0 | 0 | 0 | 57,595 | 234,095 |
| Dain M. Hancock | 152,500 | 15,666 | 0 | 0 | 0 | 30,750 | 198,916 |
| Lord Powell of Bayswater KCMG | 143,393 | 1,766 | 0 | 0 | 0 | 53,595 | 198,754 |
| Brian H. Rowe | 60,964 | 0 | 0 | 0 | 0 | 74,493 | 135,457 |
| Thomas B. Wheeler | 131,000 | 0 | 0 | 0 | 0 | 86,412 | 217,412 |

1) The amounts in this column represent the 2006 expense of restricted stock granted to directors. Fully expensed restricted stock is reflected by a value of \$0 in this column. At the end of the year, each active director held 1,000 shares of unvested restricted stock, except for Mr. Arnelle, Mr. Gagné, and Mr. Wheeler, who each hold 2,000 shares of unvested restricted stock due to the two-for-one stock split in 1997.

2) The amounts in this column represent above-market earnings on notional deferred account balances. Director's accounts are credited with either the Moody's Corporate Bond Yield (6.21% in 2006), or a fixed 8% return, whichever is higher.

3) The amounts in this column include four components:

(i) the 2006 annual contribution to the deferred income plan in April in the amount of \$22,000, (ii) the quarterly contribution to the deferred income plan in the amount of 10% of the excess deferrals for each director as follows: \$8,700 for Ms. Bader, \$8,100 for Mr. Clark, \$2,400 for Mr. Evans, \$7,650 for

Mr. Ford, \$4,500 for Mr. Gagné, \$8,750 for Mr. Hancock, \$500 for Lord Powell, and \$1,057 for Mr. Rowe, (iii) the 2006 incremental cost of personal use of aircraft under the CitationShares Director's Evaluation Program for each director as follows: \$28,407 for Mr. Arnelle, \$30,160 for Ms. Bader, \$28,407 for Mr. Clark, \$34,018 for Mr. Evans, \$35,070 for Mr. Fish, \$5,962 for Mr. Ford, \$20,341 for Mr. Rowe, and \$33,317 for Mr. Wheeler, and (iv) \$31,095 representing the expense for each director relating to the charitable contribution program referred to above, except for Mr. Hancock who does not participate in the program.

Audit Committee

The Audit Committee pursuant to its charter, as amended in February 2007, assists the Board of Directors with its oversight of (i) the integrity of Textron's financial statements, (ii) Textron's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications and independence, and (iv) the performance of Textron's internal audit function and independent auditor. The Audit Committee is directly responsible for the appointment, retention, compensation and oversight of Textron's independent auditors. A copy of the charter is posted on Textron's website under Investor Relations Corporate Governance/Board Committees and is also available in print upon request to Textron's corporate secretary. The following five independent directors presently comprise the committee: Mr. Gagné (Chairman), Ms. Bader, Mr. Clark, Mr. Hancock and Mr. Ziemer. Each member of the committee has been determined by the Board to be independent as independence is defined for audit committee members in the listing standards of the New York Stock Exchange. No member of the committee simultaneously serves on the audit committees of more than three public companies, except for Mr. Gagné who serves on three audit committees in addition to Textron's. The Board of Directors has determined that Mr. Gagné's simultaneous service does not impair his ability to effectively serve on Textron's Audit Committee. The Board of Directors has also determined that Mr. Gagné and Mr. Ziemer each satisfy the criteria adopted by the Securities and Exchange Commission to serve as an audit committee financial expert. During 2006, the committee met nine times.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee pursuant to its charter, as amended in February 2007, (i) identifies individuals to become Board members, and recommends that the Board select the director nominees for the next annual meeting of shareholders, (ii) develops and recommends to the Board a set of corporate governance principles applicable to Textron and (iii) makes recommendations on compensation of the Board of Directors. A copy of the committee's charter is posted on Textron's website under Investor Relations Corporate Governance/Board Committees and is also available in print upon request to Textron's corporate secretary. In making its recommendations to the Board, the committee will consider suggestions regarding possible candidates from a variety of sources, including shareholders. The committee also periodically retains a third-party search firm to assist in the identification and evaluation of candidates, and Mr. Ziemer was initially identified to the committee by a third-party search firm. Textron's By-Laws contain a provision which imposes certain requirements upon nominations for directors other than those made by the Board. Shareholders wishing to recommend individuals as candidates for nomination by the Board must submit timely notice of nomination within the time limits described below under the heading Shareholder Proposals and Other Matters for 2008 Annual Meeting on page 53, to the committee, c/o Textron's corporate secretary, along with a description of the proposed candidate's qualifications and other pertinent biographical information, as well as a written consent from the proposed candidate.

The committee annually reviews the Board of Directors' retirement schedule, the results of the review of the Board's overall performance and the impact of the strategy of the company to determine future requirements for Board members over the next year or two. All candidates are evaluated against those

requirements and the criteria for membership to the Board set forth in the Corporate Governance Guidelines including: (i) high personal ethics and integrity; (ii) specific skills and experience aligned with Textron's strategic direction and operating challenges; (iii) the core business competencies of high achievement, a record of success, financial literacy, a history of making good business decisions and exposure to best practices; (iv) interpersonal skills that maximize group dynamics, including respect for others, strong communication skills and confidence to ask tough questions; (v) enthusiasm for Textron and sufficient available time to be fully engaged; and (vi) if a non-employee, satisfies the independence standards established by the New York Stock Exchange and the Securities and Exchange Commission.

All recommendations of nominees to the Board by the committee are made solely on the basis of merit.

The following five directors presently comprise the committee: Mr. Fish (Chairman), Mr. Arnelle, Ms. Bader, Mr. Ford and Mr. Wheeler. The Board of Directors has determined that each member of the committee is independent under the New York Stock Exchange listing standards. During 2006, the committee met five times.

Organization and Compensation Committee

The Organization and Compensation Committee pursuant to its charter as revised in February 2007, (i) recommends to the Board new and existing employment agreements with the Chief Executive Officer and other executive officers, (ii) approves compensation arrangements for the Chief Executive Officer and other executive officers, and (iii) oversees the compensation of other corporate officers and business unit presidents. A copy of the committee's charter is posted on Textron's website under Investor Relations Corporate Governance/Board Committees and is also available in print upon request to Textron's corporate secretary. See the Compensation Discussion and Analysis, beginning on page 15, for more information on the committee's processes and the role of management and consultants in determining the form and amount of executive compensation. The following four directors presently comprise the committee: Lord Powell (Chairman), Mr. Arnelle, Mr. Clark and Mr. Evans. The Board of Directors has determined that each member of the committee is independent under the New York Stock Exchange listing standards. During 2006, the committee met seven times.

SECURITY OWNERSHIP OF MANAGEMENT

The column headed "Number of Shares of Common Stock" includes all shares of Textron stock beneficially owned by directors and executive officers of Textron, shares held for the executive officers by the trustee under the Textron Savings Plan, shares obtainable upon the exercise of stock options exercisable within 60 days of December 31, 2006, and shares held jointly. No director or executive officer beneficially owned in excess of 1% of the outstanding shares of common stock. Directors and executive officers as a group beneficially owned approximately 0.9% of the outstanding shares of common stock. Ownership indicated is as of December 31, 2006, except for Mr. Ziemer whose indicated ownership is as of March 1, 2007. To Textron's knowledge, no person beneficially owns more than 5% of the outstanding shares of common stock.

Each director and executive officer has sole voting and investment power over his or her shares, except in those cases in which the voting or investment power is shared with the trustee or as otherwise noted. An objective of Textron's director and executive compensation programs is to align the financial interests of the directors and the executive officers with that of shareholders. Accordingly, the value of a significant portion of the directors' and the executive officers' total compensation is dependent upon the value they generate on behalf of shareholders. The column headed "Total Common Stock-Based Holdings" includes the common stock from the "Number of Shares of Common Stock" column along with restricted stock and other common stock-based holdings in the form of stock units, performance share units, unvested stock awards and cash equivalent share awards (the value of which will increase or decrease in relation to the increase or decrease in the price of common stock).

| <u>Name</u> | <u>Number of Shares of Common Stock(1)</u> | <u>Total Common Stock- Based Holdings</u> |
|--|--|---|
| H. Jesse Arnelle | 2,569 | 21,167 |
| Kathleen M. Bader | 1,041 | 7,289 |
| John D. Butler | 94,646 | 194,051 |
| Lewis B. Campbell | 465,983 | 859,095 |
| R. Kerry Clark | 1,000 | 8,411 |
| Ivor J. Evans | 1,000 | 7,830 |
| Lawrence K. Fish | 1,000 | 19,288 |
| Joe T. Ford | 2,000 | 23,160 |
| Ted R. French | 256,510 | 321,936 |
| Paul E. Gagné | 2,452 | 22,898 |
| Dain M. Hancock | 1,000 | 4,814 |
| Mary L. Howell | 105,096 | 214,434 |
| Terrence O. Donnell | 143,258 | 222,289 |
| Lord Powell of Bayswater KCMG | 1,007 | 9,657 |
| Thomas B. Wheeler | 2,703 | 35,163 |
| James L. Ziemer | 1,000 | 1,000 |
| All current directors and executive officers as a group (17 persons) | 1,181,270 | 2,180,756 |

(1) Includes the following shares obtainable upon the exercise of stock options exercisable within 60 days of December 31, 2006: Mr. Campbell 448,782; Mr. French 221,652; Mr. Butler 89,883; Ms. Howell 89,471; Mr. O. Donnell 133,361 and all current directors and executive officers as a group 1,070,865.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires Textron's directors, executive officers and certain other officers to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the Securities and Exchange Commission and to provide copies of such reports to Textron. Based solely upon a review of such copies and written representations of the reporting persons, during the 2006 fiscal year no director had a reportable transaction for which a filing was made after the due date. Among corporate officers, Messrs. Butler, Campbell, French and O'Donnell and Ms. Howell, each inadvertently filed one late report each relating to a grant of stock options and restricted stock, Richard L. Yates inadvertently filed two late reports relating respectively to a grant of a retention award, and a grant of stock options and restricted stock, and Kenneth C. Bohlen inadvertently filed four late reports each of which related to a Deferred Income Plan deferral.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors has furnished the following report on its activities:

The committee reviewed and discussed the audited consolidated financial statements and the related schedules in the Annual Report with management. The committee also reviewed with management and the independent auditors the reasonableness of significant judgements and the clarity of disclosures in the financial statements, the quality, not just the acceptability, of the company's accounting principles and such other matters as are required to be discussed with the committee by Statement on Auditing Standards No. 61 (as amended). In addition, the committee discussed with the independent auditors the auditors' independence from management and the company including the matters in the written disclosures and the letter from the independent auditors required by Independence Standards Board No. 1 and considered the possible effect of non-audit services on the auditors' independence.

The committee discussed with the company's internal and independent auditors the overall scope and plans for their respective audits and met with the internal and independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the company's internal controls, including internal controls over financial reporting, and the overall quality of the company's financial reporting. The committee also reviewed the company's compliance program. Nine committee meetings were held during the year.

In reliance on the reviews and discussions referred to above, the committee recommended to the Board of Directors that the audited consolidated financial statements and the related schedules be included in the Annual Report on Form 10-K for the fiscal year ended December 30, 2006, to be filed with the Securities and Exchange Commission. The committee also reported to the Board that it had selected Ernst & Young LLP as the company's independent auditors for 2007, and recommended that this selection will be submitted to the shareholders for ratification.

PAUL E. GAGNÉ, CHAIRMAN

KATHLEEN M. BADER

R. KERRY CLARK

DAIN M. HANCOCK

ORGANIZATION AND COMPENSATION COMMITTEE REPORT

The Organization and Compensation Committee of the Board of Directors has furnished the following report:

The committee reviewed and discussed the Compensation Discussion and Analysis that begins on page 15 with management.

Based on the review and discussions referred to above, the committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the proxy statement filed in connection with Textron's annual meeting of shareholders to be held on April 25, 2007 as well as the Annual Report on Form 10-K for the fiscal year ended December 30, 2006.

This report is submitted by the Organization and Compensation Committee.

LORD POWELL OF BAYSWATER KCMG, CHAIRMAN

H. JESSE ARNELLE

R. KERRY CLARK

IVOR J. EVANS

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COMPENSATION DISCUSSION AND ANALYSIS

We discuss below Textron's philosophy, objectives and processes in setting executive compensation. We then briefly describe the elements we use to compensate Textron's executive officers who are named in the Summary Compensation Table on page 25 (who are referred to as the named executive officers, or NEOs) and then we discuss the material aspects of the compensation of the NEOs that is reported in the Summary Compensation Table and in the tables and narrative that follow.

Overview of Compensation Program and Decision-Making Process

Internal structure and roles

During 2006, the Textron Board of Directors (the Board) was responsible for approving compensation arrangements for the executive officers of the company. Historically, the Board has delegated a portion of its responsibility to the Organization and Compensation Committee (the Committee). In February 2007, the Board approved revisions to the charter of the Committee that delegated the approval authority for compensation arrangements, while retaining at the Board level the approval authority for executive contracts.

In 2006, the Committee was comprised of five non-employee directors until April, when one director retired; for the remainder of the year, the Committee was comprised of four directors. Committee meetings typically include as attendees, in addition to Committee members, our CEO and Chief Human Resources Officer (CHRO) as well as an independent executive compensation consultant from Towers Perrin, who was first retained in September 2005. Since 2003, the Committee has engaged such a consultant to provide expert, objective support to the Committee regarding current and emerging best practices with regard to executive remuneration.

Our CEO does not attend any portion of a meeting in which his compensation decisions are being considered. However, he does have input into compensation decisions for other executive officers. The CHRO does not attend the portions of a meeting in which executive officer awards or decisions are being approved. The Committee Chairman has extended an open invitation to all members of the Board, including those not formally serving as a member of the Committee, to attend any Committee meeting to ensure a robust and open discussion of compensation issues. As a result, other Board members frequently participate in Committee discussions. In 2006, the Committee met seven times.

Philosophy and Objectives of Compensation Program

The objectives of our executive compensation program are to attract and retain the most qualified executives to lead the company, to motivate executives to produce strong financial performance for the long-term benefit of shareholders, and to reward our executives for superior performance. The Committee also seeks to establish a total compensation program that is competitive in industries and with corporations for which we compete for customers and executives. To emphasize the multi-faceted goals of our program, the degree of at-risk compensation is higher for more senior executives to reflect the greater influence these individuals have on the financial performance of our company. Our executive compensation program also requires executive stock ownership to further link executive and shareholder interest.

Establishment of an Appropriate Compensation Peer Group

The Committee relies upon its compensation consultant to provide data, analysis, and market perspective to supplement and support the Committee's decision-making process. To enhance the relevance of this market perspective to Textron, the Committee has adopted criteria for selecting compensation comparator companies. These criteria include the selection of companies that are representative of the labor market in which our company competes for executive talent, that operate in

similar industries, and that collectively have median annual revenue that approximates Textron's revenue. The companies comprising the current compensation peer group are:

- 3M Company
- Avnet, Inc.
- Boston Scientific Corporation
- Eaton Corporation
- Electronic Data Systems Corporation
- Emerson Electric Co.
- EMC Corporation
- General Dynamics Corporation
- Goodrich Corporation
- Lexmark International, Inc
- Medtronic, Inc
- Parker-Hannifin Corporation
- Pitney Bowes Inc.
- QUALCOMM Incorporated
- Raytheon Company
- Seagate Technology
- Rockwell Automation, Inc.
- Texas Instruments Incorporated
- Xerox Corporation

Components of the Compensation and Benefits Program

Each year the Committee reviews program components and recommends changes and refinements to the Board for consideration and approval to ensure that Textron's programs remain in line with competitive practice. Programs are designed to provide incentives to executives to achieve outstanding levels of performance. Current components of these programs include:

In-service compensation and benefits

- Base salary
- Annual Incentive Program
- Long-Term Incentive Program
- Performance Share Units
- Restricted Stock
- Stock Options
- Standard benefits – medical, dental, long-term disability benefits, life insurance, non-qualified deferred compensation, and company contribution to qualified and non-qualified retirement benefits
- Perquisites – club memberships, personal use of corporate aircraft, leased company vehicle, financial planning, and annual physical
- Other – the Committee has periodically chosen to recommend additional share equivalent awards to enhance retention efforts for selected executives. Any such retention awards granted to the NEOs are reported in the Outstanding Equity Awards at Fiscal Year End table on page 29.

Post-employment benefits

- Pension plans
- Retirement savings plans

- Severance (under certain circumstances)

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Determining Pay Mix and Level

The Board determines the design and level for each component of compensation for NEOs. The Board has created a compensation structure that emphasizes at-risk compensation elements, with the greatest focus given to long-term incentives to align management interests with those of shareholders. The decisions that were made in 2006 resulted in a relative pay opportunity for the CEO that was weighted at approximately 75% long-term and 25% short-term. For the other NEOs, the decisions resulted in a relative pay opportunity that was weighted at approximately 60% long-term and 40% short-term. The Board has historically held the belief that the CEO's compensation should, more than any other executive, be linked to the long-term performance of the company.

In-Service Compensation and Benefits Program Elements

Base Salary

The Board typically sets base salaries for NEOs between the 50th and 75th percentile of competitive levels for executives in positions with similar responsibilities at comparable companies. The Board also acknowledges that individual base salaries may vary within this range based on factors such as individual responsibilities, complexity of position versus that of the market benchmark(s), performance, experience, and future potential. Base salaries for NEOs are reviewed annually by the Committee for recommendation to the Board. The compensation consultant provides data and analysis to support the Committee and Board in this regard.

Annual Incentive Program

Each NEO is eligible to earn an annual cash incentive based on the achievement of financial goals as well as operational and personal performance goals (referred to as our Leadership Initiatives). An eligible executive's target opportunity is established as a percentage of his or her base salary. The Board typically approves incentive structure and performance targets annually in December or January.

Leadership Initiatives incorporate key business objectives focused on improving the operations of the company in areas such as company strategy, customer focus, talent management, Textron Six Sigma, supply chain, compliance, and information technology.

The maximum award that can be paid under this program for any participant is 200% of target. The program design does not have a minimum payment, so it is possible that performance in any given year could result in no payments being made under this program.

Long-Term Incentive Program

Similar to the annual incentive program, our long-term incentive program is focused on rewarding financial and operational performance as well as long-term growth in shareholder value. NEOs realize long-term incentive compensation through three vehicles: (1) cash settled performance share units (PSUs), (2) restricted stock, and (3) stock options. PSUs are granted pursuant to the Performance Share Unit Plan for Textron Employees. Restricted stock and stock options are awarded under the 1999 Long-Term Incentive Plan (the 1999 Plan).

When determining the level of grant, the Board considers each NEO's functional and corporate management responsibilities, past and expected future performance, potential contributions to the company's profitability and growth, the value of prior long-term incentive grants, and competitive data regarding prevalent grant levels. The three long-term incentive vehicles are described below.

In January 2006, the Board set March 1st as the standard grant date for the annual long-term incentive grants made in 2006 and subsequent years. Should March 1st fall on a non-trading day, then the grant date

would be on the closest trading date prior to March 1st, but vesting would still occur on March 1st of subsequent years. For other types of grants (such as hiring inducements for prospective executives), the grant date typically is the first trading day of the month following the date of the event.

Performance Share Units

Performance share unit awards typically span a three-year performance period, with cliff vesting at the end of year three. Upon vesting, PSUs are paid in cash to the extent earned in the first quarter following the end of the three-year period. The percentage earned on the performance share units may vary from 0% to 130% of the units granted.

Restricted Stock

Shares of restricted stock granted pursuant to the 1999 Plan in 2006 are shares of Common Stock except for the following features: (1) they have restrictions on the ability to sell the shares for a pre-defined period of time (minimum of three years from date of grant); (2) they do not earn dividends until these restrictions lapse; and (3) they do not include voting rights. Restrictions typically lapse for one-third of the shares on the three-year anniversary of the date of the grant, an additional one-third on the four-year anniversary of the date of the grant, and the final one-third on the five-year anniversary of the date of the grant.

Stock Options

Stock options vest ratably over three years beginning on the one-year anniversary of the date of grant. In accordance with the 1999 Plan, stock options are granted at a purchase price not less than 100% of the fair market value of Textron common stock on the day of the option grant. Historically, this has been calculated based on the average of the high and low trading prices on the grant date. In February 2007, the Board approved a change to the definition of fair market value to mean the closing price of Common Stock on the date of the grant.

Benefit Programs and Perquisites

We provide our NEOs with certain employee benefits and perquisites. Except as noted below, employee benefit programs such as medical and disability benefits, life insurance, retirement benefits, and annual contributions to qualified savings plans, are generally the same programs offered to substantially all of the company's U.S. based executives and salaried employees.

Perquisites provided to NEOs include personal use of company aircraft, a company vehicle, financial planning assistance, a club membership program, and an annual physical.

Post-Employment Benefits

We provide certain benefits that provide value on a post-employment basis. These benefits typically depend on one or a combination of age and/or service. Programs available to the NEOs in 2006 included:

- Supplemental Executive Retirement Plan (SERP): Non-qualified enhanced pension benefit
- Supplemental Benefits Plan: Non-qualified benefit plan to make up for IRS limits in qualified plan
- Survivor Benefit Plan: An additional 2x base salary paid as a death benefit

Stock Ownership Requirements and Deferred Income Plan

One objective of our executive compensation program is to align the financial interests of our NEOs with the interests of our shareholders. As a result, the Committee requires a minimum level of stock

ownership and bases a substantial portion of the NEOs' total compensation opportunity on share price performance. Minimum ownership levels are expressed as a multiple of base salary as follows: five times for the chief executive officer, and three times for other NEOs. Newly named officers have five years to bring their holdings up to these minimum levels. All NEOs currently meet their respective stock ownership requirements.

The Deferred Income Plan for Textron Key Executives (the Deferred Income Plan, or DIP), in which all executive officers are eligible to participate, requires that annual incentive compensation earned in excess of 100% of an executive's annual incentive target opportunity be deferred into a Textron stock unit account (which is based on the current value of a share of Textron common stock) if the officer has not maintained the required minimum stock ownership level.

The DIP also provides participants the opportunity to defer voluntarily up to 25% of base salary and up to 100% of annual and long-term incentive compensation and other compensation, net of FICA withholding requirements. Elective deferrals may be put into either a stock unit account or an interest bearing account. The Company contributes a 10% premium on amounts deferred into the stock unit account. Participants in the plan cannot move amounts between the two accounts while an active employee of the company and cannot receive distributions from the DIP until termination of employment.

The Stock Unit Account in the DIP consists of Textron stock units, which are notional shares (amounts recorded for bookkeeping purposes only) of Textron Common Stock, accumulated and accounted for under this Plan for the sole purpose of determining the cash amount of any distribution on account of this portion of Deferred Income. The Textron Stock Unit Account had a 23.9% return in 2006, including reinvested dividends.

Eligible executives may voluntarily defer only cash-based compensation. Deferral elections are required to be made prior to the performance period in which the compensation is earned, per the American Jobs Creation Act of 2004. For any complete calendar months remaining in the calendar year in which a participant first becomes eligible for the DIP, he or she may defer up to 100% of compensation otherwise payable during those months.

As prescribed by the regulations related to the American Jobs Creation Act of 2004, executives made their deferral decisions in November 2006 for all forms of eligible compensation payable in 2008, with the exception of base salary. Also in November 2006, executives submitted deferral decisions related to base salary to be received in 2007.

2006 Compensation Actions for Named Executive Officers

The Committee incorporated many perspectives in considering 2006 compensation actions for executive officers, including individual, team and company performance, financial performance relative to strategic and financial peers, relevant market data and input from the Committee's consultant. The CEO had input into compensation decisions other than those relating to his own compensation. The Committee then recommended actions to the full Board for approval, and the Board approved these actions.

2006 Base Salary Actions

In December 2005, the Committee reviewed current benchmark data for the NEOs as prepared and presented by the Committee's consultant. Based on the above factors, the Committee recommended, and the Board approved, no base salary increases for any NEO in 2006. The 2006 base salary review for each executive officer was conducted by the Committee in its December 2005 meeting and finalized in its January 2006 meeting.

2006 Annual Incentive Compensation Payments

For fiscal year 2006, the Board established an incentive design that based 70% of the annual incentive opportunity on earnings per share (EPS) performance and 30% on the achievement of team and individual performance goals (called Leadership Initiatives.) The total of these two components could then be modified by a factor calibrated to the achievement of Textron Return on Invested Capital (ROIC) performance in comparison to the company's cost of capital. This ROIC Multiplier is designed to motivate executives to make capital-efficient decisions.

In January 2006, the Board approved 2006 Leadership Initiatives and a 2006 EPS target of \$4.90 for Annual Incentive Program purposes. The formula for determining 2006 annual incentive awards for the NEOs was the same as for all other executives who participate in this program. The formula is detailed below:

Annual Incentive Program Structure

| <u>Component</u> | <u>Weighting</u> | <u>Component Payout %</u> | <u>Weighted Payout %</u> | |
|------------------------|------------------|--|---------------------------------|--------|
| Earnings per Share | 70% | × <i>Percent performance vs. target</i> | = <i>Component payout %</i> | Note 1 |
| Leadership Initiatives | 30% | × <i>Percent achievement of individual and team objectives</i> | = <i>Component payout %</i> | Note 2 |
| | | <i>Component Payout %</i> | <i>Total Component Payout %</i> | |
| | | × ROIC Multiplier | <i>Multiplier of 1x - 2x</i> | Note 3 |
| | | = Final Payout % | <i>Max payout of 200%</i> | |
| | | × Target Opportunity (\$) | <i>Base Salary × Target %</i> | Note 4 |
| | | = Final Payout \$ | <i>Final payout in cash</i> | |

Note 1: Scale of possible payout in 2006 for the EPS component ranged from 0% to 125%. A minimum of 85% of the performance goal was required in order to earn 20% of this portion of the overall award; actual EPS equal to the performance goal was required to earn 100%; and actual EPS achievement of at least 105% of the performance goal was required to earn the maximum payout of 125%. Any EPS performance between 85% and 105% of the performance goal earned an appropriate intermediate payout. EPS for incentive purposes is calculated by eliminating certain non-recurring items and other special charges from EPS as calculated under Generally Accepted Accounting Principles (GAAP).

Note 2: Scale of possible payout for Leadership Initiatives ranged from 0% to 200% based on the Board's subjective assessment of the NEO's individual and team performance objectives.

Note 3: The sum of the component payouts calculated above can be augmented if Textron's 2006 ROIC % exceeded the company's three-year average trailing Weighted Average Cost of Capital (WACC) by greater than 200 basis points (two percentage points). For 2006, the ROIC Multiplier could modify the base calculation from 1x to 2x. To achieve the maximum multiplier of 2x, Textron's ROIC was required to exceed its three-year average trailing WACC by 900 basis points or greater. Any ROIC minus WACC gaps of between 200 basis points and 900 basis points were calibrated to earn an appropriate intermediate multiplier. ROIC income for purposes of calculating average ROIC for incentive purposes is calculated by eliminating certain non-recurring items and other special charges consistent with adjustments made to EPS for incentive purposes as defined in Note 1 above.

Note 4: Target Annual Incentive Compensation for 2006: For Mr. Campbell, 100% (of base salary); for Mr. French, 75%; and for Mr. Butler, Ms. Howell and Mr. O'Donnell, 65%.

Financial results account for 70% of the targeted annual incentive award. For the fiscal year ended December 30, 2006, earnings per share for incentive compensation purposes was \$5.43, compared to a target of \$4.90. ROIC for 2006 was 16.8%, or 750 basis points better than the Company's three-year average cost of capital.

In January 2007, the Committee discussed annual incentive compensation awards to be paid to the NEOs for the 2006 performance period. Part of these deliberations included a discussion on what percentage would be earned by each NEO for their 2006 Leadership Initiatives, which account for 30% of the targeted annual incentive award. In determining the portion to be earned, the Board considered both the specific objectives that were set forth by the CEO in January 2006, as well as applying discretionary judgment as it sees appropriate. Since the objectives of the CEO were cascaded to the other NEOs, the Board decided that each NEO would receive the same earnings percent on this portion of the award. The Board ultimately concluded that 60% (on a scale of 0% to 200%) was the appropriate percentage earned.

Based on the company's financial results and individual performance, the Committee recommended to the Board, and the Board approved, the following annual incentive payments in accordance with the stated program formula:

- For Mr. Campbell, 2006 annual incentive payment of \$2,072,653
- For Mr. French, 2006 annual incentive payment of \$989,221
- For Mr. Butler, 2006 annual incentive payment of \$685,860
- For Ms. Howell and Mr. O'Donnell, 2006 annual incentive payments of \$642,993

2006 Long-Term Incentive Compensation PSU Payments for 2004-2006 Performance Period

In January 2004, the Committee recommended to the Board, and the Board approved, the following grants of performance share units to NEOs: For Mr. Campbell, 93,800 PSUs, for Mr. French, 20,200 PSUs, and for Mr. Butler, Ms. Howell and Mr. O'Donnell, 15,600 PSUs.

The formula for determining the actual percentage of the award earned following the three-year performance period is:

PSU Structure for Named Executive Officers

| Component | Weighting | Component Payout % | Weighted Payout % |
|------------------------|------------------|--|--|
| Earnings per Share | 60% | × <i>Percent performance vs. target</i> <i>ROIC performance vs.</i> | = <i>Component payout %</i> Note 1 |
| ROIC % | 15% | × <i>Weighted Avg Cost of Capital</i> <i>Percent achievement of</i> | = <i>Component payout %</i> Note 2 |
| Leadership Initiatives | 25% | × <i>individual and team objectives</i> | = <i>Component payout %</i> Note 3 |
| | | <i>Component Payout %</i> | <i>Total Component Payout %</i> |
| | | + ROIC Stretch Opportunity | <i>Up to 30% additional</i> Note 4 |
| | | = Final Payout % | <i>Max payout of 130%</i> |
| | | | <i>Granted at beginning of 3-year</i> |
| | | × Number of PSUs originally granted | <i>performance period</i> |
| | | = Number of PSUs earned | <i>Number earned</i> |
| | | × Share price | <i>10-day avg closing share price</i> Note 5 |
| | | = Final Payout \$ | <i>Final payout in cash</i> |

Note 1: The cumulative EPS target for the 2004-2006 performance share unit cycle of \$10.46 was approved by the Board in January 2004. Meeting or exceeding the three-year performance target results in 100% being earned for this portion of the award. A minimum threshold of 70% of the EPS target must be met in order to earn 20% for this portion of the award; below this level of performance, 0% is earned for this portion of the award. EPS performance between 70% and 100% of the target results in a percentage earned of between 20% and 100% for this portion of the award. For the three-year performance period ended December 30, 2006, earnings per share for incentive compensation purposes was \$12.97, compared to a target of \$10.46, which translated into 100% of target earned for this component. EPS for incentive purposes is calculated by eliminating certain non-recurring items and other special charges from EPS as calculated under Generally Accepted Accounting Principles (GAAP).

Note 2: If Textron return on invested capital (ROIC) averages 1% or more above the weighted average cost of capital (WACC) over the award period, then this portion of the award will be earned. (The three year-end differences will be averaged to determine the percentage payout.) Average ROIC for this period was 13.33%, or 407 basis points better than the company's three-year average cost of capital. As a result, the full 15% of this component was earned. ROIC income for purposes of calculating average ROIC for incentive purposes is calculated by eliminating certain non-recurring items and other special charges consistent with adjustments made to EPS for incentive purposes as defined in Note 1 above.

Note 3: Leadership Initiatives are determined on a scale of 0% to 100% based on financial and operational performance against goals set at the beginning of the three-year performance period.

Note 4: An additional stretch opportunity of up to 30% may be earned to the extent that the three-year average trailing ROIC exceeds three-year average trailing WACC by greater than 100 basis points per the below scale:

If ROIC is 200 basis points above WACC, then 10% additional payout is earned

If ROIC is 300 basis points above WACC, then 20% additional payout is earned

If ROIC is 400 or more basis points above WACC, then the maximum 30% additional payout is earned

Intermediate performance is calculated using straight-line interpolation. Average ROIC for the 2004-06 performance period was 13.33%, or 407 basis points better than the Company's three-year average cost of capital; as a result, the full 30% stretch opportunity was earned.

Note 5: Cash payment of any PSUs earned is based on the average closing market value of Textron common stock for the first ten trading days of the fiscal year following the end of the three-year performance period.

In January 2007, the Committee discussed performance share unit awards to be paid to the NEOs for the 2004-2006 performance period. Based on the above stated financial results, 90% achievement on three-year Leadership Initiatives (which were set in January 2004), and the ten-day average closing share price at the beginning of 2007 of \$95.329, the Committee recommended to the Board, and the Board approved, the following performance share unit incentive payments in accordance with the stated program formula:

- For Mr. Campbell, 2004-2006 PSU payment of \$11,400,872
- For Mr. French, 2004-2006 PSU payment of \$2,455,198
- For Mr. Butler, Ms. Howell and Mr. O'Donnell, 2004-2006 PSU payments of \$1,896,094 each

2006 Long-Term Incentive Grants

In its December 2005 and January 2006 meetings, the Committee discussed the 2006 long-term incentive grants. The Board set the level of 2006 long-term incentive compensation (LTIC) grants based on past grant levels, individual executive performance, and relevant benchmark data provided by the external compensation consultant. After consideration of these factors, the Committee recommended to the Board, and the Board approved, grants that were equal in economic value to grants approved in 2005. In addition, the Board approved the allocation of this value across the three long term incentive components as shown in the table below. The Board determined that this allocation of value most appropriately encouraged share price growth as well as achievement of internal financial and non-financial goals.

The table below displays the Total LTIC value approved by the Board, as well as the allocation across three long-term incentives and the number of shares granted.

| Name | Total LTIC Value(1) | Value Allocation of LTIC elements | Performance Share Units (2006-08 Performance Period) | Shares of Restricted Stock | Stock Options | Stock Option Exercise price (3/1/06 FMV) |
|---------------|---------------------|-----------------------------------|--|----------------------------|---------------|--|
| Mr. Campbell | \$ 6,008,000 | PSU: 72.5% RS: 20% SO: 7.5% | 74,340 | 20,239 | 23,764 | \$ 87.950 |
| Mr. French | \$ 1,826,000 | PSU: 50% RS: 25% SO: 25% | 15,582 | 7,689 | 24,075 | \$ 87.950 |
| Mr. Butler | \$ 1,257,000 | PSU: 50% RS: 25% SO: 25% | 10,726 | 5,293 | 16,573 | \$ 87.950 |
| Ms. Howell | \$ 1,257,000 | PSU: 50% RS: 25% SO: 25% | 10,726 | 5,293 | 16,573 | \$ 87.950 |
| Mr. O'Donnell | \$ 1,257,000 | PSU: 50% RS: 25% SO: 25% | 10,726 | 5,293 | 16,573 | \$ 87.950 |

(1) The Total LTIC Value does not directly correlate to the FAS 123R expense on our financial statements for two reasons, both of which, for 2006, cause the FAS 123R value to be higher. First, there is a timing difference of when the Board approved the LTIC values (January 27, 2006), when our shares were trading at \$82.61, as compared to the grant date share price of \$87.95 on March 1, 2006, used in the FAS 123R calculations. Second, the methodology to determine this value, as provided by the Board's independent compensation consultant, uses an economic valuation

methodology that is different than the FAS 123R methodology. The consultant's methodology is designed to allow for comparability of compensation levels from company to company within the consultant company's salary survey database

The grant date of the equity-based awards was March 1, 2006, as set during the Board of Director's meeting on January 27, 2006. Based on then current Plan provisions, the fair market value of the stock options (exercise price) was established by averaging the high and low trading prices on March 1, 2006. The closing share price on March 1, 2006 was \$87.98.

In its January 2006 meeting, the Committee recommended and the Board approved the PSU design for the 2006-2008 performance period. The Board established an appropriate three-year EPS target that in their estimation, would require solid but not unreachable performance during this period in order to be achieved. The Board also approved Leadership Initiatives for the CEO, which were subsequently cascaded to the other NEOs.

Accounting and Tax Considerations

Beginning in January 2005, the Company began accounting for stock-based compensation in accordance with the requirements of FASB statement 123R. Stock-based compensation includes stock options, restricted stock, performance share units, restricted share units and retention awards.

Section 162(m) of the Internal Revenue Code provides that no U.S. income tax deduction is allowable to a publicly held corporation for non-performance-based compensation in excess of \$1 million paid to the chief executive officer or any other employee whose compensation is required to be reported in the Summary Compensation Table, if those individuals are employed by the company at year end. Performance-Based Compensation is exempt from the \$1 million limitation. Performance-based compensation must be based upon meeting pre-established and objective performance goals under a plan approved by shareholders. Per Section 162(m), performance goals are not objective if the Committee does not set performance standards in a timely fashion, has any discretion to pay amounts in excess of those earned in accordance with the achievement of these pre-established performance standards, or pays such compensation when the performance criteria are not met.

Our policy has been to maximize the compensation that would qualify as performance-based compensation under section 162(m) while preserving the Committee's discretionary ability to reward individual and team performance. Textron stock options granted under the 1999 Long-Term Incentive Plan qualify as performance-based compensation. Performance share unit awards and annual incentive awards each have financial components that may qualify as performance-based compensation, while each program also includes a discretionary component based on completion of individual performance objectives that may not qualify as performance-based compensation.

Textron allows executives, including those whose income might otherwise be subject to the \$1 million limitation, to voluntarily defer compensation into the Deferred Income Plan for Textron Key Executives. Compensation thus deferred is not counted toward the \$1 million limitation. On October 22, 2004, the American Jobs Creation Act of 2004 was signed into law. This legislation changed the tax rules applicable to non-qualified deferred compensation arrangements. While the final regulations have not yet become effective, the company has been operating in good faith compliance with this legislation since January 1, 2005. During 2007 the Committee will continue to assess the impact of the new legislation and will effect plan changes accordingly.

Compensation Arrangements Relating to Termination of Employment

Employment agreements and plan design provisions provide varying levels of protection to NEOs in the event of termination. These provisions and resulting compensation under different termination scenarios are discussed in detail beginning on page 35.

EXECUTIVE COMPENSATION

The following Summary Compensation Table sets forth information concerning 2006 compensation of individuals who served as Textron's principal executive officer, Textron's principal financial officer during the 2006 fiscal year, and Textron's next three most highly compensated executive officers of Textron who were serving as executive officers at the end of Textron's 2006 fiscal year. Compensation which was deferred by these officers under the Deferred Income Plan is included below as compensation paid.

Summary Compensation Table

| Name and Principal Position | Year | Salary (\$) | Stock Awards (\$ (1)) | Option Awards \$ (2) | Non-Equity Incentive Plan Compensation (\$ (3)) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$ (4)) | All Other Compensation (\$ (5)) | Total Compensation (\$ (6)) |
|--|------|--------------|-----------------------|----------------------|---|--|---------------------------------|-----------------------------|
| Lewis B. Campbell Chairman, President and Chief Executive Officer | 2006 | \$ 1,100,000 | \$ 9,214,495 | \$ 537,443 | \$ 2,072,653 | \$ 10,156,005 | \$ 590,437 | \$ 23,671,033 |
| Ted R. French Executive Vice President and Chief Financial Officer | 2006 | 700,000 | 1,912,464 | 535,616 | 989,221 | 1,805,906 | 251,708 | 6,194,915 |
| John D. Butler Executive Vice President Administration and Chief Human Resources Officer | 2006 | 560,000 | 1,412,624 | 439,383 | 685,860 | 1,957,297 | 103,570 | 5,158,734 |
| Mary L. Howell Executive Vice President Government Affairs, Strategy & Business Development, International, Communications and Investor Relations | 2006 | 525,000 | 1,407,376 | 370,622 | 642,993 | 1,569,922 | 166,089 | 4,682,002 |
| Terrence O'Donnell Executive Vice President and General Counsel | 2006 | 525,000 | 1,347,973 | 370,622 | 642,993 | 2,309,439 | 216,385 | 5,412,412 |

1) For each NEO, the number that appears in this column includes the expense attributed to 2006 for each award determined in accordance with FAS 123R. This includes performance share units (PSU) granted in 2004, 2005, 2006, restricted stock (RS) granted in 2004, 2005 and 2006, and restricted share units (RSU) granted in 2003. Also included in this column are retention awards (RA) granted to Mr. Campbell in 1999 and 2001, and to Mr. Butler, Ms. Howell and Mr. O'Donnell in 2002.

The FAS 123R value per share of RS grants 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, since dividends are not paid or accrued until the restricted stock vests. The adjustments include assumptions of annual dividends of \$1.40 for RS granted in 2004 and 2005, and \$1.55 for RS granted in 2006, discounted at an annual rate of approximately 4.0%.

The FAS 123R value per share of PSU, RSU, and RA is based on the trading price of our Common Stock at the end of the year, less required adjustments to reflect the fair value of the award, since dividends are not paid or accrued on certain awards until vested. The adjustments include assumptions of annual dividends of \$1.55 over the remaining vesting period, discounted at an annual rate of approximately 4.0%. Also, since PSUs are performance-based, a projected earnings percentage is applied to each outstanding cycle. For 2006, these were: 130% for the 2004-2006 cycle, 130% for the 2005-2007 cycle and 124.4% for the 2006-2008 cycle.

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2) The vesting schedule for stock options is discussed in the CD&A. The expense attributed to 2006 for stock options is determined in accordance with FAS 123R. Non-substantive vesting as a result of certain NEOs' eligibility for early retirement accelerates the attribution of expense. Below are the assumptions used to value the awards included in this expense for all NEOs:

| Grant Date | Expected Term in Years | Volatility | Risk-Free Rate | Dividend Yield | Fair Value at Grant (Black- Scholes) |
|------------|------------------------------|------------|-------------------|-------------------|--|
| 2/12/04 | 3.7 | 37% | 3% | 2% | \$ 14.32 |
| 2/23/05 | 6.0 | 25% | 4% | 2% | \$ 20.05 |
| 3/1/06 | 6.0 | 25% | 4% | 2% | \$ 24.55 |

Mr. Campbell, Ms. Howell and Mr. O'Donnell are currently eligible for early retirement under the age and service requirements that govern all employees. If they should choose to retire, per plan provisions, they would have three years from the date of retirement to exercise any outstanding options. The options would vest per their normal vesting schedule (one-third of the shares granted on the first, second and third anniversary of the grant date). Mr. Butler becomes eligible for early retirement in 2007.

3) The amounts in this column were paid pursuant to non-equity incentive plan compensation, specifically Textron's Annual Incentive Plan for the period ended December 30, 2006. This Plan and associated payouts for 2006 are described in the CD&A.

4) The amounts in this column are primarily attributable to the executive's change in actuarial present value of accumulated pension benefit under all defined benefit plans in which the NEOs participate from December 31, 2005 to December 31, 2006. The amount shown for Mr. Campbell is driven by two primary factors, both of which affect the change in actuarial value of his pension benefit. The first factor relates to a contractual amendment executed in 2005. The amendment eliminated PSU payments, beginning with the 2005-2007 performance cycle, from his eligible compensation used in the calculation of his pension benefit. In consideration of this reduction, Mr. Campbell received accelerated vesting of his Supplemental Retirement Benefit so that his vesting began at age 59 instead of 60 and will reach an unreduced benefit level at age 62 rather than age 65. The second factor relates to the calculation of eligible compensation, which is used as an input into the benefit calculation. Eligible compensation is calculated as the highest consecutive five-year average compensation in his career with Textron; during 2006, the five-year period changed from the 2001-2005 period to the 2002-2006 period, so that a comparatively low year of compensation (2001) was dropped, and a comparatively high year of compensation (2006) was added in its place. The higher compensation level in 2006 was driven by strong operating performance and strong stock price performance. This column also includes above-market Non-Qualified Deferred Compensation (NQDC) earnings during 2006: \$3,531 for Mr. French; \$63,018 for Ms. Howell; and \$13,781 for Mr. O'Donnell.

Deferred Income Plan participants may elect to make their deferrals into either a Moody's account or a Textron stock unit account. The interest rates applicable to the Moody's Account are either the Moody's rate or a Moody's Plus rate. Moody's Plus rates are considered above-market earnings in 2006 since these rates (fixed at 10% for deferrals made between 1988 and 2001 and 11% for deferrals made prior to 1988) were higher than 120% of the Applicable Federal Rate for the year.

5) The amounts listed include the incremental cost to Textron in 2006 of providing various perquisites and personal benefits, as detailed below. For Proxy reporting purposes, Textron values the personal use of corporate aircraft by executive using an incremental cost method that takes into account variable factors such as cost per flight hour (by aircraft type), landing fees, and hangar fees. The incremental cost of locating aircraft to the origin of a personal trip, or returning aircraft from the completion of a personal trip, known as "deadhead" flights, are included in the figures reported.

For Mr. Campbell

The amount in this column represents the sum of the following components: \$507,053 for personal use of Textron aircraft, \$10,997 in employer contributions to the Textron Savings Plan, \$44,000 in employer contributions to the Supplemental Savings Plan, plus other perquisites totaling \$28,387, which includes personal use of company automobile, financial planning, and club dues.

For Mr. French

The amount in this column represents the sum of the following components: \$112,134, for personal use of Textron aircraft, \$10,997 in employer contributions to the Textron Savings Plan, \$24,000 in employer contributions to the Supplemental Savings Plan, \$71,101 for country club initiation fees, plus other perquisites totaling \$33,476, which includes personal use of company automobile financial planning, and club dues.

For Mr. Butler

The amount in this column represents the sum of the following components: \$25,466 for personal use of Textron aircraft, \$10,997 in employer contributions to the Textron Savings Plan, \$17,000 in employer contributions to the Supplemental Savings Plan, \$32,872 for personal use of automobile, plus other perquisites totaling \$17,235, which includes financial planning and club dues.

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For Ms. Howell

The amount in this column for Ms. Howell represents the sum of the following components: \$76,811 for personal use of Textron aircraft, \$10,997 in employer contributions to the Textron Savings Plan, \$15,250 in employer contributions to the Supplemental Savings Plan, \$47,421 for personal use of automobile, plus other perquisites totaling \$15,610, which includes financial planning and club dues.

For Mr. O'Donnell

The amount in this column represents the sum of the following components: \$157,465 in employer contributions to the Deferred Income Plan per an amendment to his employment agreement in 2006, \$10,997 in employer contributions to the Textron Savings Plan, \$15,250 in employer contributions to the Supplemental Savings Plan, plus other perquisites totaling \$32,673, which includes personal use of company automobile, personal use of company aircraft, financial planning, and club dues.

6) The amounts listed are not comparable to a total of the 2005 compensation amounts listed in last year's proxy statement due to changes in SEC disclosure requirements.

Grants of Plan-Based Awards in Fiscal 2006

The following table sets forth information on awards under the Textron 1999 Long-Term Incentive Plan during Textron's 2006 fiscal year to the executive officers named in the Summary Compensation Table.

Grants of Plan-Based Awards in Fiscal 2006

| Name | Grant Date | Board of Directors Approval Date | Grant Type | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards | | | Estimated Future Payouts Under Equity Incentive Plan Awards | | | All Other Stock Awards: Option Awards | | Exercise or Base Price of Option Awards | Closing Share Price on Grant Date | Grant Date of Stock and Option Awards | Fair Value of Stock and Option Awards |
|------|------------|----------------------------------|------------|---|-------------|--------------|---|-------------|--------------|---------------------------------------|------------------------------|---|-----------------------------------|---------------------------------------|---------------------------------------|
| | | | | Threshold (\$) | Target (\$) | Maximum (\$) | Threshold (\$) | Target (\$) | Maximum (\$) | Number of Shares or Stock Units (#) | Number of Underlying Options | | | | |