

TEXTRON INC  
Form 10-Q  
October 27, 2017  
Table of Contents

**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**

(State or other jurisdiction of incorporation or organization)

**40 Westminister Street, Providence, RI**

(Address of principal executive offices)

**05-0315468**

(I.R.S. Employer Identification No.)

**02903**

(Zip code)

**(401) 421-2800**

## Edgar Filing: TEXTRON INC - Form 10-Q

(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, 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

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

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

---

Table of Contents

**TEXTRON INC.**

**Index to Form 10-Q**

**For the Quarterly Period Ended September 30, 2017**

	<b><u>Page</u></b>
<b><u>PART I.</u></b>	
<b><u>FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	
<u>Financial Statements</u>	
<u>Consolidated Statements of Operations (Unaudited)</u>	3
<u>Consolidated Statements of Comprehensive Income (Unaudited)</u>	4
<u>Consolidated Balance Sheets (Unaudited)</u>	5
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	6
<u>Notes to the Consolidated Financial Statements (Unaudited)</u>	
<u>Note 1.</u>	
<u>Basis of Presentation</u>	8
<u>Note 2.</u>	
<u>Business Acquisitions</u>	9
<u>Note 3.</u>	
<u>Retirement Plans</u>	10
<u>Note 4.</u>	
<u>Earnings Per Share</u>	10
<u>Note 5.</u>	
<u>Accounts Receivable and Finance Receivables</u>	10
<u>Note 6.</u>	
<u>Inventories</u>	12
<u>Note 7.</u>	
<u>Warranty Liability</u>	12
<u>Note 8.</u>	
<u>Debt</u>	13
<u>Note 9.</u>	
<u>Derivative Instruments and Fair Value Measurements</u>	13
<u>Note 10.</u>	
<u>Accumulated Other Comprehensive Loss and Other Comprehensive Income</u>	14
<u>Note 11.</u>	
<u>Special Charges</u>	15
<u>Note 12.</u>	
<u>Income Taxes</u>	16
<u>Note 13.</u>	
<u>Commitments and Contingencies</u>	17
<u>Note 14.</u>	
<u>Segment Information</u>	17
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	29
<u>Item 4.</u>	
<u>Controls and Procedures</u>	30
<b><u>PART II.</u></b>	
<b><u>OTHER INFORMATION</u></b>	
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30

<u>Item 6.</u>	<u>Exhibits</u>	30
	<u>Signatures</u>	31

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**TEXTRON INC.**  
**Consolidated Statements of Operations (Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
<i>(In millions, except per share amounts)</i>				
<b>Revenues</b>				
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
<b>Costs, expenses and other</b>				
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
<b>Income from continuing operations</b>	159	299	412	628
Income from discontinued operations, net of income taxes*		122	1	120
<b>Net income</b>	\$ 159\$	421\$	413\$	748
<b>Basic earnings per share</b>				
Continuing operations	\$ 0.60\$	1.11\$	1.54\$	2.32
Discontinued operations		0.45		0.44
<b>Basic earnings per share</b>	\$ 0.60\$	1.56\$	1.54\$	2.76
<b>Diluted earnings per share</b>				
Continuing operations	\$ 0.60\$	1.10\$	1.53\$	2.31
Discontinued operations		0.45		0.44
<b>Diluted earnings per share</b>	\$ 0.60\$	1.55\$	1.53\$	2.75
<b>Dividends per share</b>				
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.

Table of Contents**TEXTRON INC.****Consolidated Statements of Comprehensive Income (Unaudited)**

<i>(In millions)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>October 1,</b>	<b>September 30,</b>	<b>October 1,</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Net income</b>	\$ 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
<b>Comprehensive income</b>	\$ 226\$	439\$	599\$	831

See Notes to the Consolidated Financial Statements.

Table of Contents

## TEXTRON INC.

## Consolidated Balance Sheets (Unaudited)

	September 30,	December 31,
	2017	2016
<i>(Dollars in millions)</i>		
<b>Assets</b>		
<b>Manufacturing group</b>		
Cash and equivalents	\$ 1,104	\$ 1,137
Accounts receivable, net	1,344	1,064
Inventories	4,518	4,464
Other current assets	408	388
<b>Total current assets</b>	<b>7,374</b>	<b>7,053</b>
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
<b>Total Manufacturing group assets</b>	<b>14,698</b>	<b>14,078</b>
<b>Finance group</b>		
Cash and equivalents	190	161
Finance receivables, net	824	935
Other assets	163	184
<b>Total Finance group assets</b>	<b>1,177</b>	<b>1,280</b>
<b>Total assets</b>	<b>\$ 15,875</b>	<b>\$ 15,358</b>
<b>Liabilities and shareholders equity</b>		
<b>Liabilities</b>		
<b>Manufacturing group</b>		
Short-term debt and current portion of long-term debt	\$ 364	\$ 363
Accounts payable	1,173	1,273
Accrued liabilities	2,504	2,257
<b>Total current liabilities</b>	<b>4,041</b>	<b>3,893</b>
Other liabilities	1,931	2,354
Long-term debt	3,078	2,414
<b>Total Manufacturing group liabilities</b>	<b>9,050</b>	<b>8,661</b>
<b>Finance group</b>		
Other liabilities	166	220
Debt	841	903
<b>Total Finance group liabilities</b>	<b>1,007</b>	<b>1,123</b>
<b>Total liabilities</b>	<b>10,057</b>	<b>9,784</b>
<b>Shareholders equity</b>		
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)
<b>Total shareholders equity</b>	<b>5,818</b>	<b>5,574</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 15,875</b>	<b>\$ 15,358</b>
<b>Common shares outstanding (in thousands)</b>	<b>263,410</b>	<b>270,287</b>

See Notes to the Consolidated Financial Statements.





Table of Contents**TEXTRON INC.****Consolidated Statements of Cash Flows (Unaudited)**

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

<i>(In millions)</i>		<b>Consolidated 2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>			
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
<b>Cash flows from investing activities</b>			
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)
<b>Cash flows from financing activities</b>			
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)
<b>Net decrease in cash and equivalents</b>		(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.



Table of Contents**TEXTRON INC.****Consolidated Statements of Cash Flows (Unaudited) (Continued)**

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

<i>(In millions)</i>	<b>Manufacturing Group</b>		<b>Finance Group</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities</b>				
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
<b>Cash flows from investing activities</b>				
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
<b>Cash flows from financing activities</b>				
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)		
<b>Net increase (decrease) in cash and equivalents</b>	<b>(33)</b>	<b>(357)</b>	<b>29</b>	<b>91</b>
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.



Table of Contents

**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

Table of Contents

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.



Table of Contents**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:

<i>(In millions)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2017</b>	<b>October 1, 2016</b>	<b>September 30, 2017</b>	<b>October 1, 2016</b>
<b>Pension Benefits</b>				
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
<b>Postretirement Benefits Other Than Pensions</b>				
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:

<i>(In thousands)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2017</b>	<b>October 1, 2016</b>	<b>September 30, 2017</b>	<b>October 1, 2016</b>
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:

<i>(In millions)</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
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

Table of Contents

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:

<i>(In millions)</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
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, loan balance to estimated collateral value and the financial strength of individual borrowers and guarantors. Because many of these indicators are difficult to apply across an entire class of receivables, we evaluate individual loans on a quarterly basis and classify these loans into three categories based on the key credit quality indicators for the individual loan. These three categories are performing, watchlist and nonaccrual.

We classify finance receivables as nonaccrual if credit quality indicators suggest full collection of principal and interest is doubtful. In addition, we automatically classify accounts as nonaccrual once they are contractually delinquent by more than three months unless collection of principal and interest is not doubtful. Accrual of interest income is suspended for these accounts and all cash collections are generally applied to reduce the net investment balance. Once we conclude that the collection of all principal and interest is no longer doubtful, we resume the accrual of interest and recognize previously suspended interest income at the time either a) the loan becomes contractually current through payment according to the original terms of the loan, or b) if the loan has been modified, following a period of performance under the terms of the modification. Accounts are classified as watchlist when credit quality indicators have deteriorated as compared with typical underwriting criteria, and we believe collection of full principal and interest is probable but not certain. All other finance receivables that do not meet the watchlist or nonaccrual categories are classified as performing.

*Delinquency*

We measure delinquency based on the contractual payment terms of our finance receivables. In determining the delinquency aging category of an account, any/all principal and interest received is applied to the most past-due principal and/or interest amounts due. If a significant portion of the contractually due payment is delinquent, the entire finance receivable balance is reported in accordance with the most past-due delinquency aging category.

## Edgar Filing: TEXTRON INC - Form 10-Q

Finance receivables categorized based on the credit quality indicators and by the delinquency aging category are summarized as follows:

<i>(Dollars in millions)</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Performing	\$ 699\$	758
Watchlist	59	101
Nonaccrual	70	87
Nonaccrual as a percentage of finance receivables	8.45%	9.20%
Less than 31 days past due	\$ 740\$	857
31-60 days past due	38	49
61-90 days past due	20	18
Over 90 days past due	30	22
60 + days contractual delinquency as a percentage of finance receivables	6.04%	4.23%

Table of Contents*Impaired Loans*

On a quarterly basis, we evaluate individual finance receivables for impairment in non-homogeneous portfolios and larger balance accounts in homogeneous loan portfolios. A finance receivable is considered impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement based on our review of the credit quality indicators described above. Impaired finance receivables include both nonaccrual accounts and accounts for which full collection of principal and interest remains probable, but the account's original terms have been, or are expected to be, significantly modified. If the modification specifies an interest rate equal to or greater than a market rate for a finance receivable with comparable risk, the account is not considered impaired in years subsequent to the modification. Interest income recognized on impaired loans was not significant in the first nine months of 2017 or 2016.

A summary of impaired finance receivables, excluding leveraged leases, and the average recorded investment is provided below:

<i>(In millions)</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Recorded investment:		
Impaired loans with related allowance for losses	\$ 33\$	55
Impaired loans with no related allowance for losses	41	65
Total	\$ 74\$	120
Unpaid principal balance	\$ 80\$	125
Allowance for losses on impaired loans	7	11
Average recorded investment	92	101

A summary of the allowance for losses on finance receivables, based on how the underlying finance receivables are evaluated for impairment, is provided below. The finance receivables reported in this table specifically exclude leveraged leases in accordance with U.S. generally accepted accounting principles.

<i>(In millions)</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Allowance based on collective evaluation	\$ 27\$	30
Allowance based on individual evaluation	7	11
Finance receivables evaluated collectively	657	727
Finance receivables evaluated individually	74	120

**Note 6. Inventories**

Inventories are composed of the following:

<i>(In millions)</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
Finished goods	\$ 1,875\$	1,947
Work in process	2,697	2,742
Raw materials and components	813	724

Progress/milestone payments		5,385	5,413
Total	\$	(867)	(949)
		4,518\$	4,464

**Note 7. Warranty Liability**

Changes in our warranty liability are as follows:

<i>(In millions)</i>	Nine Months Ended	
	September 30,	October 1,
	2017	2016
Beginning of period	\$ 138\$	143
Provision	54	58
Settlements	(55)	(59)
Acquisitions	32	2
Adjustments*	(2)	(12)
End of period	\$ 167\$	132

\* Adjustments include changes to prior year estimates, new issues on prior year sales and currency translation adjustments.

Table of Contents

**Note 8. Debt**

Under our shelf registration statement, on September 13, 2017, we issued \$300 million of fixed-rate notes due March 1, 2028 that bear an annual interest rate of 3.375%. The net proceeds of the issuance totaled \$298 million, after deducting underwriting discounts, commissions and offering expenses. In addition, on March 6, 2017, we issued \$350 million of fixed-rate notes due March 15, 2027 that bear an annual interest rate of 3.65%, with net proceeds totaling \$347 million.

**Note 9. Derivative Instruments and Fair Value Measurements**

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 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 exist, requiring companies to develop their own assumptions. Observable inputs that do not meet the criteria of Level 1, which 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 utilized only to the extent that observable inputs are not available or cost effective to obtain.

**Assets and Liabilities Recorded at Fair Value on a Recurring Basis**

We manufacture and sell our products in a number of countries throughout the world, and, therefore, we are exposed to movements in foreign currency exchange rates. We primarily utilize foreign currency exchange contracts with maturities of no more than three years to manage this volatility. These contracts qualify as cash flow hedges and are intended to offset the effect of exchange rate fluctuations on forecasted sales, inventory purchases and overhead expenses. Net gains and losses recognized in earnings and Accumulated other comprehensive loss on cash flow hedges, including gains and losses related to hedge ineffectiveness, were not significant in the periods presented.

Our foreign currency exchange contracts are measured at fair value using the market method valuation technique. The inputs to this technique utilize current foreign currency exchange forward market rates published by third-party leading financial news and data providers. These are observable data that represent the rates that the financial institution uses for contracts entered into at that date; however, they are not based on actual transactions so they are classified as Level 2. At September 30, 2017 and December 31, 2016, we had foreign currency exchange contracts with notional amounts upon which the contracts were based of \$569 million and \$665 million, respectively. At September 30, 2017, the fair value amounts of our foreign currency exchange contracts were a \$19 million asset and an \$9 million liability. At December 31, 2016, the fair value amounts of our foreign currency exchange contracts were a \$7 million asset and a \$17 million liability.

We hedge our net investment position in major currencies and generate foreign currency interest payments that offset other transactional exposures in these currencies. To accomplish this, we borrow directly in foreign currency and designate a portion of foreign currency debt as a hedge of a net investment. We record changes in the fair value of these contracts in other comprehensive income to the extent they are effective as cash flow hedges. Currency effects on the effective portion of these hedges, which are reflected in the foreign currency translation adjustments within Accumulated other comprehensive loss, were not significant in the periods presented.

**Assets Recorded at Fair Value on a Nonrecurring Basis**

During the periods ended September 30, 2017 and December 31, 2016, the Finance group's impaired nonaccrual finance receivables of \$26 million and \$44 million, respectively, were measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3). 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. For impaired nonaccrual finance receivables secured by aviation assets, the fair values of collateral are determined primarily based on the use of industry pricing guides. Fair value measurements recorded on impaired finance receivables were not significant for both the third quarter and first nine months of 2017 and 2016.



Table of Contents

**Assets and Liabilities Not Recorded at Fair Value**

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

	September 30, 2017		December 31, 2016	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<i>(In millions)</i>				
<b>Manufacturing group</b>				
Debt, excluding leases	\$ (3,358)	\$ (3,504)	\$ (2,690)	\$ (2,809)
<b>Finance group</b>				
Finance receivables, excluding leases	617	656	729	758
Debt	(841)	(810)	(903)	(831)

Fair value for the Manufacturing group debt is determined using market observable data for similar transactions (Level 2). The fair value for the Finance group debt was determined primarily based on discounted cash flow analyses using observable market inputs from debt with similar duration, subordination and credit default expectations (Level 2). Fair value estimates for finance receivables were determined based on internally developed discounted cash flow models primarily utilizing significant unobservable inputs (Level 3), which include 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 expectations of borrowers' ability to make payments on a timely basis.

**Note 10. Accumulated Other Comprehensive Loss and Other Comprehensive Income**

The components of Accumulated Other Comprehensive Loss are presented below:

	Pension and Postretirement Benefits Adjustments	Foreign Currency Translation Adjustments	Deferred	Accumulated
			Gains (Losses) on Hedge Contracts	Other Comprehensive Loss
<i>(In millions)</i>				
<b>For the nine months ended September 30, 2017</b>				
Beginning of period	\$ (1,505)	\$ (96)	\$ (4)	\$ (1,605)
Other comprehensive income before reclassifications		98	10	108
Reclassified from Accumulated other comprehensive loss	70		8	78
Other comprehensive income	70	98	18	186
End of period	\$ (1,435)	\$ 2	\$ 14	\$ (1,419)
<b>For the nine months ended October 1, 2016</b>				
Beginning of period	\$ (1,327)	\$ (47)	\$ (24)	\$ (1,398)
Other comprehensive income before reclassifications	5	8	11	24
Reclassified from Accumulated other comprehensive loss	47		12	59
Other comprehensive income	52	8	23	83
End of period	\$ (1,275)	\$ (39)	\$ (1)	\$ (1,315)



Table of Contents

The before and after-tax components of other comprehensive income are presented below:

<i>(In millions)</i>	September 30, 2017			October 1, 2016		
	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
<b>Three Months Ended</b>						
Pension and postretirement benefits adjustments:						
Amortization of net actuarial loss*	\$ 34	\$(12)	22	\$ 26	\$(9)	17
Amortization of prior service cost (credit)*	2	(1)	1	(2)	1	(1)
Pension and postretirement benefits adjustments, net	36	(13)	23	24	(8)	16
Deferred gains (losses) on hedge contracts:						
Current deferrals	9	(2)	7	(3)		(3)
Reclassification adjustments	3		3	1		1
Deferred gains (losses) on hedge contracts, net	12	(2)	10	(2)		(2)
Foreign currency translation adjustments	31	3	34	13	(9)	4
Total	\$ 79	\$(12)	67	\$ 35	\$(17)	18
<b>Nine Months Ended</b>						
Pension and postretirement benefits adjustments:						
Amortization of net actuarial loss*	\$ 102	\$(36)	66	\$ 78	\$(28)	50
Amortization of prior service cost (credit)*	6	(2)	4	(6)	3	(3)
Unrealized gains				7	(2)	5
Pension and postretirement benefits adjustments, net	108	(38)	70	79	(27)	52
Deferred gains on hedge contracts:						
Current deferrals	14	(4)	10	17	(6)	11
Reclassification adjustments	9	(1)	8	16	(4)	12
Deferred gains on hedge contracts, net	23	(5)	18	33	(10)	23
Foreign currency translation adjustments	91	7	98	24	(16)	8
Total	\$ 222	\$(36)	186	\$ 136	\$(53)	83

\*These components of other comprehensive income are included in the computation of net periodic pension cost. See Note 11 of our 2016 Annual Report on Form 10-K for additional information.

**Note 11. Special Charges**

In the third quarter of 2016, we initiated a plan to restructure and realign our businesses by implementing headcount reductions, facility consolidations and other actions in order to improve overall operating efficiency across Textron. In connection with this plan, we recorded special charges of \$15 million and \$42 million in the third quarter and first nine months of 2017, respectively, and \$115 million of special charges in both the third quarter and first nine months of 2016. Since the inception of the 2016 plan, we have incurred a total of \$84 million of severance costs, \$63 million of asset impairments and \$18 million in contract terminations and other costs. Of these amounts, \$67 million was incurred at Textron Systems, \$63 million at Textron Aviation, \$29 million at Industrial and \$6 million at Bell and Corporate. The total headcount

reduction under this plan is expected to be approximately 2,000 positions, representing approximately 5% of our workforce.

In connection with the acquisition of Arctic Cat, as discussed in Note 2, we initiated a restructuring plan in the first quarter of 2017 to integrate this business into our Textron Specialized Vehicles business within the Industrial segment to reduce operating redundancies and maximize efficiencies. As a result of this plan, we recorded restructuring charges of \$8 million and \$27 million in the third quarter and first nine months of 2017, respectively. Under this plan, we have incurred a total of \$19 million of severance costs, largely related to change-of-control provisions, and \$8 million of contract termination and other costs. In addition, we recorded \$2 million and \$6 million of acquisition-related transaction and integration costs in the third quarter and first nine months of 2017, respectively.

We expect both the 2016 Plan and the Arctic Cat plan to be complete by the end of 2017 with approximately \$10 million in aggregate special charges expected in the fourth quarter of 2017.

Table of Contents

Special charges recorded for both plans are as follows:

<i>(In millions)</i>	Severance Costs	Asset Impairments	Contract Terminations and Other	Acquisition Integration/ Transaction Costs	Total Special Charges
<b>For the three months ended September 30, 2017</b>					
Industrial	\$ 1\$	1\$	9\$	2\$	13
Textron Aviation	6				6
Textron Systems	1	3	2		6
	\$ 8\$	4\$	11\$	2\$	25
<b>For the three months ended October 1, 2016</b>					
Industrial	\$ 11\$	2\$	\$	\$	13
Textron Aviation	34	1			35
Textron Systems	13	33	13		59
Bell	8				8
	\$ 66\$	36\$	13\$	\$	115
<b>For the nine months ended September 30, 2017</b>					
Industrial	\$ 20\$	1\$	15\$	6\$	42
Textron Aviation	11	17			28
Textron Systems	2	7	(4)		5
	\$ 33\$	25\$	11\$	6\$	75
<b>For the nine months ended October 1, 2016</b>					
Industrial	\$ 11\$	2\$	\$	\$	13
Textron Aviation	34	1			35
Textron Systems	13	33	13		59
Bell	8				8
	\$ 66\$	36\$	13\$	\$	115

An analysis of our restructuring reserve activity for both plans in the first nine months of 2017 is summarized below:

<i>(In millions)</i>	Severance Costs	Contract Terminations and Other	Total
Balance at December 31, 2016	\$ 50\$	13\$	63
Provision for Arctic Cat plan	19	8	27
Provision for 2016 plan	15	11	26
Reversals*	(1)	(8)	(9)
Cash paid	(64)	(11)	(75)
Balance at September 30, 2017	\$ 19\$	13\$	32

\*Primarily related to favorable contract negotiations in the Textron Systems segment.

We expect cash payments for both restructuring plans to be approximately \$30 million in the fourth quarter of 2017. Severance costs generally are paid on a lump-sum basis and include outplacement costs, which are paid in accordance with normal payment terms.

**Note 12. Income Taxes**

Income tax expense equated to an effective income tax rate of 21.7% and 23.6% in the third quarter and first nine months of 2017, respectively. The third quarter of 2017 included a net discrete tax benefit of \$15 million, largely related to state income taxes, which included a unitary filing election that resulted in a non-recurring benefit in the quarter and state refund claims.

We recognized an income tax benefit of \$192 million in the third quarter of 2016 and \$46 million in the first nine months of 2016, largely related to a settlement with the U.S. Internal Revenue Service Office of Appeals for our 1998 to 2008 tax years, which resulted in a \$206 million benefit recognized in continuing operations. We also recognized a \$113 million benefit in discontinued operations related to the settlement. In addition to the \$206 million benefit, the effective tax rate for the third quarter of 2016 was favorably impacted by \$9 million in higher qualified research and development expenses and \$7 million from a change in the mix of our earnings from U.S. to non-U.S., which includes jurisdictions with lower tax rates than the U.S. federal statutory rate. Our U.S. earnings declined primarily due to the impact of restructuring activities as discussed in Note 11.

Table of Contents**Note 13. Commitments and Contingencies**

We are subject to legal proceedings and other claims arising out of the conduct of our business, including proceedings and claims relating to commercial and financial transactions; government contracts; alleged lack of compliance with applicable laws and regulations; production partners; product liability; patent and trademark infringement; employment disputes; and environmental, safety and health matters. Some of these legal proceedings and claims seek damages, fines or penalties in substantial amounts or remediation of environmental contamination. As a government contractor, we are subject to audits, reviews and investigations to determine whether our operations are being conducted in accordance with applicable regulatory requirements. Under federal government procurement regulations, certain claims brought by the U.S. Government could result in our suspension or debarment from U.S. Government contracting for a period of time. On the basis of information presently available, we do not believe that existing proceedings and claims will have a material effect on our financial position or results of operations.

**Note 14. Segment Information**

We operate in, and report financial information for, the following five business segments: Textron Aviation, Bell, Textron Systems, Industrial and Finance. Segment profit is an important measure used for evaluating performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense, certain corporate expenses and special charges. The measurement for the Finance segment includes interest income and expense along with intercompany interest income and expense.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
<i>(In millions)</i>				
<b>Revenues</b>				
Textron Aviation	\$ 1,154	\$ 1,198	\$ 3,295	\$ 3,485
Bell	812	734	2,334	2,352
Textron Systems	458	413	1,351	1,224
Industrial	1,042	886	3,147	2,842
Finance	18	20	54	60
Total revenues	\$ 3,484	\$ 3,251	\$ 10,181	\$ 9,963
<b>Segment Profit</b>				
Textron Aviation	\$ 93	\$ 100	\$ 183	\$ 254
Bell	106	97	301	260
Textron Systems	40	44	102	133
Industrial	49	66	207	256
Finance	7	3	16	15
Segment profit	295	310	809	918
Corporate expenses and other, net	(30)	(53)	(88)	(116)
Interest expense, net for Manufacturing group	(37)	(35)	(107)	(105)
Special charges	(25)	(115)	(75)	(115)
Income from continuing operations before income taxes	\$ 203	\$ 107	\$ 539	\$ 582





Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations****Consolidated Results of Operations**

<i>(Dollars in millions)</i>	Three Months Ended			%	Nine Months Ended		%
	September 30, 2017	October 1, 2016	Change		September 30, 2017	October 1, 2016	
Revenues	\$ 3,484	\$ 3,251	7%	\$ 10,181	\$ 9,963	2%	
Operating expenses	3,212	2,984	8%	9,438	9,134	3%	
Cost of sales	2,877	2,661	8%	8,451	8,185	3%	
Selling and administrative expense	335	323	4%	987	949	4%	
Gross margin percentage of Manufacturing revenues	17.0%	17.6%		16.5%	17.3%		

An analysis of our consolidated operating results is set forth below. A more detailed analysis of our segments' operating results is provided in the Segment Analysis section on pages 20 to 25.

**Revenues**

Revenues increased \$233 million, 7%, in the third quarter of 2017, compared with the third quarter of 2016, largely driven by increases in the Industrial, Bell and Textron Systems segments, partially offset by lower revenues at the Textron Aviation segment. The net revenue increase included the following factors:

- Higher Industrial revenues of \$156 million, primarily due to the impact from the acquisition of Arctic Cat described in the Segment Analysis section below.
- Higher Bell revenues of \$78 million, primarily due to an increase in commercial revenues of \$107 million, largely related to higher volume.
- Higher Textron Systems revenues of \$45 million, primarily due to higher volume of \$74 million in the Marine and Land Systems product line, partially offset by lower volume of \$49 million in the Weapons and Sensors and the Unmanned Systems product lines.
- Lower Textron Aviation revenues of \$44 million, primarily due to lower volume and mix of \$65 million, largely reflecting lower pre-owned aircraft volume.

Revenues increased \$218 million in the first nine months of 2017, compared with the first nine months of 2016, largely driven by increases in the Industrial and Textron Systems segments, partially offset by lower revenues at the Textron Aviation and Bell segments. The net revenue increase included the following factors:

- Higher Industrial revenues of \$305 million, primarily due to the impact from the acquisition of Arctic Cat.
- Higher Textron Systems revenues of \$127 million, primarily due to higher volume of \$194 million in the Marine and Land Systems product line, partially offset by lower volume of \$105 million in the Weapons and Sensors and the Unmanned Systems product lines.
-

## Edgar Filing: TEXTRON INC - Form 10-Q

Lower Textron Aviation revenues of \$190 million, primarily due to lower volume and mix of \$230 million, largely the result of lower military and commercial turboprop volume.

- Lower Bell revenues of \$18 million, primarily due to a decrease in V-22 program revenues of \$82 million, largely reflecting lower aircraft deliveries, and a decrease in other military revenues of \$43 million, primarily due to lower H-1 deliveries, partially offset by an increase in commercial revenues of \$107 million, primarily due to higher deliveries.

### **Cost of Sales and Selling and Administrative Expense**

Manufacturing cost of sales and selling and administrative expense together comprise our operating expenses. Cost of sales increased \$216 million, 8%, and \$266 million, 3%, in the third quarter and first nine months of 2017, respectively, compared with the corresponding periods of 2016, primarily related to the acquisition of Arctic Cat. The increase in the third quarter of 2017 was also impacted by higher net volume as described above.

Selling and administrative expense increased \$12 million, 4%, in the third quarter of 2017, and \$38 million, 4%, in the first nine months of 2017, compared with the corresponding periods of 2016, primarily due to an increase from acquired businesses, largely related to the acquisition of Arctic Cat.

Table of Contents**Special Charges**

In the third quarter of 2016, we initiated a plan to restructure and realign our businesses by implementing headcount reductions, facility consolidations and other actions in order to improve overall operating efficiency across Textron. In connection with this plan, we recorded special charges of \$15 million and \$42 million in the third quarter and first nine months of 2017, respectively, and \$115 million of special charges in both the third quarter and first nine months of 2016. Since the inception of the 2016 plan, we have incurred a total of \$84 million of severance costs, \$63 million of asset impairments and \$18 million in contract terminations and other costs. Of these amounts, \$67 million was incurred at Textron Systems, \$63 million at Textron Aviation, \$29 million at Industrial and \$6 million at Bell and Corporate. The total headcount reduction under this plan is expected to be approximately 2,000 positions, representing approximately 5% of our workforce.

In connection with the acquisition of Arctic Cat, as discussed in Note 2, we initiated a restructuring plan in the first quarter of 2017 to integrate this business into our Textron Specialized Vehicles business within the Industrial segment to reduce operating redundancies and maximize efficiencies. As a result of this plan, we recorded restructuring charges of \$8 million and \$27 million in the third quarter and first nine months of 2017, respectively. Under this plan, we have incurred a total of \$19 million of severance costs, largely related to change-of-control provisions, and \$8 million of contract termination and other costs. In addition, we recorded \$2 million and \$6 million of acquisition-related transaction and integration costs in the third quarter and first nine months of 2017, respectively.

We expect both the 2016 Plan and the Arctic Cat plan to be complete by the end of 2017 with approximately \$10 million in aggregate special charges expected in the fourth quarter of 2017.

Special charges recorded for both plans are as follows:

<i>(In millions)</i>	Severance Costs	Asset Impairments	Contract Terminations and Other	Acquisition Integration/ Transaction/ Costs	Total Special Charges
<b>For the three months ended September 30, 2017</b>					
Industrial	\$ 1\$	1\$	9\$	2\$	13
Textron Aviation	6				6
Textron Systems	1	3	2		6
	\$ 8\$	4\$	11\$	2\$	25
<b>For the three months ended October 1, 2016</b>					
Industrial	\$ 11\$	2\$	\$	\$	13
Textron Aviation	34	1			35
Textron Systems	13	33	13		59
Bell	8				8
	\$ 66\$	36\$	13\$	\$	115
<b>For the nine months ended September 30, 2017</b>					
Industrial	\$ 20\$	1\$	15\$	6\$	42
Textron Aviation	11	17			28
Textron Systems	2	7	(4)		5

Edgar Filing: TEXTRON INC - Form 10-Q

	\$	33\$	25\$	11\$	6\$	75
<b>For the nine months ended October 1, 2016</b>						
Industrial	\$	11\$	2\$	\$	\$	13
Textron Aviation		34	1			35
Textron Systems		13	33	13		59
Bell		8				8
	\$	66\$	36\$	13\$	\$	115

**Income Taxes**

Income tax expense equated to an effective income tax rate of 21.7% and 23.6% in the third quarter and first nine months of 2017, respectively. The third quarter of 2017 included a net discrete tax benefit of \$15 million, largely related to state income taxes, which included a unitary filing election that resulted in a non-recurring benefit in the quarter and state refund claims.

We recognized an income tax benefit of \$192 million in the third quarter of 2016 and \$46 million in the first nine months of 2016, largely related to a settlement with the U.S. Internal Revenue Service Office of Appeals for our 1998 to 2008 tax years, which resulted in a \$206 million benefit recognized in continuing operations. We also recognized a \$113 million benefit in discontinued operations related to the settlement. In addition to the \$206 million benefit, the effective tax rate for the third quarter of 2016 was favorably impacted by \$9 million in higher qualified research and development expenses and \$7 million from a change in the mix

Table of Contents

of our earnings from U.S. to non-U.S., which includes jurisdictions with lower tax rates than the U.S. federal statutory rate. Our U.S. earnings declined primarily due to the impact of restructuring activities as discussed in Note 11.

**Backlog**

	<b>September 30,</b>	<b>December 31,</b>
<i>(In millions)</i>	<b>2017</b>	<b>2016</b>
Bell	\$ 5,005\$	5,360
Textron Systems	1,473	1,841
Textron Aviation	1,165	1,041
Total backlog	\$ 7,643\$	8,242

Segment Analysis

We operate in, and report financial information for, the following five business segments: Textron Aviation, Bell, Textron Systems, Industrial and Finance. Segment profit is an important measure used for evaluating performance and for decision-making purposes. Segment profit for the manufacturing segments excludes interest expense, certain corporate expenses and special charges. The measurement for the Finance segment includes interest income and expense along with intercompany interest income and expense.

In our discussion of comparative results for the Manufacturing group, changes in revenues and segment profit typically are expressed for our commercial business in terms of volume, pricing, foreign exchange and acquisitions. Additionally, changes in segment profit may be expressed in terms of mix, inflation and cost performance. Volume changes in revenues represent increases/decreases in the number of units delivered or services provided. Pricing represents changes in unit pricing. Foreign exchange is the change resulting from translating foreign-denominated amounts into U.S. dollars at exchange rates that are different from the prior period. Revenues generated by acquired businesses are reflected in Acquisitions for a twelve-month period. For segment profit, mix represents a change due to the composition of products and/or services sold at different profit margins. Inflation represents higher material, wages, benefits, pension or other costs. Performance reflects an increase or decrease in research and development, depreciation, selling and administrative costs, warranty, product liability, quality/scrap, labor efficiency, overhead, product line profitability, start-up, ramp up and cost-reduction initiatives or other manufacturing inputs.

Approximately 25% of our 2016 revenues were derived from contracts with the U.S. Government. For our segments that have significant contracts with the U.S. Government, we typically express changes in segment profit related to the government business in terms of volume, changes in program performance or changes in contract mix. Changes in volume that are described in net sales typically drive corresponding changes in our segment profit based on the profit rate for a particular contract. Changes in program performance typically relate to profit recognition associated with revisions to total estimated costs at completion that reflect improved or deteriorated operating performance or award fee rates. Changes in contract mix refers to changes in operating margin due to a change in the relative volume of contracts with higher or lower fee rates such that the overall average margin rate for the segment changes.

**Textron Aviation**

Edgar Filing: TEXTRON INC - Form 10-Q

	Three Months Ended		Nine Months Ended	
	September 30,	October 1,	September 30,	October 1,
<i>(Dollars in millions)</i>	2017	2016	2017	2016
Revenues	\$ 1,154	\$ 1,198	\$ 3,295	\$ 3,485
Operating expenses	1,061	1,098	3,112	3,231
Segment profit	93	100	183	254
Profit margin	8.1%	8.3%	5.6%	7.3%

Table of Contents**Textron Aviation Revenues and Operating Expenses**

The following factors contributed to the change in Textron Aviation's revenues for the periods:

		<b>Q3 2017</b>	<b>YTD 2017</b>
		<b>versus</b>	<b>versus</b>
		<b>Q3 2016</b>	<b>YTD 2016</b>
<i>(In millions)</i>			
Volume and mix	\$	(65)\$	(230)
Other		21	40
Total change	\$	(44)\$	(190)

Textron Aviation's revenues decreased \$44 million, 4%, in the third quarter of 2017, compared with the third quarter of 2016, primarily due to lower volume and mix of \$65 million, largely reflecting lower pre-owned aircraft volume. We delivered 41 Citation jets, 24 King Air turboprops and 5 Beechcraft T-6 trainers in the third quarter of 2017, compared with 41 Citation jets, 29 King Air turboprops and 8 Beechcraft T-6 trainers in the third quarter of 2016. The portion of the segment's revenues derived from aftermarket sales and services represented 35% of its total revenues in the third quarter of 2017, compared with 30% in the third quarter of 2016.

In the first nine months of 2017, Textron Aviation's revenues decreased \$190 million, 5%, compared with the first nine months of 2016, primarily due to lower volume and mix of \$230 million, largely the result of lower military and commercial turboprop volume. We delivered 122 Citation jets, 55 King Air turboprops and 11 Beechcraft T-6 trainers in the first nine months of 2017, compared with 120 Citation jets, 78 King Air turboprops and 30 Beechcraft T-6 trainers in the first nine months of 2016. The portion of the segment's revenues derived from aftermarket sales and services represented 35% of its total revenues in the first nine months of 2017, compared with 33% in the first nine months of 2016.

Textron Aviation's operating expenses decreased \$37 million, 3%, in the third quarter of 2017 and decreased \$119 million, 4%, in the first nine months of 2017, compared with the corresponding periods of 2016. The decrease in the first nine months of 2017 was largely due to lower net volume as described above.

**Textron Aviation Segment Profit**

The following factors contributed to the change in Textron Aviation's segment profit for the periods:

		<b>Q3 2017</b>	<b>YTD 2017</b>
		<b>versus</b>	<b>versus</b>
		<b>Q3 2016</b>	<b>YTD 2016</b>
<i>(In millions)</i>			
Volume and mix	\$	(14)\$	(90)
Pricing, net of inflation		22	35
Performance and other		(15)	(16)
Total change	\$	(7)\$	(71)

## Edgar Filing: TEXTRON INC - Form 10-Q

Segment profit at Textron Aviation decreased \$7 million, 7%, in the third quarter of 2017, compared with the third quarter of 2016, primarily as a result of an unfavorable impact of \$15 million from performance and other, lower net volume and mix of \$14 million, partially offset by a favorable impact of \$22 million from pricing, net of inflation.

Segment profit at Textron Aviation decreased \$71 million, 28%, in the first nine months of 2017, compared with the first nine months of 2016, primarily as a result of lower net volume as described above.

### Bell

<i>(Dollars in millions)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Revenues:				
V-22 program	\$ 267	\$ 280	\$ 789	\$ 871
Other military	197	213	640	683
Commercial	348	241	905	798
Total revenues	812	734	2,334	2,352
Operating expenses	706	637	2,033	2,092
Segment profit	106	97	301	260
Profit margin	13.1%	13.2%	12.9%	11.1%

Bell's major U.S. Government programs at this time are the V-22 tiltrotor aircraft and the H-1 helicopter platforms, which are both in the production stage and represent a significant portion of Bell's revenues from the U.S. Government.



Table of Contents**Bell Revenues and Operating Expenses**

The following factors contributed to the change in Bell's revenues for the periods:

<i>(In millions)</i>	<b>Q3 2017</b>	<b>YTD 2017</b>
	<b>versus</b>	<b>versus</b>
	<b>Q3 2016</b>	<b>YTD 2016</b>
Volume and mix	\$ 72\$	(32)
Other	6	14
Total change	\$ 78\$	(18)

Bell's revenues increased \$78 million, 11%, in the third quarter of 2017, compared with the third quarter of 2016, primarily due to the following factors:

- \$107 million increase in commercial revenues, primarily due to higher volume. We delivered 39 commercial aircraft in the third quarter of 2017, compared with 25 aircraft in the third quarter of 2016.
- \$16 million decrease in other military revenues, primarily reflecting lower aftermarket revenues. We delivered 8 H-1 aircraft in both the third quarter of 2017 and 2016.
- \$13 million decrease in V-22 program revenues, primarily reflecting lower aircraft deliveries. We delivered 5 V-22 aircraft in the third quarter of 2017, compared with 6 V-22 aircraft in the third quarter of 2016.

Bell's revenues decreased \$18 million in the first nine months of 2017, compared with the first nine months of 2016, primarily due to the following factors:

- \$82 million decrease in V-22 program revenues, primarily reflecting lower aircraft deliveries. We delivered 15 V-22 aircraft in the first nine months of 2017, compared with 18 V-22 aircraft in the first nine months of 2016.
- \$43 million decrease in other military revenues, primarily reflecting lower H-1 deliveries, as we delivered 25 H-1 aircraft in the first nine months of 2017, compared with 27 H-1 aircraft in the first nine months of 2016.
- \$107 million increase in commercial revenues, primarily due to higher deliveries. Bell delivered 87 commercial aircraft in the first nine months of 2017, compared with 79 aircraft in the first nine months of 2016.

Bell's operating expenses increased \$69 million, 11%, in the third quarter of 2017, compared with the third quarter of 2016, largely the result of higher net volume as described above. Bell's operating expenses decreased \$59 million, 3%, in the first nine months of 2017, compared with the first nine months of 2016, primarily due to improved performance as described below.

**Bell Segment Profit**

The following factors contributed to the change in Bell's segment profit for the periods:

Edgar Filing: TEXTRON INC - Form 10-Q

<i>(In millions)</i>		Q3 2017 versus Q3 2016	YTD 2017 versus YTD 2016
Performance and other	\$	6\$	75
Volume and mix		3	(34)
Total change	\$	9\$	41

Bell's segment profit increased \$9 million, 9%, in the third quarter of 2017, compared with the third quarter of 2016, primarily due to a favorable impact from performance and other of \$6 million.

Bell's segment profit increased \$41 million, 16%, in the first nine months of 2017, compared with the first nine months of 2016, primarily due to a favorable impact from performance and other of \$75 million, largely the result of improved manufacturing performance and lower research and development costs, partially offset by an unfavorable impact from volume and mix, primarily related to commercial aftermarket and support.

Table of Contents

**Textron Systems**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>October 1,</b>	<b>September 30,</b>	<b>October 1,</b>
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<i>(Dollars in millions)</i>				
Revenues	\$ 458\$	413\$	1,351\$	1,224
Operating expenses	418	369	1,249	1,091
Segment profit	40	44	102	133
Profit margin	8.7%	10.7%	7.5%	10.9%

**Textron Systems Revenues and Operating Expenses**

The following factors contributed to the change in Textron Systems revenues for the periods:

<i>(In millions)</i>	<b>Q3 2017</b>		<b>YTD 2017</b>	
	<b>versus</b>		<b>versus</b>	
	<b>Q3 2016</b>	<b>YTD 2016</b>	<b>Q3 2016</b>	<b>YTD 2016</b>
Volume	\$ 43\$	113		
Acquisitions		10		
Other	2	4		
Total change	\$ 45\$	127		

Revenues at Textron Systems increased \$45 million, 11%, in the third quarter of 2017, compared with the third quarter of 2016, primarily due to higher volume of \$74 million in the Marine and Land Systems product line, partially offset by lower volume of \$49 million in the Weapons and Sensors and the Unmanned Systems product lines.

Revenues at Textron Systems increased \$127 million, 10%, in the first nine months of 2017, compared with the first nine months of 2016, primarily due to higher volume of \$194 million in the Marine and Land Systems product line, partially offset by lower volume of \$105 million in the Weapons and Sensors and the Unmanned Systems product lines.

Textron Systems operating expenses increased \$49 million, 13%, in the third quarter of 2017 and \$158 million, 14%, in the first nine months of 2017, compared with the corresponding periods of 2016, primarily due to higher volume as described above. The increase in the first nine months of 2017 was also impacted by an unfavorable program adjustment described below.

**Textron Systems Segment Profit**

The following factors contributed to the change in Textron Systems segment profit for the periods:

Edgar Filing: TEXTRON INC - Form 10-Q

		<b>Q3 2017</b>	<b>YTD 2017</b>
		<b>versus</b>	<b>versus</b>
		<b>Q3 2016</b>	<b>YTD 2016</b>
<i>(In millions)</i>			
Performance	\$	(1)\$	(21)
Volume and mix		(2)	(5)
Other		(1)	(5)
Total change	\$	(4)\$	(31)

Textron Systems segment profit decreased \$4 million in the third quarter of 2017 and \$31 million, 23%, in the first nine months of 2017, compared with the corresponding periods of 2016. The decrease in the first nine months of 2017 was primarily due to an unfavorable program adjustment of \$24 million recorded in the first quarter of 2017 related to the Tactical Armoured Patrol Vehicle program as previously disclosed.

Table of Contents**Industrial**

<i>(Dollars in millions)</i>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30, 2017</b>	<b>October 1, 2016</b>	<b>September 30, 2017</b>	<b>October 1, 2016</b>
Revenues:				
Fuel Systems and Functional Components	\$ 546\$	533\$	1,740\$	1,705
Other Industrial	496	353	1,407	1,137
Total revenues	1,042	886	3,147	2,842
Operating expenses	993	820	2,940	2,586
Segment profit	49	66	207	256
Profit margin	4.7%	7.4%	6.6%	9.0%

**Industrial Revenues and Operating Expenses**

The following factors contributed to the change in Industrial s revenues for the periods:

<i>(In millions)</i>	<b>Q3 2017 versus Q3 2016</b>	<b>YTD 2017 versus YTD 2016</b>
Acquisitions	\$ 137\$	269
Volume	(4)	44
Foreign exchange	28	1
Other	(5)	(9)
Total change	\$ 156\$	305

Industrial segment revenues increased \$156 million, 18%, in the third quarter of 2017, and \$305 million, 11%, in the first nine months of 2017, compared with the corresponding periods of 2016, primarily due to the impact from acquired businesses of \$137 million and \$269 million, respectively, largely related to the acquisition of Arctic Cat as described below. In the first nine months of 2017, revenues were also impacted by higher volume of \$44 million, primarily related to the Fuel Systems and Functional Components product line.

On March 6, 2017, we acquired Arctic Cat, a manufacturer of all-terrain vehicles, side-by-sides and snowmobiles, in addition to related parts, garments and accessories. Arctic Cat provides a platform to expand our product portfolio and increase our distribution channel to support growth within our Textron Specialized Vehicles business. The operating results of Arctic Cat have been included in our financial results only for the period subsequent to the completion of the acquisition. See Note 2 to the Consolidated Financial Statements for additional information regarding this acquisition.

Operating expenses for the Industrial segment increased \$173 million, 21%, in the third quarter of 2017 and \$354 million, 14%, in the first nine months of 2017, compared with the corresponding periods of 2016, primarily due to additional operating expenses from acquired businesses. The increase in operating expenses for the first nine months of 2017 was also due to higher volume as described above.

**Industrial Segment Profit**

The following factors contributed to the change in Industrial s segment profit for the periods:

	<b>Q3 2017</b>	<b>YTD 2017</b>
	<b>versus</b>	<b>versus</b>
	<b>Q3 2016</b>	<b>YTD 2016</b>
<i>(In millions)</i>		
Pricing and inflation	\$ (9)\$	(24)
Performance and other	1	(15)
Volume and mix	(9)	(10)
Total change	\$ (17)\$	(49)

Segment profit for the Industrial segment decreased \$17 million, 26%, in the third quarter of 2017, compared to the third quarter of 2016, largely due to the unfavorable impact from pricing and inflation of \$9 million and lower volume and mix of \$9 million.

Industrial s segment profit decreased \$49 million, 19%, in the first nine months of 2017, compared with the first nine months of 2016, largely due to the unfavorable impact from pricing and inflation of \$24 million, primarily in the Fuel Systems and Functional Components product line, and unfavorable performance and other of \$15 million. Performance and other primarily reflects the operating results of Arctic Cat as we integrate this business into the Textron Specialized Vehicles business.

Table of Contents**Finance**

	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
<i>(In millions)</i>				
Revenues	\$ 18\$	20\$	54\$	60
Segment profit	7	3	16	15

Finance segment revenues and profit were largely unchanged in the third quarter and first nine months of 2017, respectively, compared with the corresponding periods of 2016.

*Finance Portfolio Quality*

The following table reflects information about the Finance segment's credit performance related to finance receivables.

	September 30, 2017	December 31, 2016
<i>(Dollars in millions)</i>		
Finance receivables*	\$ 828\$	946
Nonaccrual finance receivables	70	87
Ratio of nonaccrual finance receivables to finance receivables	8.45%	9.20%
60+ days contractual delinquency	\$ 50\$	40
60+ days contractual delinquency as a percentage of finance receivables	6.04%	4.23%

\* Excludes finance receivables held for sale.

**Liquidity and Capital Resources**

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.

Key information that is utilized in assessing our liquidity is summarized below:

Edgar Filing: TEXTRON INC - Form 10-Q

<i>(Dollars in millions)</i>	<b>September 30, 2017</b>	<b>December 31, 2016</b>
<b>Manufacturing group</b>		
Cash and equivalents	\$ 1,104	\$ 1,137
Debt	3,442	2,777
Shareholders' equity	5,818	5,574
Capital (debt plus shareholders' equity)	9,260	8,351
Net debt (net of cash and equivalents) to capital	29%	23%
Debt to capital	37%	33%
<b>Finance group</b>		
Cash and equivalents	\$ 190	\$ 161
Debt	841	903

We believe that our calculations of debt to capital and net debt to capital are useful measures as they provide a summary indication of the level of debt financing (i.e., leverage) that is in place to support our capital structure, as well as to provide an indication of the capacity to add further leverage. We believe that we will have sufficient cash to meet our future needs, based on our existing cash balances, the cash we expect to generate from our manufacturing operations and other available funding alternatives, as appropriate.

Textron has a senior unsecured revolving credit facility that expires in September 2021 for an aggregate principal amount of \$1.0 billion, of which up to \$100 million is available for the issuance of letters of credit. At September 30, 2017, there were no amounts borrowed against the facility.

We also maintain an effective shelf registration statement filed with the Securities and Exchange Commission that allows us to issue an unlimited amount of public debt and other securities. Under this registration statement, in September 2017, we issued \$300 million in 3.375% Notes due March 2028, and in March 2017, we issued \$350 million in 3.65% Notes due March 2027.



Table of Contents**Manufacturing Group Cash Flows**

Cash flows from continuing operations for the Manufacturing group as presented in our Consolidated Statements of Cash Flows are summarized below:

<i>(In millions)</i>		<b>Nine Months Ended</b>	
		<b>September 30,</b>	<b>October 1,</b>
		<b>2017</b>	<b>2016</b>
Operating activities	\$	347\$	137
Investing activities		(599)	(480)
Financing activities		214	(9)

Cash flows from operating activities increased \$210 million during the first nine months of 2017, compared with the first nine months of 2016, primarily due to improvements in working capital, partially offset by higher pension contributions of \$302 million. In the first nine months of 2017 and 2016, we made pension contributions of \$338 million and \$36 million, respectively.

Significant factors contributing to the favorable change in working capital included an increase in cash flows of \$728 million related to changes in inventory between the periods, principally in the Textron Aviation and Textron Systems segments, and \$387 million related to changes in customer deposits, partially offset by a decrease in cash flows of \$324 million from a change in accounts payable. The increase in cash flows from customer deposits between the periods is primarily related to a decrease in performance-based payments received on certain military contracts in the first nine months of 2016. In the first nine months of 2017 and 2016, cash flows from operating activities included \$24 million and \$75 million, respectively, of cash proceeds from the settlements of corporate-owned life insurance policies.

During the first nine months of 2017, investing cash flows included a \$316 million aggregate cash payment, including the repayment of debt and net of cash acquired, for the acquisition of Arctic Cat, compared with total payments of \$179 million for five business acquisitions in the first nine months of 2016. Cash used for investing activities also included capital expenditures of \$276 million and \$306 million in the first nine months of 2017 and 2016, respectively.

Financing activities in the first nine months of 2017 primarily included proceeds from long-term debt of \$645 million. These cash inflows were partially offset by \$451 million in cash paid to repurchase an aggregate of 9.5 million shares of our outstanding common stock under a 2017 share repurchase authorization.

In the first nine months of 2016, financing cash flows included proceeds from long-term debt of \$345 million and an increase in short-term debt of \$110 million, primarily from the issuance of commercial paper. These cash inflows were more than offset by the repayment of \$253 million of long-term debt and \$215 million in cash paid to repurchase an aggregate of 6.2 million shares of our outstanding common stock under a 2013 share repurchase authorization.

**Finance Group Cash Flows**

## Edgar Filing: TEXTRON INC - Form 10-Q

Cash flows from continuing operations for the Finance group as presented in our Consolidated Statements of Cash Flows are summarized below:

<i>(In millions)</i>	<b>Nine Months Ended</b>	
	<b>September 30,</b>	<b>October 1,</b>
	<b>2017</b>	<b>2016</b>
Operating activities	\$ (37)	\$ 7
Investing activities	143	118
Financing activities	(77)	(34)

The Finance group's cash flows used in operating activities for the first nine months of 2017 included net tax payments of \$48 million. Cash flows from investing activities primarily included collections on finance receivables of \$220 million for both the first nine months of 2017 and 2016, partially offset by finance receivable originations of \$117 million and \$126 million, respectively.

Cash flows used in financing activities in the first nine months of 2017 increased in the first nine months of 2017, compared with the first nine months of 2016, primarily due to a \$71 million increase in payments on long-term and nonrecourse debt, net of proceeds, partially offset by \$29 million in lower dividend payments to the Manufacturing group.

Table of Contents**Consolidated Cash Flows**

The consolidated cash flows from continuing operations, after elimination of activity between the borrowing groups, are summarized below:

<i>(In millions)</i>	Nine Months Ended	
	September 30, 2017	October 1, 2016
Operating activities	\$ 385	\$ 145
Investing activities	(531)	(392)
Financing activities	137	(14)

Consolidated cash flows from operating activities increased \$240 million in the first nine months of 2017, compared with the first nine months of 2016, primarily due to improvements in working capital, partially offset by an increase in pension contributions of \$302 million. In the first nine months of 2017 and 2016, we made pension contributions of \$338 million and \$36 million, respectively.

Significant factors contributing to the favorable change in working capital included an increase in cash flows of \$725 million related to changes in inventory between the periods, principally in the Textron Aviation and Textron Systems segments, and \$387 million related to changes in customer deposits, partially offset by a decrease in cash flows of \$324 million from a change in accounts payable. The increase in cash flows from customer deposits between the periods is primarily related to a decrease in performance-based payments received on certain military contracts in the first nine months of 2016. In the first nine months of 2017 and 2016, cash flows from operating activities included \$24 million and \$75 million, respectively, of cash proceeds from the settlements of corporate-owned life insurance policies.

Investing cash flows included a \$316 million aggregate cash payment, including the repayment of debt and net of cash acquired, for the acquisition of Arctic Cat in the first nine months of 2017, compared with total payments of \$179 million for acquisitions in the first nine months of 2016. Cash used for investing activities also included capital expenditures of \$276 million and \$306 million in the first nine months of 2017 and 2016, respectively.

Total financing cash flows in the first nine months of 2017 primarily included proceeds from long-term debt of \$682 million, partially offset by share repurchases of \$451 million and payments on long-term and nonrecourse debt of \$116 million. Total financing cash flows in the first nine months of 2016 primarily included proceeds from long-term debt of \$520 million and an increase in short-term debt of \$110 million, which were more than offset by the repayment of \$433 million of long-term and nonrecourse debt and share repurchases of \$215 million.

**Captive Financing and Other Intercompany Transactions**

The Finance group provides financing primarily to purchasers of new and pre-owned Textron Aviation aircraft and Bell helicopters manufactured by our Manufacturing group, otherwise known as captive financing. In the Consolidated Statements of Cash Flows, cash received from customers is reflected as operating activities when received from third parties. However, in the cash flow information provided for the separate borrowing groups, cash flows related to captive financing activities are reflected based on the operations of each group. For example, when product is sold by our Manufacturing group to a customer and is financed by the Finance group, the origination of the finance receivable is recorded within investing activities as a cash outflow in the Finance group's statement of cash flows. Meanwhile, in the Manufacturing group's

## Edgar Filing: TEXTRON INC - Form 10-Q

statement of cash flows, the cash received from the Finance group on the customer's behalf is recorded within operating cash flows as a cash inflow. Although cash is transferred between the two borrowing groups, there is no cash transaction reported in the consolidated cash flows at the time of the original financing. These captive financing activities, along with all significant intercompany transactions, are reclassified or eliminated from the Consolidated Statements of Cash Flows.

Table of Contents

Reclassification adjustments included in the Consolidated Statements of Cash Flows are summarized below:

<i>(In millions)</i>	<b>Nine Months Ended</b>	
	<b>September 30, 2017</b>	<b>October 1, 2016</b>
Reclassification adjustments from investing activities:		
Cash received from customers	\$ 193\$	180
Finance receivable originations for Manufacturing group inventory sales	(117)	(126)
Other	(1)	(24)
Total reclassification adjustments from investing activities	75	30
Reclassification adjustments from financing activities:		
Dividends received by Manufacturing group from Finance group		(29)
Total reclassification adjustments to operating activities	\$ 75\$	1

Critical Accounting Estimates

The accounting policies that we believe are most critical to the portrayal of our financial condition and results of operations are disclosed on pages 33 through 35 in our 2016 Annual Report on Form 10-K. The following section provides an update of the year-end disclosure.

**Long-Term Contracts**

We make a substantial portion of our sales to government customers pursuant to long-term contracts. These contracts require development and delivery of products over multiple years and may contain fixed-price purchase options for additional products. We account for these long-term contracts under the percentage-of-completion method of accounting. Under this method, we estimate profit as the difference between total estimated revenues and cost of a contract. The percentage-of-completion method of accounting involves the use of various estimating techniques to project costs at completion and, in some cases, includes estimates of recoveries asserted against the customer for changes in specifications. Due to the size, length of time and nature of many of our contracts, the estimation of total contract costs and revenues through completion is complicated and subject to many variables relative to the outcome of future events over a period of several years. We are required to make numerous assumptions and estimates relating to items such as expected engineering requirements, complexity of design and related development costs, product performance, performance of subcontractors, availability and cost of materials, labor productivity and cost, overhead and capital costs, manufacturing efficiencies and the achievement of contract milestones, including product deliveries, technical requirements, or schedule.

At the outset of each contract, we estimate the initial profit booking rate. The initial profit booking rate of each contract considers risks surrounding the ability to achieve the technical requirements (for example, a newly-developed product versus a mature product), schedule (for example, the number and type of milestone events), and costs by contract requirements in the initial estimated costs at completion. Profit booking rates may increase during the performance of the contract if we successfully retire risks surrounding the technical, schedule, and costs aspects of the contract. Likewise, the profit booking rate may decrease if we are not successful in retiring the risks; and, as a result, our estimated costs at completion increase. All of the estimates are subject to change during the performance of the contract and, therefore, may affect the profit booking rate. When adjustments are required, any changes from prior estimates are recognized using the cumulative catch-up method with the impact of the change from inception-to-date recorded in the current period. The aggregate gross amount of all program profit adjustments that are included within segment profit are presented below:

Edgar Filing: TEXTRON INC - Form 10-Q

<i>(In millions)</i>	Three Months Ended		Nine Months Ended	
	September 30, 2017	October 1, 2016	September 30, 2017	October 1, 2016
Gross favorable	\$ 20\$	21\$	63\$	74
Gross unfavorable	(15)	(3)	(61)	(17)
Net adjustments	\$ 5\$	18\$	2\$	57

Table of Contents

**Forward-Looking Information**

Certain statements in this Quarterly Report on Form 10-Q and other oral and written statements made by us from time to time are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements, which may describe strategies, goals, outlook or other non-historical matters, or project revenues, income, returns or other financial measures, often include words such as believe, expect, anticipate, intend, plan, estimate, guidance, project, target, potential, will, shall, may and similar expressions intended to identify forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors that may cause our actual results to differ materially from those expressed or implied by such forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. 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. In addition to those factors described in our 2016 Annual Report on Form 10-K under Risk Factors, among the factors that could cause actual results to differ materially from past and projected future results are the following:

- Interruptions in the U.S. Government's ability to fund its activities and/or pay its obligations;
- Changing priorities or reductions in the U.S. Government defense budget, including those related to military operations in foreign countries;
- Our ability to perform as anticipated and to control costs under contracts with the U.S. Government;
- The U.S. Government's ability to unilaterally modify or terminate its contracts with us for the U.S. Government's convenience or for our failure to perform, to change applicable procurement and accounting policies, or, under certain circumstances, to withhold payment or suspend or debar us as a contractor eligible to receive future contract awards;
- Changes in foreign military funding priorities or budget constraints and determinations, or changes in government regulations or policies on the export and import of military and commercial products;
- Volatility in the global economy or changes in worldwide political conditions that adversely impact demand for our products;
- Volatility in interest rates or foreign exchange rates;
- Risks related to our international business, including establishing and maintaining facilities in locations around the world and relying on joint venture partners, subcontractors, suppliers, representatives, consultants and other business partners in connection with international business, including in emerging market countries;
- Our Finance segment's ability to maintain portfolio credit quality or to realize full value of receivables;
- Performance issues with key suppliers or subcontractors;
- Legislative or regulatory actions, both domestic and foreign, impacting our operations or demand for our products;
- Our ability to control costs and successfully implement various cost-reduction activities;
- The efficacy of research and development investments to develop new products or unanticipated expenses in connection with the launching of significant new products or programs;
- The timing of our new product launches or certifications of our new aircraft products;
- Our ability to keep pace with our competitors in the introduction of new products and upgrades with features and technologies desired by our customers;
- Pension plan assumptions and future contributions;
- Demand softness or volatility in the markets in which we do business;
- Cybersecurity threats, including the potential misappropriation of assets or sensitive information, corruption of data or operational disruption;
- Difficulty or unanticipated expenses in connection with integrating acquired businesses; and
- The risk that acquisitions do not perform as planned, including, for example, the risk that acquired businesses will not achieve revenue and profit projections.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There has been no significant change in our exposure to market risk during the fiscal quarter ended September 30, 2017. For discussion of our exposure to market risk, refer to Item 7A. Quantitative and Qualitative Disclosures about Market Risk contained in Textron's 2016 Annual Report on Form 10-K.





Table of Contents**Item 4. Controls and Procedures**

We performed an evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2017. The evaluation was performed with the participation of senior management of each business segment and key Corporate functions, under the supervision of our Chairman, President and Chief Executive Officer (CEO) and our Executive Vice President and Chief Financial Officer (CFO). Based on this evaluation, the CEO and CFO concluded that our disclosure controls and procedures were operating and effective as of September 30, 2017.

There were no changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following provides information about our third quarter 2017 repurchases of equity securities that are registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended:

<b>Period</b> ( <i>shares in thousands</i> )	<b>Total Number of Shares Purchased *</b>	<b>Average Price Paid per Share (excluding commissions)</b>	<b>Total Number of Shares Purchased as part of Publicly Announced Plan *</b>	<b>Maximum Number of Shares that may yet be Purchased under the Plan</b>
July 2, 2017 – August 5, 2017	1,656	\$ 48.40	1,656	16,353
August 6, 2017 – September 2, 2017	410	48.61	410	15,943
September 3, 2017 – September 30, 2017	436	51.09	436	15,507
<b>Total</b>	<b>2,502</b>	<b>\$ 48.90</b>	<b>2,502</b>	

\* These shares were purchased pursuant to a plan authorizing the repurchase of up to 25 million shares of Textron common stock that had been announced on January 25, 2017. This plan has no expiration date.

**Item 6. Exhibits**

- 10.1 Letter agreement between Textron and Julie G. Duffy, dated July 27, 2017
- 12.1 Computation of ratio of income to fixed charges of Textron Inc. Manufacturing Group
- 12.2 Computation of ratio of income to fixed charges of Textron Inc. including all majority-owned subsidiaries
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Edgar Filing: TEXTRON INC - Form 10-Q

- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from Textron Inc. s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2017, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Operations, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements.

Table of Contents

**Signatures**

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

TEXTRON INC.

Date: October 27, 2017

/s/ Mark S. Bamford  
Mark S. Bamford  
Vice President and Corporate Controller  
(principal accounting officer)