UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from _____ to _____.

Commission File Number 1-5480

Textron Inc.

(Exact name of registrant as specified in its charter)

Delaware	**05-0315468**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
40 Westminster Street, Providence, RI	**02903**
(Address of principal executive offices)	(Zip code)

(401) 421-2800

(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 _ü 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 _ü No___

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

Large accelerated filer [ü] Accelerated filer [__] Non-accelerated filer [__]

Smaller reporting company [__] Emerging growth company [__]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [__]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes __ No_ ü

As of October 13, 2017, there were 263,420,348 shares of common stock outstanding.

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TEXTRON INC.

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For the Quarterly Period Ended September 30, 2017

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TEXTRON INC.
Consolidated Statements of Operations (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
(In millions, except per share amounts)	2017	2016	2017	2016
Revenues				
Manufacturing revenues	$ 3,466	$ 3,231	$ 10,127	$ 9,903
Finance revenues	18	20	54	60
Total revenues	3,484	3,251	10,181	9,963
Costs, expenses and other				
Cost of sales	2,877	2,661	8,451	8,185
Selling and administrative expense	335	323	987	949
Interest expense	44	45	129	132
Special charges	25	115	75	115
Total costs, expenses and other	3,281	3,144	9,642	9,381
Income from continuing operations before income taxes	203	107	539	582
Income tax benefit (expense)	(44)	192	(127)	46
Income from continuing operations	159	299	412	628
Income from discontinued operations, net of income taxes*		122	1	120
Net income	$ 159	$ 421	$ 413	$ 748
Basic earnings per share				
Continuing operations	$ 0.60	$ 1.11	$ 1.54	$ 2.32
Discontinued operations		0.45		0.44
Basic earnings per share	$ 0.60	$ 1.56	$ 1.54	$ 2.76
Diluted earnings per share				
Continuing operations	$ 0.60	$ 1.10	$ 1.53	$ 2.31
Discontinued operations		0.45		0.44
Diluted earnings per share	$ 0.60	$ 1.55	$ 1.53	$ 2.75
Dividends per share				
Common stock	$ 0.02	$ 0.02	$ 0.06	$ 0.06

**Income from discontinued operations, net of income taxes for the three and nine months ended October 1, 2016 primarily includes the settlement of a U.S. federal income tax audit. See Note 12 for additional information.*

See Notes to the Consolidated Financial Statements.

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TEXTRON INC.

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended		Nine Months Ended	
(In millions)	**September 30, 2017**	**October 1, 2016**	**September 30, 2017**	**October 1, 2016**
Net income	$ 159	$ 421	$ 413	$ 748
Other comprehensive income, net of tax:				
Pension and postretirement benefits adjustments, net of reclassifications	23	16	70	52
Foreign currency translation adjustments	34	4	98	8
Deferred gains (losses) on hedge contracts, net of reclassifications	10	(2)	18	23
Other comprehensive income	67	18	186	83
Comprehensive income	$ 226	$ 439	$ 599	$ 831

See Notes to the Consolidated Financial Statements.

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TEXTRON INC.

Consolidated Balance Sheets (Unaudited)

(Dollars in millions)		**September 30, 2017**	**December 31, 2016**
Assets			
Manufacturing group			
Cash and equivalents	$	1,104$	1,137
Accounts receivable, net		1,344	1,064
Inventories		4,518	4,464
Other current assets		408	388
Total current assets		7,374	7,053
Property, plant and equipment, less accumulated depreciation and amortization of $4,212 and $4,123		2,701	2,581
Goodwill		2,354	2,113
Other assets		2,269	2,331
Total Manufacturing group assets		14,698	14,078
Finance group			
Cash and equivalents		190	161
Finance receivables, net		824	935
Other assets		163	184
Total Finance group assets		1,177	1,280
Total assets	$	15,875$	15,358
Liabilities and shareholders equity			
Liabilities			
Manufacturing group			
Short-term debt and current portion of long-term debt	$	364$	363
Accounts payable		1,173	1,273
Accrued liabilities		2,504	2,257
Total current liabilities		4,041	3,893
Other liabilities		1,931	2,354
Long-term debt		3,078	2,414
Total Manufacturing group liabilities		9,050	8,661
Finance group			
Other liabilities		166	220
Debt		841	903
Total Finance group liabilities		1,007	1,123
Total liabilities		10,057	9,784
Shareholders equity			
Common stock		34	34
Capital surplus		1,711	1,599
Treasury stock		(451)	
Retained earnings		5,943	5,546
Accumulated other comprehensive loss		(1,419)	(1,605)
Total shareholders equity		5,818	5,574
Total liabilities and shareholders equity	$	15,875$	15,358
Common shares outstanding *(in thousands)*		263,410	270,287

See Notes to the Consolidated Financial Statements.

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TEXTRON INC.

Consolidated Statements of Cash Flows (Unaudited)

For the Nine Months Ended September 30, 2017 and October 1, 2016, respectively

	Consolidated	
(In millions)	**2017**	**2016**
Cash flows from operating activities		
Net income	$ 413	$ 748
Less: Income from discontinued operations	1	120
Income from continuing operations	412	628
Adjustments to reconcile income from continuing operations		
to net cash provided by operating activities:		
Non-cash items:		
Depreciation and amortization	332	331
Deferred income taxes	140	30
Asset impairments	25	36
Other, net	73	76
Changes in assets and liabilities:		
Accounts receivable, net	(220)	(92)
Inventories	88	(637)
Other assets	3	56
Accounts payable	(178)	146
Accrued and other liabilities	(44)	(290)
Income taxes, net	(40)	(216)
Pension, net	(276)	21
Captive finance receivables, net	76	54
Other operating activities, net	(6)	2
Net cash provided by operating activities of continuing operations	385	145
Net cash used in operating activities of discontinued operations	(24)	(2)
Net cash provided by operating activities	361	143
Cash flows from investing activities		
Net cash used in acquisitions	(330)	(179)
Capital expenditures	(276)	(306)
Finance receivables repaid	27	40
Other investing activities, net	48	53
Net cash used in investing activities	(531)	(392)
Cash flows from financing activities		
Proceeds from long-term debt	682	520
Increase in short-term debt	2	110
Principal payments on long-term debt and nonrecourse debt	(116)	(433)
Purchases of Textron common stock	(451)	(215)
Dividends paid	(16)	(16)
Other financing activities, net	36	20
Net cash provided by (used in) financing activities	137	(14)
Effect of exchange rate changes on cash and equivalents	29	(3)
Net decrease in cash and equivalents	(4)	(266)
Cash and equivalents at beginning of period	1,298	1,005
Cash and equivalents at end of period	$ 1,294	$ 739

See Notes to the Consolidated Financial Statements.

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TEXTRON INC.

Consolidated Statements of Cash Flows (Unaudited) (Continued)

For the Nine Months Ended September 30, 2017 and October 1, 2016, respectively

	Manufacturing Group		Finance Group	
(In millions)	**2017**	**2016**	**2017**	**2016**
Cash flows from operating activities				
Net income	$ 400	$ 733	$ 13	$ 15
Less: Income from discontinued operations	1	120		
Income from continuing operations	399	613	13	15
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:				
Non-cash items:				
Depreciation and amortization	322	322	10	9
Deferred income taxes	141	35	(1)	(5)
Asset impairments	25	36		
Other, net	75	74	(2)	2
Changes in assets and liabilities:				
Accounts receivable, net	(220)	(92)		
Inventories	89	(639)		
Other assets	8	85	(5)	(3)
Accounts payable	(178)	146		
Accrued and other liabilities	(36)	(283)	(8)	(7)
Income taxes, net	4	(212)	(44)	(4)
Pension, net	(276)	21		
Dividends received from Finance group		29		
Other operating activities, net	(6)	2		
Net cash provided by (used in) operating activities of continuing operations	347	137	(37)	7
Net cash used in operating activities of discontinued operations	(24)	(2)		
Net cash provided by (used in) operating activities	323	135	(37)	7
Cash flows from investing activities				
Net cash used in acquisitions	(330)	(179)		
Capital expenditures	(276)	(306)		
Finance receivables repaid			220	220
Finance receivables originated			(117)	(126)
Other investing activities, net	7	5	40	24
Net cash provided by (used in) investing activities	(599)	(480)	143	118
Cash flows from financing activities				
Proceeds from long-term debt	645	345	37	175
Increase in short-term debt	2	110		
Principal payments on long-term debt and nonrecourse debt	(3)	(253)	(113)	(180)
Purchases of Textron common stock	(451)	(215)		
Dividends paid	(16)	(16)		(29)
Other financing activities, net	37	20	(1)	
Net cash provided by (used in) financing activities	214	(9)	(77)	(34)
Effect of exchange rate changes on cash and equivalents	29	(3)		
Net increase (decrease) in cash and equivalents	(33)	(357)	29	91
Cash and equivalents at beginning of period	1,137	946	161	59
Cash and equivalents at end of period	$ 1,104	$ 589	$ 190	$ 150

See Notes to the Consolidated Financial Statements.

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TEXTRON INC.

Notes to the Consolidated Financial Statements (Unaudited)

Note 1. Basis of Presentation

Our Consolidated Financial Statements include the accounts of Textron Inc. (Textron) and its majority-owned subsidiaries. We have prepared these unaudited consolidated financial statements in accordance with accounting principles generally accepted in the U.S. for interim financial information. Accordingly, these interim financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. The consolidated interim financial statements included in this quarterly report should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016. In the opinion of management, the interim financial statements reflect all adjustments (consisting only of normal recurring adjustments) that are necessary for the fair presentation of our consolidated financial position, results of operations and cash flows for the interim periods presented. The Consolidated Statements of Cash Flows contained in these interim financial statements also reflect classification adjustments which impacted the cash flows from operating activities of continuing operations and from investing activities reported in our preliminary condensed cash flows schedules included in an attachment to our earnings press release filed as Exhibit 99.1 to our Current Report on Form 8-K filed on October 19, 2017. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

Our financings are conducted through two separate borrowing groups. The Manufacturing group consists of Textron consolidated with its majority-owned subsidiaries that operate in the Textron Aviation, Bell, Textron Systems and Industrial segments. The Finance group, which also is the Finance segment, consists of Textron Financial Corporation and its consolidated subsidiaries. We designed this framework to enhance our borrowing power by separating the Finance group. Our Manufacturing group operations include the development, production and delivery of tangible goods and services, while our Finance group provides financial services. Due to the fundamental differences between each borrowing group s activities, investors, rating agencies and analysts use different measures to evaluate each group s performance. To support those evaluations, we present balance sheet and cash flow information for each borrowing group within the Consolidated Financial Statements. All significant intercompany transactions are eliminated from the Consolidated Financial Statements, including retail financing activities for inventory sold by our Manufacturing group and financed by our Finance group.

Use of Estimates

We prepare our financial statements in conformity with generally accepted accounting principles, which require us to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates. Our estimates and assumptions are reviewed periodically, and the effects of changes, if any, are reflected in the Consolidated Statements of Operations in the period that they are determined.

We periodically change our estimates of revenues and costs on certain long-term contracts that are accounted for under the percentage-of-completion method of accounting. These changes in estimates increased income from continuing operations before income taxes in the third quarter of 2017 and 2016 by $5 million and $18 million, respectively, ($3 million and $11 million after tax, or $0.01 and $0.04 per diluted share, respectively). For the third quarter of 2017 and 2016, the gross favorable program profit adjustments totaled $20 million and $21 million, respectively, and the gross unfavorable program profit adjustments totaled $15 million and $3 million, respectively.

The changes in estimates increased income from continuing operations before income taxes in the first nine months of 2017 and 2016 by $2 million and $57 million, respectively, ($1 million and $36 million after tax, or $0.00 and $0.13 per diluted share, respectively). For the first nine months of 2017 and 2016, the gross favorable program profit adjustments totaled $63 million and $74 million, respectively, and the gross unfavorable program profit adjustments totaled $61 million and $17 million, respectively.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, that outlines a five-step revenue recognition model based on the principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard is effective as of the beginning of 2018 for public companies and may be adopted either retrospectively or on a modified retrospective basis. We expect to apply the standard on a modified retrospective basis, with a cumulative catch-up adjustment recognized at the beginning of 2018.

Based on our review and analysis of our contracts through the end of the third quarter of 2017, we believe that the standard will primarily impact our Bell and Textron Systems segments, which have long-term production contracts with the U.S. Government as these contracts currently use the units-of-delivery accounting method; under the new standard, these contracts will transition to a

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model that recognizes revenue over time, principally as costs are incurred, resulting in earlier revenue recognition. In 2016, approximately 25% of our revenues were from contracts with the U.S. Government.

We do not expect that the new standard will have a significant impact on revenue recognition for our Textron Aviation and Industrial segments. For these segments, we expect to continue to primarily recognize revenue for contracts at the point in time when the customer accepts delivery of the goods provided.

We are currently evaluating the new disclosure requirements of the standard and expect to complete our assessment of the cumulative effect of adopting the standard in the fourth quarter of 2017. Our evaluation of the standard will continue through the adoption date, including any impacts related to new contracts awarded and any new or emerging interpretations of the standard. We are in the process of implementing changes to business processes, systems and internal controls required to implement and account for the new standard.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, that requires lessees to recognize all leases with a term greater than 12 months on the balance sheet as right-to-use assets and lease liabilities, while lease expenses would continue to be recognized in the statement of operations in a manner similar to current accounting guidance. Under the current accounting guidance, we are not required to recognize assets and liabilities arising from operating leases on the balance sheet. The new standard is effective for our company at the beginning of 2019 and early adoption is permitted. Entities must adopt the standard on a modified retrospective basis whereby it would be applied at the beginning of the earliest comparative year. While we continue to evaluate the impact of the standard on our consolidated financial statements, we expect that it will materially increase our assets and liabilities on our consolidated balance sheet as we recognize the rights and corresponding obligations related to our operating leases.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments Credit Losses.* For most financial assets, such as trade and other receivables, loans and other instruments, this standard changes the current incurred loss model to a forward-looking expected credit loss model, which generally will result in the earlier recognition of allowances for losses. The new standard is effective for our company at the beginning of 2020 with early adoption permitted beginning in 2019. Entities are required to apply the provisions of the standard through a cumulative-effect adjustment to retained earnings as of the effective date. We are currently evaluating the impact of the standard on our consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This standard requires companies to present only the service cost component of net periodic benefit costs in operating income in the same line as other employee compensation costs, while the other components of net periodic benefit costs must be excluded from operating income. In addition, only the service cost component will be eligible for capitalization into inventory. This standard is effective for our company at the beginning of 2018. The reclassification of the other components of net periodic benefit cost out of operating income must be applied retrospectively, while the change in the amount companies may capitalize into inventory can be applied prospectively. We are evaluating the impact of this standard and do not expect it to have a material impact on our consolidated financial statements.

Note 2. Business Acquisitions

On March 6, 2017, we completed the acquisition of Arctic Cat Inc. (Arctic Cat), a publicly-held company (NASDAQ: ACAT), pursuant to a cash tender offer for $18.50 per share, followed by a short-form merger. Arctic Cat manufactures and markets all-terrain vehicles, side-by-sides and snowmobiles, in addition to related parts, garments and accessories. The cash paid for this business, including repayment of debt and net of cash acquired, totaled $316 million. Arctic Cat provides a platform to expand our product portfolio and increase our distribution channel to support growth within our Textron Specialized Vehicles business in the Industrial segment. The operating results of Arctic Cat are included in the Consolidated Statements of Operations since the closing date.

We allocated the consideration paid for this business on a preliminary basis to the assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. We expect to finalize the purchase accounting as soon as reasonably possible during the one-year measurement period. Based on the preliminary allocation, $221 million has been allocated to goodwill, related to expected synergies and the value of the assembled workforce, and $75 million to intangible assets, which includes $18 million of indefinite-lived assets related to tradenames. The definite-lived intangible assets are primarily related to customer/dealer relationships and technology, which will be amortized over 8 to 20 years. We determined the value of the intangible assets using the relief-from-royalty and multi-period excess earnings methods, which utilize significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy. Under these valuation methods, we are required to make estimates and assumptions about sales, operating margins, growth rates, royalty rates and discount rates based on anticipated cash flows and marketplace data. Approximately $5 million of the goodwill is deductible for tax purposes.

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Note 3. Retirement Plans

We provide defined benefit pension plans and other postretirement benefits to eligible employees. The components of net periodic benefit cost (credit) for these plans are as follows:

	Three Months Ended		Nine Months Ended	
(In millions)	**September 30, 2017**	**October 1, 2016**	**September 30, 2017**	**October 1, 2016**
Pension Benefits				
Service cost	$ 25	$ 25	$ 75	$ 74
Interest cost	81	84	242	254
Expected return on plan assets	(127)	(123)	(380)	(368)
Amortization of net actuarial loss	34	26	102	78
Amortization of prior service cost	4	4	12	11
Net periodic benefit cost	$ 17	$ 16	$ 51	$ 49
Postretirement Benefits Other Than Pensions				
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost	3	4	9	12
Amortization of prior service credit	(2)	(6)	(6)	(17)
Net periodic benefit cost (credit)	$ 2	$ (1)	$ 5	$ (3)

In September 2017, we made a $300 million discretionary contribution to fund a U.S. pension plan.

Note 4. Earnings Per Share

We calculate basic and diluted earnings per share (EPS) based on net income, which approximates income available to common shareholders for each period. Basic EPS is calculated using the two-class method, which includes the weighted-average number of common shares outstanding during the period and restricted stock units to be paid in stock that are deemed participating securities as they provide nonforfeitable rights to dividends. Diluted EPS considers the dilutive effect of all potential future common stock, including stock options.

The weighted-average shares outstanding for basic and diluted EPS are as follows:

	Three Months Ended		Nine Months Ended	
(In thousands)	**September 30, 2017**	**October 1, 2016**	**September 30, 2017**	**October 1, 2016**
Basic weighted-average shares outstanding	264,624	270,560	267,409	270,703
Dilutive effect of stock options	2,365	1,539	2,325	1,348
Diluted weighted-average shares outstanding	266,989	272,099	269,734	272,051

Stock options to purchase 1.5 million and 1.2 million shares of common stock are excluded from the calculation of diluted weighted-average shares outstanding for the three and nine months ended September 30, 2017, respectively, as their effect would have been anti-dilutive. Stock options to purchase 3.5 million and 3.6 million shares of common stock are excluded from the calculation of diluted weighted-average shares outstanding for both the three and nine months ended October 1, 2016, as their effect would have been anti-dilutive.

Note 5. Accounts Receivable and Finance Receivables

Accounts Receivable

Accounts receivable is composed of the following:

(In millions)		September 30, 2017		December 31, 2016
Commercial	$	1,061	$	797
U.S. Government contracts		310		294
		1,371		1,091
Allowance for doubtful accounts		(27)		(27)
Total	$	1,344	$	1,064

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We have unbillable receivables, primarily on U.S. Government contracts, that arise when the revenues we have appropriately recognized based on performance cannot be billed yet under terms of the contract. Unbillable receivables within accounts receivable totaled $201 million at September 30, 2017 and $178 million at December 31, 2016.

Finance Receivables

Finance receivables are presented in the following table:

(In millions)		**September 30, 2017**		**December 31, 2016**
Finance receivables*	$	858	$	976
Allowance for losses		(34)		(41)
Total finance receivables, net	$	824	$	935

** Includes finance receivables held for sale of $30 million at both September 30, 2017 and December 31, 2016.*

Credit Quality Indicators and Nonaccrual Finance Receivables

We internally assess the quality of our finance receivables based on a number of key credit quality indicators and statistics such as delinquency,