
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal quarter ended June 30, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-15515

TEXTRON FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

05-6008768
(I.R.S. Employer Identification No.)

40 Westminster Street, Providence, RI
(Address of principal executive offices)

02940-6687
(Zip code)

401-621-4200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes . No .

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

Large accelerated filer . Accelerated filer . Non-accelerated filer . Smaller reporting company .

(Do not check if smaller reporting company)

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

All of the shares of common stock of the registrant are owned by Textron Inc.

REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H (1) (a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT

TEXTRON FINANCIAL CORPORATION
TABLE OF CONTENTS

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Item 1. FINANCIAL STATEMENTS	
Consolidated Statements of Operations for the three and six months ended June 30, 2010 and 2009 (unaudited)	2
Consolidated Balance Sheets at June 30, 2010 and January 2, 2010 (unaudited)	3
Consolidated Statements of Cash Flows for the six months ended June 30, 2010 and 2009 (unaudited)	4
Consolidated Statements of Changes in Equity through June 30, 2010 (unaudited)	5
Notes to the Consolidated Financial Statements (unaudited)	6
Item 1A. RISK FACTORS	19
Item 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	19
Item 4. CONTROLS AND PROCEDURES	22
PART II. OTHER INFORMATION	
Item 6. EXHIBITS	23

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TEXTRON FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	<i>(In millions)</i>			
Finance charges	\$ 71	\$ 104	\$ 156	\$ 219
Portfolio losses, net of gains	(20)	(50)	(33)	(60)
Rental revenues on operating leases	7	7	13	15
Gains on early extinguishment of debt	—	37	—	39
Securitization losses:				
Total other-than-temporary impairments	—	(33)	—	(39)
Portion of other-than-temporary impairments recognized in Other comprehensive income, before income taxes	—	13	—	13
Net other-than-temporary impairments recognized in securitization losses	—	(20)	—	(26)
Other securitization losses	—	—	—	(1)
Securitization losses	—	(20)	—	(27)
Other (loss) income	(3)	8	(8)	22
Total revenues	55	86	128	208
Interest expense	33	41	65	95
Depreciation of equipment on operating leases	5	4	9	9
Net interest margin	17	41	54	104
Provision for losses	44	87	99	163
Operating and administrative expenses	44	53	85	106
Restructuring charges	3	5	6	8
Loss before income taxes and noncontrolling interest	(74)	(104)	(136)	(173)
Income tax benefit	(36)	(39)	(57)	(55)
Net loss before noncontrolling interest	(38)	(65)	(79)	(118)
Noncontrolling interest, net of income taxes	—	1	—	1
Net loss	\$ (38)	\$ (66)	\$ (79)	\$ (119)

See Notes to the Consolidated Financial Statements.

TEXTRON FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2010	January 2, 2010
<i>(In millions)</i>		
Assets		
Cash and equivalents	\$ 171	\$ 144
Finance receivables held for investment, net of unearned income:		
Installment contracts	2,042	2,327
Golf course, timeshare and hotel mortgages	993	1,073
Revolving loans	872	1,137
Distribution finance receivables	400	771
Leveraged leases	281	313
Finance leases	263	403
Total finance receivables held for investment	4,851	6,024
Allowance for losses on finance receivables held for investment	(350)	(339)
Finance receivables held for investment — net	4,501	5,685
Finance receivables held for sale	535	819
Equipment on operating leases — net	202	216
Other assets	478	460
Total assets	\$ 5,887	\$ 7,324
Liabilities and equity		
Liabilities		
Accrued interest and other liabilities	\$ 382	\$ 423
Amounts due to Textron Inc.	670	472
Deferred income taxes	152	137
Debt	4,055	5,488
Total liabilities	5,259	6,520
Shareholder's Equity		
Capital surplus	1,633	1,487
Subsidiary preferred stock	1	1
Investment in parent company preferred stock	(25)	(25)
Accumulated other comprehensive loss	(77)	(49)
Retained deficit	(904)	(610)
Total shareholder's equity	628	804
Total liabilities and shareholder's equity	\$ 5,887	\$ 7,324

See Notes to the Consolidated Financial Statements.

TEXTRON FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2010 and 2009
(Unaudited)

	2010	2009
	<i>(In millions)</i>	
Cash flows from operating activities:		
Net loss	\$ (79)	\$ (119)
Net income attributable to noncontrolling interest	—	1
Net loss before noncontrolling interest	(79)	(118)
Adjustments to reconcile net loss before noncontrolling interest to net cash (used) provided by operating activities:		
Provision for losses	99	163
(Decrease) increase in income taxes payable	(70)	73
Portfolio losses, net of gains	50	60
Deferred income tax provision	(19)	(123)
Depreciation and amortization	16	19
Decrease in accrued interest and other liabilities	(11)	(18)
Gains on early extinguishment of debt	—	(39)
Impairments in excess of collections on securitizations and syndications	—	21
Other — net	1	34
Net cash (used) provided by operating activities	(13)	72
Cash flows from investing activities:		
Finance receivables originated or purchased	(427)	(2,234)
Finance receivables repaid	1,341	2,905
Proceeds from receivable sales, including securitizations	358	184
Proceeds from disposition of other assets, including repossessed assets and properties and operating leases	82	134
Other investments	30	60
Purchase of assets for operating leases	(8)	(6)
Net cash provided by investing activities	1,376	1,043
Cash flows from financing activities:		
Proceeds from line of credit	—	1,740
Principal payments on long-term debt	(1,276)	(877)
Net decrease in commercial paper	—	(743)
Principal payments on secured debt	(167)	(384)
Principal payments on nonrecourse debt	(27)	(144)
Net increase (decrease) in intercompany loan due to Textron Inc.	198	(133)
Capital contributions from Textron Inc.	151	93
Dividends paid to Textron Inc.	(220)	(189)
Other — net	5	21
Net cash used by financing activities	(1,336)	(616)
Effect of exchange rate changes on cash	—	6
Net increase in cash and equivalents	27	505
Cash and equivalents at beginning of year	144	16
Cash and equivalents at end of period	\$ 171	\$ 521

See Notes to the Consolidated Financial Statements.

TEXTRON FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

	Capital Surplus	Investment in Parent Company Preferred Stock	Subsidiary Preferred Stock	Accumulated Other Comprehensive Loss	Retained Deficit	Total Share- holder's Equity	Non- controlling Interest	Total Equity
Balance January 3, 2009	\$1,217	\$(25)	\$—	\$(55)	\$ (58)	\$1,079	\$ —	\$1,079
Comprehensive loss:								
Net loss	—	—	—	—	(203)	(203)	(2)	(205)
Other comprehensive income:								
Foreign currency translation, net of income Taxes	—	—	—	7	—	7	—	7
Change in unrealized net losses on retained interests, net of income tax benefit	—	—	—	(1)	—	(1)	—	(1)
Other comprehensive income	—	—	—	6	—	6	—	6
Comprehensive loss	—	—	—	—	—	(197)	(2)	(199)
Capital contributions from Textron Inc.	279	—	—	—	—	279	—	279
Dividends to Textron Inc.	(9)	—	—	—	(349)	(358)	—	(358)
Sale of subsidiary preferred stock	—	—	1	—	—	1	—	1
Sale of noncontrolling interest	—	—	—	—	—	—	21	21
Repurchase of noncontrolling interest	—	—	—	—	—	—	(19)	(19)
Balance January 2, 2010	1,487	(25)	1	(49)	(610)	804	—	804
Comprehensive loss:								
Net loss	—	—	—	—	(79)	(79)	—	(79)
Other comprehensive loss:								
Foreign currency translation, net of income taxes ⁽¹⁾	—	—	—	(32)	—	(32)	—	(32)
Change in unrealized net losses on hedge contracts, net of income tax benefit	—	—	—	4	—	4	—	4
Other comprehensive loss	—	—	—	(28)	—	(28)	—	(28)
Comprehensive loss ⁽²⁾	—	—	—	—	—	(107)	—	(107)
Capital contributions from Textron Inc.	151	—	—	—	—	151	—	151
Dividends to Textron Inc.	(5)	—	—	—	(215)	(220)	—	(220)
Balance June 30, 2010	\$1,633	\$(25)	\$ 1	\$(77)	\$(904)	\$ 628	\$ —	\$ 628

(1) Primarily represents a reduction of the expected tax benefit from previously recognized currency translation adjustment losses related to the Company's investment in one of its wholly-owned Canadian subsidiaries.

(2) Comprehensive loss was \$67 million and \$107 million for the three and six months ended June 30, 2010 as compared to \$72 million and \$125 million for the three and six months ended June 30, 2009.

See Notes to the Consolidated Financial Statements.

TEXTRON FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements included in Textron Financial Corporation's Annual Report on Form 10-K for the year ended January 2, 2010. The accompanying Consolidated Financial Statements include the accounts of Textron Financial Corporation (Textron Financial, TFC or the Company) and its subsidiaries. All significant intercompany transactions are eliminated. The Consolidated Financial Statements are unaudited and reflect all adjustments (consisting only of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of Textron Financial's consolidated financial position at June 30, 2010, and its consolidated results of operations and cash flows for each of the interim periods presented. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

In the fourth quarter of 2008, Textron Inc. (Textron) announced a plan to exit all of our commercial finance business, other than the portion supporting the financing of customer purchases of products which Textron manufactures. In the second quarter of 2009, we changed our management structure for the captive business to facilitate the management of its operations. Due to this change, we consolidated the portion of the former Golf Finance segment that finances customer purchases of Textron manufactured golf and turf-care equipment into the former Aviation Finance segment, forming the new Captive Finance segment. In the fourth quarter of 2009, due to further changes in how the performance of our business is measured and consolidation of our management and operational structure, we combined all remaining portions of our former operating segments into a new Non-captive Finance segment, which represents the business we are liquidating. All comparative segment information for prior periods has been recast to reflect this change.

Note 2. Special Charges

Restructuring charges

In conjunction with the plan to exit our Non-captive Finance business, we announced a restructuring program to downsize and consolidate our operations. Costs incurred under this plan, all of which are related to the Non-captive Finance segment for the periods presented, are summarized in the table below:

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	<i>(In millions)</i>			
Severance and pension curtailment costs	\$ 2	\$ 5	\$ 5	\$ 7
Contract termination costs	1	—	1	1
Total Restructuring charges	\$ 3	\$ 5	\$ 6	\$ 8

Restructuring charges are generally of a nonrecurring nature and are not included in Segment loss, which is our measure used for evaluating performance and for decision-making purposes.

An analysis of our restructuring reserve is presented below:

	Severance and Pension Curtailment Costs	Contract Termination Costs	Total
	<i>(In millions)</i>		
Balance at January 2, 2010	\$ 13	\$ —	\$ 13
Additions	5	1	6
Cash Paid	(9)	—	(9)
Balance at June 30, 2010	\$ 9	\$ 1	\$ 10

Restructuring charges since the inception of the program through June 30, 2010 are summarized below by segment:

	Captive Finance	Non-captive Finance	Total
	<i>(In millions)</i>		
Severance and pension curtailment costs	\$ 1	\$ 31	\$ 32
Non-cash asset impairments	3	8	11
Contract termination costs	—	3	3
Total Restructuring charges	\$ 4	\$ 42	\$ 46

We expect to incur additional costs to exit the Non-captive Finance segment of our business over the next 18 months. These costs are expected to be within a range from \$7 million to \$11 million and be primarily attributable to severance and retention benefits. We expect to eliminate approximately 850 positions, representing approximately 80% of our total workforce over the life of the program. As of June 30, 2010, we have terminated approximately 660 employees under this program.

Other Special charges

In connection with the liquidation of one of the Company's wholly-owned Canadian subsidiaries, we expect to take a non-cash after-tax charge of approximately \$78 million to reclassify the subsidiary's cumulative currency translation adjustment account within Other comprehensive loss to the Consolidated statement of operations. Accordingly, the reclassification of this amount will have no impact on Shareholder's equity. The timing of this non-cash charge is expected to occur in the second half of 2010 once we have substantially liquidated the assets held by the subsidiary.

Note 3. Finance Receivables

Managed Finance Receivables

Managed finance receivable balances and percentages by product line are presented in the following table:

	June 30, 2010		January 2, 2010	
	<i>(Dollars in millions)</i>			
Captive Finance				
Aviation	\$ 2,018	37%	\$ 2,353	34%
Golf Equipment	353	7%	417	6%
Non-captive Finance				
Timeshare	1,082	20%	1,302	19%
Golf Mortgage	844	16%	933	14%
Distribution Finance	494	9%	1,076	16%
Structured Capital	318	6%	349	5%
Hotel	116	2%	182	3%
Asset-Based Lending	85	2%	170	2%
Other Liquidating	76	1%	91	1%
Total managed finance receivables	\$ 5,386	100%	\$ 6,873	100%

Finance Receivables Held for Investment

Finance receivables held for investment include approximately \$521 million and \$629 million of finance receivables at June 30, 2010 and January 2, 2010, respectively, primarily in the Captive Aviation product line that have been legally sold to special purpose entities (SPEs) which are consolidated subsidiaries of Textron Financial. The assets of the SPEs are pledged as collateral for \$427 million and \$559 million of debt as of June 30, 2010 and January 2, 2010, respectively, which have been reflected as securitized on-balance sheet debt. Third-party investors have no legal recourse to Textron Financial beyond the credit enhancement provided by the assets of the SPEs.

In the first quarter of 2010, we increased Captive Golf Equipment finance receivables held for sale by \$144 million to a total of \$225 million, as a result of inquiries we received to purchase finance receivables in this portfolio. During the second quarter, we came to a preliminary agreement to sell approximately \$120 million of these finance receivables. This sale is expected to close in the third quarter of 2010. As a result, we reclassified the remaining \$105 million of finance receivables to held for investment. We believe this activity is consistent with our goal of maximizing the economic value of our portfolio.

Textron Financial periodically evaluates finance receivables held for investment, excluding homogeneous loan portfolios and finance leases, for impairment. Finance receivables classified as held for sale are reflected at the lower of cost or fair value and are excluded from this assessment. A finance receivable is considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the agreement. Impaired finance receivables are classified as either nonaccrual or accrual loans. "Impaired nonaccrual finance receivables" include accounts that are contractually delinquent by more than three months for which the accrual of interest income is suspended. "Impaired accrual finance receivables" represent loans with original terms that have been or are expected to be significantly modified to reflect deferred principal payments, generally at market interest rates, for which collection of principal and interest is not doubtful. The Company performs a

valuation of the collateral supporting impaired nonaccrual finance receivables on a quarterly basis using the methods described in Note 6. Fair Value of Financial Instruments.

Impaired Finance Receivables		
	June 30, 2010	January 2, 2010
	<i>(In millions)</i>	
Impaired nonaccrual finance receivables	\$ 817	\$ 984
Impaired accrual finance receivables	195	217
Total impaired finance receivables	1,012	1,201
Less: Impaired finance receivables without identified reserve requirements	293	362
Impaired nonaccrual finance receivables with identified reserve requirements	\$ 719	\$ 839
Allowance for losses on impaired nonaccrual finance receivables	\$ 181	\$ 153

Nonaccrual finance receivables include impaired nonaccrual finance receivables and accounts in homogeneous portfolios that are contractually delinquent by more than three months.

Nonaccrual Finance Receivables		
	June 30, 2010	January 2, 2010
	<i>(In millions)</i>	
Impaired nonaccrual finance receivables	\$ 817	\$ 984
Nonaccrual homogeneous finance receivables	59	56
Total nonaccrual finance receivables	\$ 876	\$ 1,040

A summary of nonaccrual finance receivables, impaired nonaccrual finance receivables and related allowance for losses by collateral type is as follows:

<i>Collateral Type</i>	June 30, 2010			January 2, 2010		
	Nonaccrual Finance Receivables	Impaired Nonaccrual Finance Receivables	Allowance for Losses on Impaired Nonaccrual Finance Receivables	Nonaccrual Finance Receivables	Impaired Nonaccrual Finance Receivables	Allowance for Losses on Impaired Nonaccrual Finance Receivables
	<i>(In millions)</i>					
Captive Finance:						
General aviation aircraft	\$ 175	\$ 162	\$ 39	\$ 286	\$ 272	\$ 46
Golf equipment	23	7	1	16	2	1
Non-captive Finance:						
Notes receivable ⁽¹⁾⁽²⁾	\$ 255	\$ 254	\$ 91	\$ 259	\$ 254	\$ 53
Golf course property	132	131	18	166	165	27
Resort construction/inventory ⁽²⁾	106	106	3	104	104	—
Dealer inventory	66	41	2	88	68	14
Hotels	56	56	18	78	78	7
Marinas	51	51	8	12	12	—
Land	3	3	1	17	17	4
Other	9	6	—	14	12	1
Total	\$ 876	\$ 817	\$ 181	\$ 1,040	\$ 984	\$ 153

(1) Finance receivables collateralized primarily by timeshare notes receivable may also be collateralized by certain real estate and other assets of our borrowers.

- (2) Timeshare lending relationships often include both revolving loans secured by notes receivable and construction/inventory loans secured by real property. These loan balances have been presented in their respective categories in the table above. These loans are cross-collateralized, therefore the allowance for loan losses related to the entire lending relationship is presented in the Notes receivable collateral type in the table above.

Nonaccrual finance receivables decreased \$164 million in the first half of 2010 from year end, primarily due to the resolution of several significant accounts through the repossession of collateral, restructure of finance receivables and cash collections, partially offset by new finance receivables identified as nonaccrual during 2010.

The average recorded investment in impaired nonaccrual finance receivables during the first six months of 2010 was \$922 million compared to \$417 million in the corresponding period in 2009. The average recorded investment in impaired accrual finance receivables amounted to \$118 million in the first six months of 2010 compared to \$62 million in the corresponding period in 2009.

The suspension of interest on nonaccrual finance receivables resulted in Textron Financial's finance charges being reduced by \$33 million and \$22 million in the first six months of 2010 and 2009, respectively. We do not recognize finance charges using the cash basis method.

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	<i>(Dollars in millions)</i>			
Allowance for losses on finance receivables held for investment, beginning of period	\$ 363	\$ 220	\$ 339	\$ 191
Provision for losses	44	87	99	163
Less net charge-offs:				
Captive Finance				
Aviation	20	8	30	14
Golf Equipment	1	1	3	3
Non-captive Finance				
Golf Mortgage	30	1	37	22
Distribution Finance	5	11	11	23
Timeshare	1	2	1	2
Hotel	—	—	4	—
Other Liquidating	—	—	2	6
Total net charge-offs	57	23	88	70
Allowance for losses on finance receivables held for investment, end of period	\$ 350	\$ 284	\$ 350	\$ 284
Annualized net charge-offs as a percentage of average finance receivables held for investment	4.41%	1.33%	3.23%	2.03%

	June 30, 2010	January 2, 2010
	<i>(Dollars in millions)</i>	
Nonaccrual finance receivables as a percentage of finance receivables held for investment	18.06%	17.26%
Allowance for losses on finance receivables held for investment as a percentage of finance receivables held for investment	7.22%	5.63%
Allowance for losses on finance receivables held for investment as a percentage of nonaccrual finance receivables held for investment	40.0%	32.6%
60+ days contractual delinquency as a percentage of finance receivables held for investment	7.99%	9.51%
60+ days contractual delinquency	\$ 385	\$ 569
Repossessed assets and properties	\$ 147	\$ 119
Operating assets received in satisfaction of troubled finance receivables	130	112

Note 4. Other Assets

Textron Financial's Other assets are primarily composed of operating assets received in satisfaction of troubled finance receivables, repossessed assets and properties, investments in other marketable securities, other long term investments and derivative financial instruments.

Operating assets received in satisfaction of troubled finance receivables are assets we intend to operate for a substantial period of time and/or make substantial improvements to prior to sale. As of June 30, 2010, they primarily represent the assets of operating golf courses that have been repossessed and investments in real estate associated with matured leveraged leases. These assets are initially recorded at the lower of net realizable value or the previous carrying value of the related finance receivable. The assets are measured for impairment on an ongoing basis by comparing the estimated future undiscounted cash flows to the current carrying value. If the sum of the undiscounted cash flows is estimated to be less than the carrying value, the Company records a charge to Portfolio losses, net of gains for the shortfall between estimated fair value and the carrying amount. The revenues and expenses related to these assets, excluding investments made for capital improvements, are recorded in Operating and administrative expenses. In the first six months of 2010, revenues were \$17 million and \$7 million from golf courses and other real estate, respectively, and expenses were \$23 million and \$7 million from golf courses and other real estate, respectively. In the first six months of 2009, revenues and expenses were \$13 million and \$16 million from golf courses, respectively, while revenues and expenses from other real estate were not significant.

Investments in other marketable securities represent investments in notes receivable issued by timeshare securitization trusts. These investments were \$59 million and \$68 million at June 30, 2010 and January 2, 2010, respectively. We have classified these investments as held to maturity as management has the intent and ability to hold them until maturity. At June 30, 2010, unrealized losses on the portion of these investments for which fair value was lower than our carrying value were \$4 million. These investments have been in a continuous, unrealized loss position for greater than twelve months. These unrealized losses are the result of market yield expectations and are considered temporary due to the continued performance of the underlying collateral of the timeshare securitization trusts. In reaching our conclusion that the investments are not other-than-temporarily impaired, we relied on industry analyst reports, credit ratings specific to each investment and information on delinquency, loss and payment experience of the collateral underlying each security.

Note 5. Derivative Financial Instruments

Textron Financial utilizes derivative instruments to mitigate its exposure to fluctuations in interest rates and foreign currencies. These instruments include interest rate exchange agreements and foreign currency exchange agreements. The Company does not hold or issue derivative financial instruments for trading or speculative purposes. The Company did not experience a significant net gain or loss in earnings as a result of the ineffectiveness, or the exclusion of any component from its assessment of hedge effectiveness, of its derivative financial instruments in the first six months of 2010 or 2009. The fair values of derivative instruments are included in either Other assets or Accrued interest and other liabilities in the Consolidated Balance Sheets.

The following table summarizes the Company's significant derivative activities relating to qualifying hedges of interest rate risk and foreign currency exposure:

	Notional Amount		Fair Value Amount			
	June 30, 2010	January 2, 2010	Assets		Liabilities	
			June 30, 2010	January 2, 2010	June 30, 2010	January 2, 2010
<i>(In millions)</i>						
Fair Value Hedges						
Interest Rate Exchange Agreements						
Fixed-rate debt	\$ 655	\$ 946	\$ 41	\$ 40	\$ —	\$ —
Fixed-rate receivables	366	419	—	3	(8)	(3)
Net Investment Hedges						
Foreign Currency Forward Exchange Agreements						
Foreign-dollar functional currency subsidiary equity	101	71	—	—	—	(2)
Cash Flow Hedges						
Cross-Currency Interest Rate Exchange Agreements						
Foreign-dollar denominated variable-rate debt	140	161	29	18	—	—
	\$ 1,262	\$ 1,597	\$ 70	\$ 61	\$ (8)	\$ (5)

As a result of our exit plan announced in December 2008, we no longer view our investment in our Canadian subsidiary as permanent. Therefore, we began hedging our net investment in this subsidiary during the fourth quarter of 2008 to prevent any reduction in the U.S. dollar equivalent cash flows we will receive upon liquidation of this subsidiary.

Foreign currency forward exchange agreements are utilized by the Company to convert foreign currency denominated assets and liabilities into the functional currency of the respective legal entity. At June 30, 2010 and January 2, 2010, \$251 million and \$531 million, respectively, of these foreign currency forward exchange agreements were not designated in hedge relationships. The fair value of these non-designated derivative instruments were \$1 million and \$(13) million at June 30, 2010 and January 2, 2010, respectively. Gains/(losses) on foreign currency forward exchange agreements were \$4 million and \$(3) million for the three and six months ended June 30, 2010, respectively, and \$(52) million for the three and six months ended June 30, 2009. These gains/(losses) were largely offset by the translation of the related foreign currency denominated assets and liabilities, and were recorded in Operating and administrative expenses.

The effect of derivative instruments in the Consolidated Statements of Operations is as follows:

Gain/(Loss) Location	Amount of Gain/(Loss)				
	Three Months Ended		Six Months Ended		
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009	
<i>(In millions)</i>					
Fair Value Hedges					
Interest rate exchange agreements	Interest expense	\$ 9	\$ (19)	\$ 19	\$ (15)
Interest rate exchange agreements	Finance charges	(7)	8	(11)	6

Gains/(losses) included in earnings related to cash flow hedges were \$(10) million for both the three and six months ended June 30, 2010, and \$4 million and \$(7) million for the three and six months ended June 30, 2009, respectively. These gains/(losses) were largely offset by the translation of the related foreign currency denominated debt. The Company did not experience a significant gain or loss in Other Comprehensive Income related to cash flow hedges during the first three and six months of 2010 or 2009.

Note 6. Fair Value of Financial Instruments

We measure fair value at the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. We prioritize the assumptions that market participants would use in pricing the asset or liability (the “inputs”) into a three-tier fair value hierarchy. This fair value hierarchy gives the highest priority (Level 1) to quoted prices in active markets for identical assets or liabilities and the lowest priority (Level 3) to unobservable inputs in which little or no market data exists, requiring companies to develop their own assumptions. Observable inputs that do not meet the criteria of Level 1, and include quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets and liabilities in markets that are not active, are categorized as Level 2. Level 3 inputs are those that reflect our estimates about the assumptions market participants would use in pricing the asset or liability, based on the best information available in the circumstances. Valuation techniques for assets and liabilities measured using Level 3 inputs may include methodologies such as the market approach, the income approach or the cost approach, and may use unobservable inputs such as projections, estimates and management’s interpretation of current market data. These unobservable inputs are only utilized to the extent that observable inputs are not available or cost-effective to obtain.

Assets Recorded at Fair Value on a Recurring Basis

We measure our derivative financial instruments, net at fair value on a recurring basis using Level 2 inputs. The balance of these derivative financial instruments, net was \$62 million at June 30, 2010. The Company’s derivative contracts are not exchange-traded and are measured at fair value utilizing widely accepted, third-party developed valuation models. The actual terms of each individual contract are entered into the model in addition to interest rate and foreign exchange rate data which is based on readily observable market data published by third-party leading financial news and data providers. Credit risk is factored into the fair value of derivative assets and liabilities based on the differential between both the Company’s credit default swap spread for liabilities and the counterparty’s credit default swap spread for assets as compared to a standard AA-rated counterparty, however, this had no significant impact on the valuation as of June 30, 2010 and January 2, 2010.

Changes in Fair Value for Unobservable Input

The table below presents the change in fair value measurements that used significant unobservable inputs (Level 3) during each period presented:

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	<i>(In millions)</i>			
Retained Interests in Securitizations				
Balance, beginning of period	\$ —	\$ 3	\$ 3	\$ 12
Reclassification to Finance receivables held for investment	—	—	(3)	—
Net losses for the period:				
Change in value recognized in Other comprehensive income	—	2	—	(1)
Impairments recognized in earnings	—	(2)	—	(8)
Balance, end of period	\$ —	\$ 3	\$ —	\$ 3

Assets Recorded at Fair Value on a Nonrecurring Basis

The table below presents the balance at June 30, 2010 of those assets that were measured at fair value on a nonrecurring basis during the first six months of 2010 and the related gain/(loss) recorded in the Consolidated Statements of Operations. These assets were measured using significant unobservable inputs (Level 3).

	Total Gain/(Loss)		
	June 30, 2010	June 30, 2010	June 30, 2010
	<i>(In millions)</i>		
Impaired finance receivables	\$ 519	\$ (45)	\$ (104)
Finance receivables held for sale	421	(5)	(15)
Reposessed assets and properties	59	(8)	(17)
Other investments	28	—	(9)
Total	\$ 1,027	\$ (58)	\$ (145)

Finance Receivables Held for Sale

Finance receivables held for sale are recorded at the lower of cost or fair value. As a result of our plan to exit the Non-captive Finance segment through a combination of orderly liquidation of finance receivables as they mature and selected sales, \$535 million of finance receivables, net of a \$70 million valuation allowance, have been classified as held for sale as of June 30, 2010. The finance receivables held for sale as of June 30, 2010 are primarily assets in the Golf Mortgage, Distribution Finance and Asset-Based Lending product lines, but also include \$119 million of finance receivables in the Golf Equipment product line within the Captive Finance segment. The majority of the finance receivables held for sale were identified at the individual loan level. Golf course mortgages classified as held for sale were identified as a portion of a larger portfolio with common characteristics based on the intention to balance the sale of certain loans with the collection of others to maximize economic value. Distribution Finance receivables were identified primarily based on the associated manufacturer relationship, which can have a significant impact on the relative value of the finance receivables. These finance receivables are recorded at fair value on a nonrecurring basis during periods in which the fair value is lower than the cost value. The decrease in fair value of finance receivables held for sale recorded in the Consolidated Statements of Operations was \$11 million and \$12 million for the three and six months ended June 30, 2009, respectively. During the first six months of 2010, we sold \$208 million of finance receivables classified as held for sale in the Distribution Finance product line and recorded a \$13 million gain related to this sale. Total gains related to finance receivable sales were \$17 million for the first six months of 2010. See Note 3. Finance Receivables regarding changes in classification of certain finance receivables between held for sale and held for investment during the first six months of 2010.

There are no active, quoted market prices for our finance receivables. The estimate of fair value was determined based on the use of discounted cash flow models to estimate the exit price we expect to receive in the principal market for each type of loan in an orderly transaction, which includes both the sale of pools of similar assets and the sale of individual loans. The models incorporate estimates of the rate of return, financing cost, capital structure and/or discount rate expectations of prospective purchasers combined with estimated loan cash flows based on credit losses, payment rates and credit line utilization rates. Where available, the assumptions related to the expectations of prospective purchasers are compared to observable market inputs, including bids from prospective purchasers and certain bond market indices for loans of similar perceived credit quality. Although we utilize and prioritize these market observable inputs in our discounted cash flow models, these inputs are rarely derived from markets with directly comparable loan structures, industries and collateral types. Therefore, valuations of finance receivables held for sale involve significant management judgment, which can result in differences between our fair value estimates and those of other market participants.

Impaired Finance Receivables

Finance receivable impairment is measured by comparing the expected future cash flows discounted at the finance receivable's effective interest rate, or the fair value of the collateral if the finance receivable is collateral dependent, to its carrying amount. If the carrying amount is higher, we establish a reserve based on this difference. This evaluation is inherently subjective, as it requires estimates, including the amount and timing of future cash flows expected to be received on impaired finance receivables and the underlying collateral, which may differ from actual results. Impaired nonaccrual finance receivables represent assets recorded at fair value on a nonrecurring basis since the measurement of required reserves on our impaired finance receivables is significantly dependent on the fair value of the underlying collateral. Fair values of collateral are determined based on the use of appraisals, industry pricing guides, input from market participants, our recent experience selling similar assets or internally developed discounted cash flow models. Fair value measurements recorded during the three and six months ended June 30, 2009 on impaired finance receivables resulted in charges of \$85 million and \$117 million, respectively, to Provision for losses in the Consolidated Statements of Operations.

The evaluation of impaired Revolving loans collateralized by timeshare notes receivable is performed utilizing internally developed cash flow models which incorporate the unique structural features of these loans. Timeshare notes receivables loans are loans to developers of resort properties which are collateralized by pools of consumer notes receivable. These notes receivable are originated by developers in connection with the sale of vacation intervals and typically bear interest at rates in excess of the rate on our loan to the developer. In addition to the interest differential between the consumer notes and our loan to the developers, there are several features of our loans which provide protection from credit losses in the pools of consumer notes. We have a priority interest in all cash flows from these pools of consumer notes, typically advance approximately 90% of the collateral value, have a security interest in either the underlying real estate or the right to use the resort property and often have personal guarantees from the principal of the borrower. Our impairment models incorporate management's best estimate of credit losses in the pools of consumer notes based on historical trends as adjusted for our understanding of current trends in the developer's underwriting practices and the developer's ability to mitigate losses through the repurchase or replacement of defaulted notes.

Repossessed Assets and Properties / Operating Assets Received in Satisfaction of Troubled Finance Receivables

The fair value of repossessed assets and properties and operating assets received in satisfaction of troubled finance receivables is determined based on the use of appraisals, industry pricing guides, input from market participants, the Company's recent experience selling similar assets or internally developed discounted cash flow models. For repossessed assets and properties, which are considered assets held for sale, if the carrying amount of the asset is higher than the estimated fair value, the Company records a corresponding charge to income for the difference. For operating assets received in satisfaction of troubled finance receivables, if the sum of the undiscounted cash flows is estimated to be less than the carrying value, the Company records a charge to income for any shortfall between estimated fair value and the carrying amount. During the three and six months ended June 30, 2009, charges on these assets totaled \$18 million and \$22 million, respectively, and were recorded in Portfolio losses, net of gains in the Consolidated Statements of Operations.

Other Investments

Other investments, which are accounted for under the equity method of accounting, are recorded at fair value if the sum of the undiscounted cash flows from the investment is estimated to be less than the carrying value. There are no active, quoted market prices for our equity method investments. The estimates of fair value are determined utilizing internally developed discounted cash flow models, which incorporate assumptions specific to the nature of the investments' business and underlying assets. These assumptions include industry valuation benchmarks such as discount rates, capitalization rates and cash flow multiples as well as assumptions more specifically related to the amount and timing of the businesses' operating cash flow. There were no charges associated with these assets during the three and six month periods ended June 30, 2009, respectively.

Assets and Liabilities Not Recorded at Fair Value

The carrying values and estimated fair values of Textron Financial's financial instruments which are not recorded at fair value are as follows:

	June 30, 2010		January 2, 2010	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In millions)			
Assets:				
Installment contracts	\$ 1,929	\$ 1,795	\$ 2,204	\$ 2,007
Golf course, timeshare and hotel mortgages	918	815	1,008	924
Revolving loans	761	652	1,058	902
Distribution finance receivables	361	352	709	690
Investment in other marketable securities	59	57	68	56
Retained interests in securitizations, excluding interest-only securities	—	—	6	6
	\$ 4,028	\$ 3,671	\$ 5,053	\$ 4,585
Liabilities:				
Bank line of credit	\$ 1,740	\$ 1,676	\$ 1,740	\$ 1,682
Fixed-rate debt	1,144	1,114	1,534	1,490
Amounts due to Textron Inc.	670	666	472	469
Variable-rate debt	444	440	1,355	1,333
Securitized on-balance sheet debt	427	425	559	548
Subordinated debt	300	227	300	207
	\$ 4,725	\$ 4,548	\$ 5,960	\$ 5,729

Finance Receivables Held for Investment

There are no active, quoted market prices for these finance receivables. The estimate of fair value was determined based on the use of discounted cash flow models which incorporate estimates of the rate of return, financing cost, capital structure and/or discount rate expectations of current market participants combined with estimated loan cash flows based on credit losses, payment rates and credit line utilization rates. Where available, the assumptions related to the expectations of current market participants are compared to observable market inputs, including bids from prospective purchasers of similar loans and certain bond market indices for loans of similar perceived credit quality. Although we utilize and prioritize these market observable inputs in our discounted cash flow models, these inputs are rarely derived from markets with directly comparable loan structures, industries and collateral types. Therefore, all valuations of finance receivables involve significant management judgment, which can result in differences between our fair value estimates and those of other market participants. The carrying amounts of Textron Financial's leveraged leases, finance leases and operating leases (\$281 million, \$263 million and \$202 million, respectively, at June 30, 2010 and \$313 million, \$403 million and \$216 million, respectively, at January 2, 2010), are specifically excluded from this disclosure under generally accepted accounting principles. As a result, a significant portion of the assets that are included in the Company's asset and liability management strategy are excluded from this fair value disclosure.

Investments in Other Marketable Securities

Other marketable securities represent investments in notes receivable issued by securitization trusts which purchase timeshare notes receivable from timeshare developers. These notes are classified as held to maturity and are held at amortized cost. The estimate of fair value was based on observable market inputs for similar securitization interests in markets that are currently inactive.

Debt

At June 30, 2010 and January 2, 2010, 41% and 54%, respectively, of the fair value of debt was determined based on observable market transactions. The remaining fair values were determined based on discounted cash flow analyses using observable market inputs from debt with similar duration, subordination and credit default expectations.

Note 7. Income taxes

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

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Federal statutory income tax rate	(35.0)%	(35.0)%	(35.0)%	(35.0)%
Increase (decrease) in taxes resulting from:				
State income taxes	(2.2)	(2.4)	(2.6)	(1.4)
Foreign tax rate differential	(1.4)	(6.6)	(2.0)	(0.5)
Canadian dollar functional currency	(8.9)	—	(4.8)	—
Change in state valuation allowance	0.3	0.2	2.0	(0.3)
Unrecognized tax benefits and interest	3.7	1.2	3.2	1.6
Tax credits	(0.6)	(0.7)	(0.8)	(0.8)
Change in status of foreign subsidiary	(3.0)	4.5	(1.5)	4.3
Other, net	(0.2)	0.3	(0.1)	0.1
Effective income tax rate	(47.3)%	(38.5)%	(41.6)%	(32.0)%

For the three months ended June 30, 2010, the difference between the statutory and the effective tax rate is primarily attributable to a U.S. tax benefit related to the change of the functional currency of one of the Company's wholly-owned Canadian subsidiaries, a decrease in the taxable amount of a distribution from one of the Company's wholly-owned Canadian subsidiaries, and a benefit for state taxes, partially offset by unrecognized tax benefits and interest, the majority of which is associated with leveraged leases.

For the six months ended June 30, 2010, the difference between the statutory and the effective tax rate is primarily attributable to a U.S. tax benefit related to the change of the functional currency of one of the Company's wholly-owned Canadian subsidiaries, a benefit for state taxes, a change in management's assessment of the realizability of a deferred tax asset in one of the Company's wholly-owned Canadian subsidiaries, partially offset by unrecognized tax benefits and interest, the majority of which is associated with leveraged leases.

For the three months ended June 30, 2009, the difference between the statutory and the effective tax rate was primarily attributable to a change in management's assessment of the realizability of a deferred tax asset in one of the Company's wholly-owned Canadian subsidiaries and the benefit for state taxes, partially offset by an increase in estimate of the taxable amount of a distribution from one of the Company's wholly-owned Canadian subsidiaries and unrecognized tax benefits and interest, the majority of which was associated with leveraged leases.

For the six months ended June 30, 2009, the difference between the statutory and the effective tax rate was primarily attributable to an increase in estimate of the taxable amount of a distribution from one of the Company's wholly-owned Canadian subsidiaries and unrecognized tax benefits and interest, the majority of which was associated with leveraged leases, partially offset by the benefit for state taxes and tax credits.

Note 8. Contingencies

There are pending or threatened lawsuits and other proceedings against Textron Financial and its subsidiaries. Some of these suits and proceedings seek compensatory, treble or punitive damages in substantial amounts. These suits and proceedings are being defended by, or contested on behalf of, Textron Financial and its subsidiaries. On the basis of information presently available, Textron Financial believes any such liability would not have a material effect on Textron Financial's financial position or results of operations.

Note 9. Financial Information about Operating Segments

As described in Note 1. Basis of Presentation, the Company now maintains two segments. The Captive Finance segment finances customer purchases of Textron manufactured aviation products and golf and turf-care equipment. The Non-captive Finance segment is composed of the Asset-Based Lending, Distribution Finance, Golf Mortgage, Hotel, Structured Capital, Timeshare and Other Liquidating product lines. The Non-captive Finance segment also includes unallocated corporate expenses and the impact of charges to both the held for investment and held for sale valuation allowances on the Consolidated Statements of Operations.

	Three Months Ended				Six Months Ended							
	June 30, 2010		June 30, 2009		June 30, 2010		June 30, 2009					
<i>(Dollars in millions)</i>												
Revenues:												
Captive Finance	\$	30	54%	\$	42	49%	\$	66	51%	\$	95	46%
Non-captive Finance		25	46%		44	51%		62	49%		113	54%
Total revenues	\$	55	100%	\$	86	100%	\$	128	100%	\$	208	100%
Loss before income taxes and noncontrolling interest: (1)(2)												
Captive Finance	\$	(5)		\$	(19)		\$	(15)		\$	(44)	
Non-captive Finance		(66)			(80)			(115)			(121)	
Segment loss		(71)			(99)			(130)			(165)	
Restructuring charges		3			5			6			8	
Loss before income taxes and noncontrolling interest	\$	(74)		\$	(104)		\$	(136)		\$	(173)	

	June 30, 2010	January 2, 2010
<i>(In millions)</i>		
Finance assets: (3)		
Captive Finance	\$ 2,659	\$ 3,016
Non-captive Finance	3,309	4,404
Total finance assets	\$ 5,968	\$ 7,420

- (1) Interest expense is allocated to each segment in proportion to its net investment in finance assets. Net investment in finance assets includes finance assets less deferred income taxes, security deposits and other specifically identified liabilities. The interest allocation matches variable-rate finance assets in the Captive Finance segment with variable-rate debt of similar duration and fixed-rate finance assets in the Captive Finance segment with fixed-rate debt of similar duration to the extent possible. The remaining balance of interest expense incurred is included in the Non-captive Finance segment's interest expense.
- (2) Direct operating expenses are included in each segment's loss. Due to the plan to exit all of our Non-captive Finance segment and the resulting variations in personnel levels and job responsibilities, indirect corporate oversight expenses, comprised primarily of executive salaries and benefits, are included in the segment loss of the Non-captive Finance segment, although a portion of these expenses relate to oversight of the Captive Finance segment.
- (3) Finance assets include: finance receivables; equipment on operating leases, net of accumulated depreciation; repossessed assets and properties; operating assets received in satisfaction of troubled finance receivables; investments in other marketable securities; retained interests in securitizations and other short- and long-term investments (some of which are classified in Other assets on Textron Financial's Consolidated Balance Sheets).

Item 1A. Risk Factors

Our business, financial condition and results of operations are subject to various risks, including the risk factors discussed in our Annual Report on Form 10-K for the fiscal year ended January 2, 2010, all of which should be carefully considered by investors in our securities. The risks discussed in our SEC filings are those that we believe currently are the most significant, although additional risks not presently known to us or that we currently deem less significant also may impact our business, financial condition or results of operations, perhaps materially.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

In light of our plan to exit the Non-captive Finance business, we expect to substantially rely on cash from finance receivable collections to fund maturing debt obligations. During the first half of 2010, we liquidated \$1.5 billion of managed finance receivables. These managed finance receivable reductions occurred in both of our segments and all of our product lines, but were primarily driven by Non-captive Finance reductions, including \$582 million (54%) in Distribution Finance and \$220 million (17%) in Timeshare. These reductions resulted from the combination of scheduled finance receivable collections, sales, discounted payoffs, repossession of collateral, charge-offs and impairment charges recorded as Portfolio losses, net of gains in our Consolidated Statements of Operations. Finance receivable reductions in the Distribution Finance product line included a \$208 million sale of finance receivables. In addition, the reduction in managed finance receivables included \$399 million of liquidations in the Captive Finance segment primarily as a result of reduced loan and lease originations. During 2010, we expect to liquidate approximately \$2.2 billion of managed finance receivables, net of originations. We expect a portion of the liquidations, net of originations, will be in the Captive Finance segment. The originations of the Captive Finance segment exclude finance receivables serviced on behalf of another finance subsidiary of Textron.

In order to meet our capital needs, we could access either secured or unsecured debt markets. However, we have borrowed available cash from Textron during the first half of 2010 through an intercompany borrowing arrangement as it has been in the collective economic interest of Textron Financial and Textron to do so. We increased our outstanding intercompany loan balance with Textron to \$645 million at June 30, 2010 from \$447 million at January 2, 2010. In addition, during the first half of 2010, we retired \$1.4 billion of long-term and securitized on-balance sheet debt.

We measure the progress of our exit plan related to the Non-captive Finance segment, in part, based on the percentage of managed finance receivable and other finance asset reductions converted to cash. During the first half of 2010, the Non-captive Finance segment achieved a 93% cash conversion ratio as compared to 95% for the year ended January 2, 2010. This performance was primarily driven by a \$208 million sale of finance receivables for a gain of \$13 million in the Distribution Finance product line during the first quarter of 2010. We expect this ratio to continue to decline over the duration of our exit plan due to the change in mix from shorter term assets in the Distribution Finance and Asset-Based Lending product lines to longer term assets in our Timeshare, Golf Mortgage and Structured Finance product lines and the existence of a higher concentration of nonaccrual finance receivables.

Under a Support Agreement between Textron Financial and Textron, Textron is required to ensure that Textron Financial maintains fixed charge coverage of no less than 125% and consolidated shareholder's equity of no less than \$200 million. In the first half of 2010, Textron Financial's fixed charge coverage ratio was below the required 125%. Textron made cash payments of \$82 million and \$71 million on July 12, 2010 and April 9, 2010, respectively, to Textron Financial, which were reflected as capital contributions, to maintain compliance with the fixed charge coverage ratio.

Results of Operations

Revenues

Revenues decreased \$31 million and \$80 million for the three and six months ended June 30, 2010 as compared to 2009, respectively, primarily due to the following:

	Three Months Ended 2010 vs. 2009	Six Months Ended 2010 vs. 2009
<i>(In millions)</i>		
Lower average finance receivables of \$1.9 billion and \$1.8 billion, respectively	\$(27)	\$(50)
Lower gains on early extinguishment of debt	(37)	(39)
Decrease in servicing and investment income related to securitizations	(8)	(18)
Impact of variable-rate receivable interest rate floors	(7)	(17)
Lower other income	(3)	(12)
Suspended earnings on nonaccrual finance receivables	(3)	(11)
Portfolio losses, net of gains	30	27
Lower securitization losses, including impairments	20	27
Accretion of valuation allowance	5	11

Loss before Income Taxes and Noncontrolling Interest

Loss before income taxes and noncontrolling interest decreased \$30 million and \$37 million for the three and six months ended June 30, 2010 as compared to 2009, respectively, primarily due to the following:

	Three Months Ended 2010 vs. 2009	Six Months Ended 2010 vs. 2009
<i>(In millions)</i>		
Decrease in the provision for loan losses	\$ 43	\$ 64
Portfolio losses, net of gains	30	27
Lower securitization losses, including impairments	20	27
Lower operating and administrative expenses	9	21
Accretion of valuation allowance	5	11
Lower gains on early extinguishment of debt	(37)	(39)
Lower average finance receivables of \$1.9 billion and \$1.8 billion, respectively	(13)	(19)
Decrease in servicing and investment income related to securitizations	(8)	(18)
Impact of variable-rate receivable interest rate floors	(7)	(17)
Lower other income	(3)	(12)
Suspended earnings on nonaccrual finance receivables	(3)	(11)

The provision for loan losses decreased during the three and six month periods of 2010 as compared to 2009 primarily due to a decrease in new accounts identified as nonaccrual during the period.

Portfolio losses, net of gains decreased during the three and six month periods of 2010 as compared to 2009 primarily as a result of a decrease in discounts taken on the early sale or termination of finance receivable assets associated with the liquidation of Distribution Finance and Golf Mortgage finance receivables, lower impairment

charges associated with repossessed aircraft and a \$13 million gain on the sale of one portfolio in the first quarter of 2010.

Operating and administrative expenses decreased during the first three months of 2010 as compared to 2009 mostly due to lower salaries and benefits expense associated with a reduction in workforce as a result of our exit plan.

Accretion of valuation allowance represents the recognition of interest earnings in excess of a loan's contractual rate as a result of the discount rate utilized to record the loan at fair value in previous periods. These interest earnings are recognized over the remaining life of the portfolio to the extent the valuation allowance is not expected to be utilized to absorb losses associated with sales, discounted payoffs or credit losses.

Income Tax Benefit

For the three months ended June 30, 2010, the difference between the statutory and the effective tax rate is primarily attributable to a U.S. tax benefit related to the change of the functional currency of one of the Company's wholly-owned Canadian subsidiaries, a decrease in the taxable amount of a distribution from one of the Company's wholly-owned Canadian subsidiaries, and a benefit for state taxes, partially offset by unrecognized tax benefits and interest, the majority of which is associated with leveraged leases.

For the six months ended June 30, 2010, the difference between the statutory and the effective tax rate is primarily attributable to a U.S. tax benefit related to the change of the functional currency of one of the Company's wholly-owned Canadian subsidiaries, a benefit for state taxes, a change in management's assessment of the realizability of a deferred tax asset in one of the Company's wholly-owned Canadian subsidiaries, partially offset by unrecognized tax benefits and interest, the majority of which is associated with leveraged leases.

For the three months ended June 30, 2009, the difference between the statutory and the effective tax rate was primarily attributable to a change in management's assessment of the realizability of a deferred tax asset in one of the Company's wholly-owned Canadian subsidiaries and the benefit for state taxes, partially offset by an increase in estimate of the taxable amount of a distribution from one of the Company's wholly-owned Canadian subsidiaries and unrecognized tax benefits and interest, the majority of which was associated with leveraged leases.

For the six months ended June 30, 2009, the difference between the statutory and the effective tax rate was primarily attributable to an increase in estimate of the taxable amount of a distribution from one of the Company's wholly-owned Canadian subsidiaries and unrecognized tax benefits and interest, the majority of which was associated with leveraged leases, partially offset by the benefit for state taxes and tax credits.

Forward-looking Information

Certain statements in this Quarterly Report on Form 10-Q and other oral and written statements made by Textron Financial from time to time are forward-looking statements, including those that discuss strategies, goals, outlook or other non-historical matters; or project revenues, income, returns or other financial measures. These forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update or revise any forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements, such as the Risk Factors contained in our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and including the following: (a) changes in worldwide economic, political or regulatory conditions that impact interest and foreign exchange rates; (b) the occurrence of slowdowns or downturns in customer markets in which Textron products are sold or supplied and financed or where we hold finance receivables; (c) the ability to realize full value of finance receivables and investments in securities; (d) the ability to control costs and successful implementation of various cost-reduction programs; (e) increases in pension expenses and other postretirement employee costs; (f) the impact of changes in tax legislation; (g) the ability to maintain portfolio credit quality and certain minimum levels of financial performance required under our committed bank line of credit and under our Support Agreement with Textron; (h) access to financing, including securitizations, at competitive rates; (i) access to equity in the form of retained earnings and capital contributions from Textron; (j) uncertainty in estimating contingent liabilities and establishing reserves to address such contingencies; (k) risks and uncertainties related to dispositions, including

difficulties or unanticipated expenses in connection with the consummation of dispositions or the disruption of current plans and operations; (l) the ability to successfully exit from our commercial finance business, other than the captive finance business; (m) uncertainty in estimating the market value of our Finance receivables held for sale and our Allowance for losses on finance receivables held for investment; (n) bankruptcy or other financial problems at major customers that could cause disruptions or difficulty in collecting amounts owed by such customers; (o) legislative or regulatory actions impacting our operations; (p) difficult conditions in the financial markets which may adversely impact our ability to obtain financing which enables us to offer competitive terms for our new finance receivable originations and, with respect to businesses which we are exiting, our customers' ability to obtain alternative financing negatively impacting their ability to repay amounts owed to us; and (q) continued volatility in the economy resulting in a prolonged downturn in the markets in which we do business.

Item 4. Controls and Procedures

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

There were no changes in Textron Financial's internal control over financial reporting during the quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

TEXTRON FINANCIAL CORPORATION

Item 6. *Exhibits*

- 12 Computation of Ratio of Earnings to Fixed Charges
- 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)
- 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a)
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

SIGNATURES

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

Textron Financial Corporation

Date: July 29, 2010

/s/ Thomas J. Cullen

Thomas J. Cullen
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

TEXTRON FINANCIAL CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	Six Months Ended
	June 30, 2010
	<i>(Dollars in millions)</i>
Loss before income taxes	\$ (136)
Fixed Charges:	
Interest on debt	65
Estimated interest portion of rents	—
Total fixed charges	65
Adjusted loss	\$ (71)
Ratio of earnings to fixed charges ⁽¹⁾	(1.09)x

(1) The ratio of earnings to fixed charges has been computed by dividing loss before income taxes and fixed charges by fixed charges. Fixed charges consist of interest on debt and one-third rental expense as representative of interest portion of rentals. Additional earnings of \$136 million would have been necessary to bring the ratio of earnings to fixed charges to 1.0.

TEXTRON FINANCIAL CORPORATION
CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a)

I, Warren R. Lyons, President and Chief Executive Officer of Textron Financial Corporation certify that:

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

Date: July 29, 2010

/s/ Warren R. Lyons

Warren R. Lyons
President and Chief Executive Officer

TEXTRON FINANCIAL CORPORATION

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a)

I, Thomas J. Cullen, Executive Vice President and Chief Financial Officer of Textron Financial Corporation certify that:

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

Date: July 29, 2010

/s/ Thomas J. Cullen

Thomas J. Cullen
Executive Vice President and Chief
Financial Officer

TEXTRON FINANCIAL CORPORATION

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

In connection with the Quarterly Report of Textron Financial Corporation (the "Company") on Form 10-Q for the period ended June 30, 2010 as filed with the Securities and Exchange Commission on the Date hereof (the "Report"), I, Warren R. Lyons, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Textron Financial Corporation

Date: July 29, 2010

/s/ Warren R. Lyons

Warren R. Lyons
President and Chief Executive Officer

TEXTRON FINANCIAL CORPORATION

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

In connection with the Quarterly Report of Textron Financial Corporation (the "Company") on Form 10-Q for the period ended June 30, 2010 as filed with the Securities and Exchange Commission on the Date hereof (the "Report"), I, Thomas J. Cullen, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Textron Financial Corporation

Date: July 29, 2010

/s/ Thomas J. Cullen

Thomas J. Cullen
Executive Vice President and Chief
Financial Officer