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 29, 2018

OR

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

For the transition period from _____ to _____.

Commission File Number 1-5480

Textron Inc.

(Exact name of registrant as specified in its charter)

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

(401) 421-2800

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _ü_ No___

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes _ü_ No____

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

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

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

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

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

As of October 12, 2018, there were 242,961,492 shares of common stock outstanding.

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TEXTRON INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TEXTRON INC.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended		Nine Months Ended	
(In millions, except per share amounts)	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Revenues				
Manufacturing revenues	$ 3,185	$ 3,466	$ 10,174	$ 10,127
Finance revenues	15	18	48	54
Total revenues	3,200	3,484	10,222	10,181
Costs, expenses and other				
Cost of sales	2,687	2,884	8,489	8,472
Selling and administrative expense	307	335	1,004	987
Interest expense	41	44	124	129
Gain on business disposition	(444)		(444)	
Special charges		25		75
Other components of net periodic benefit cost (credit)	(19)	(7)	(57)	(21)
Total costs, expenses and other	2,572	3,281	9,116	9,642
Income from continuing operations before income taxes	628	203	1,106	539
Income tax expense	65	44	130	127
Income from continuing operations	563	159	976	412
Income from discontinued operations, net of income taxes				1
Net income	$ 563	$ 159	$ 976	$ 413
Basic earnings per share				
Continuing operations	$ 2.29	$ 0.60	$ 3.85	$ 1.54
Discontinued operations				
Basic earnings per share	$ 2.29	$ 0.60	$ 3.85	$ 1.54
Diluted earnings per share				
Continuing operations	$ 2.26	$ 0.60	$ 3.80	$ 1.53
Discontinued operations				
Diluted earnings per share	$ 2.26	$ 0.60	$ 3.80	$ 1.53
Dividends per share				
Common stock	$ 0.02	$ 0.02	$ 0.06	$ 0.06

See Notes to the Consolidated Financial Statements.

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TEXTRON INC.

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended		Nine Months Ended	
(In millions)	**September 29, 2018**	**September 30, 2017**	**September 29, 2018**	**September 30, 2017**
Net income	$ 563	$ 159	$ 976	$ 413
Other comprehensive income, net of taxes:				
Pension and postretirement benefits adjustments, net of reclassifications	38	23	100	70
Foreign currency translation adjustments, net of reclassifications	7	34	(20)	98
Deferred gains on hedge contracts, net of reclassifications	1	10	(2)	18
Other comprehensive income	46	67	78	186
Comprehensive income	$ 609	$ 226	$ 1,054	$ 599

See Notes to the Consolidated Financial Statements.

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TEXTRON INC.

Consolidated Balance Sheets (Unaudited)

(Dollars in millions)	September 29, 2018	December 30, 2017
Assets		
Manufacturing group		
Cash and equivalents	$ 1,150	$ 1,079
Accounts receivable, net	1,026	1,363
Inventories	4,030	4,150
Other current assets	706	435
Total current assets	6,912	7,027
Property, plant and equipment, less accumulated depreciation and amortization of $4,165 and $4,120, respectively	2,593	2,721
Goodwill	2,209	2,364
Other assets	1,868	2,059
Total Manufacturing group assets	13,582	14,171
Finance group		
Cash and equivalents	143	183
Finance receivables, net	786	819
Other assets	158	167
Total Finance group assets	1,087	1,169
Total assets	$ 14,669	$ 15,340
Liabilities and shareholders equity		
Liabilities		
Manufacturing group		
Short-term debt and current portion of long-term debt	$ 9	$ 14
Accounts payable	1,104	1,205
Other current liabilities	2,310	2,441
Total current liabilities	3,423	3,660
Other liabilities	1,733	2,006
Long-term debt	3,069	3,074
Total Manufacturing group liabilities	8,225	8,740
Finance group		
Other liabilities	113	129
Debt	788	824
Total Finance group liabilities	901	953
Total liabilities	9,126	9,693
Shareholders equity		
Common stock	33	33
Capital surplus	1,819	1,669
Treasury stock	(1,431)	(48)
Retained earnings	6,419	5,368
Accumulated other comprehensive loss	(1,297)	(1,375)
Total shareholders equity	5,543	5,647
Total liabilities and shareholders equity	$ 14,669	$ 15,340
Common shares outstanding *(in thousands)*	242,892	261,471

See Notes to the Consolidated Financial Statements.

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TEXTRON INC.

Consolidated Statements of Cash Flows (Unaudited)

For the Nine Months Ended September 29, 2018 and September 30, 2017, respectively

(In millions)	Consolidated 2018	2017
Cash flows from operating activities		
Net income	$ 976	$ 413
Less: Income from discontinued operations		1
Income from continuing operations	976	412
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Non-cash items:		
Depreciation and amortization	322	332
Gain on business disposition	(444)	
Deferred income taxes	25	140
Asset impairments		25
Other, net	88	73
Changes in assets and liabilities:		
Accounts receivable, net	56	(220)
Inventories	(190)	88
Other assets	(28)	(17)
Accounts payable	(68)	(178)
Other liabilities	(80)	(44)
Income taxes, net	44	(40)
Pension, net	(7)	(276)
Captive finance receivables, net	4	76
Other operating activities, net	(1)	(6)
Net cash provided by operating activities of continuing operations	697	365
Net cash used in operating activities of discontinued operations	(1)	(24)
Net cash provided by operating activities	696	341
Cash flows from investing activities		
Net proceeds from business disposition	807	
Capital expenditures	(233)	(276)
Net proceeds from corporate-owned life insurance policies	98	20
Net cash used in acquisitions	(3)	(330)
Finance receivables repaid	25	27
Other investing activities, net	40	48
Net cash provided by (used in) investing activities	734	(511)
Cash flows from financing activities		
Proceeds from long-term debt		682
Principal payments on long-term debt and nonrecourse debt	(60)	(116)
Purchases of Textron common stock	(1,383)	(451)
Dividends paid	(15)	(16)
Other financing activities, net	68	38
Net cash provided by (used in) financing activities	(1,390)	137
Effect of exchange rate changes on cash and equivalents	(9)	29
Net increase (decrease) in cash and equivalents	31	(4)
Cash and equivalents at beginning of period	1,262	1,298
Cash and equivalents at end of period	$ 1,293	$ 1,294

See Notes to the Consolidated Financial Statements.

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TEXTRON INC.

Consolidated Statements of Cash Flows (Unaudited) (Continued)

For the Nine Months Ended September 29, 2018 and September 30, 2017, respectively

	Manufacturing Group		Finance Group	
(In millions)	**2018**	**2017**	**2018**	**2017**
Cash flows from operating activities				
Net income	$ 959	$ 400	$ 17	$ 13
Less: Income from discontinued operations		1		
Income from continuing operations	959	399	17	13
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:				
Non-cash items:				
Depreciation and amortization	316	322	6	10
Gain on business disposition	(444)			
Deferred income taxes	29	141	(4)	(1)
Asset impairments		25		
Other, net	83	75	5	(2)
Changes in assets and liabilities:				
Accounts receivable, net	56	(220)		
Inventories	(186)	89		
Other assets	(27)	(12)	(1)	(5)
Accounts payable	(68)	(178)		
Other liabilities	(77)	(36)	(3)	(8)
Income taxes, net	51	4	(7)	(44)
Pension, net	(7)	(276)		
Dividends received from Finance group	50			
Other operating activities, net	(1)	(6)		
Net cash provided by (used in) operating activities of continuing operations	734	327	13	(37)
Net cash used in operating activities of discontinued operations	(1)	(24)		
Net cash provided by (used in) operating activities	733	303	13	(37)
Cash flows from investing activities				
Net proceeds from business disposition	807			
Capital expenditures	(233)	(276)		
Net proceeds from corporate-owned life insurance policies	98	20		
Net cash used in acquisitions	(3)	(330)		
Finance receivables repaid			160	220
Finance receivables originated			(131)	(117)
Other investing activities, net	12	7	24	40
Net cash provided by (used in) investing activities	681	(579)	53	143
Cash flows from financing activities				
Proceeds from long-term debt		645		37
Principal payments on long-term debt and nonrecourse debt	(4)	(3)	(56)	(113)
Purchases of Textron common stock	(1,383)	(451)		
Dividends paid	(15)	(16)	(50)	
Other financing activities, net	68	39		(1)
Net cash provided by (used in) financing activities	(1,334)	214	(106)	(77)
Effect of exchange rate changes on cash and equivalents	(9)	29		
Net increase (decrease) in cash and equivalents	71	(33)	(40)	29
Cash and equivalents at beginning of period	1,079	1,137	183	161
Cash and equivalents at end of period	$ 1,150	$ 1,104	$ 143	$ 190

See Notes to the Consolidated Financial Statements.

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TEXTRON INC.

Notes to the Consolidated Financial Statements (Unaudited)

Note 1. Basis of Presentation

Our Consolidated Financial Statements include the accounts of Textron Inc. (Textron) and its majority-owned subsidiaries. We have prepared these unaudited consolidated financial statements in accordance with accounting principles generally accepted in the U.S. for interim financial information. Accordingly, these interim financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the U.S. for complete financial statements. The consolidated interim financial statements included in this quarterly report should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 30, 2017. 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 results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

At the beginning of 2018, we adopted Accounting Standards Update (ASU) No. 2016-15, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments.* This standard provides guidance on the classification of certain cash flows and requires companies to classify cash proceeds received from the settlement of corporate-owned life insurance as cash inflows from investing activities. The standard is required to be adopted on a retrospective basis. Prior to adoption of this standard, we classified these proceeds as operating activities in the Consolidated Statements of Cash Flows. Upon adoption, we reclassified $20 million of net cash proceeds for the first nine months of 2017 from operating activities to investing activities.

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.

Note 2. Summary of Significant Accounting Policies Update

Our significant accounting policies are included in Note 1 of our Annual Report on Form 10-K for the year ended December 30, 2017. On December 31, 2017, we adopted ASU No. 2014-09, *Revenue from Contracts with Customers (ASC 606).* Significant changes to our policies resulting from the adoption are provided below. We adopted ASC 606 using the modified retrospective transition method applied to contracts that were not substantially complete at the end of 2017. We recorded a $90 million adjustment to increase retained earnings to reflect the cumulative impact of adopting this standard at the beginning of 2018, primarily related to certain long-term contracts our Bell segment has with the U.S. Government that converted to the cost-to-cost method for revenue recognition. The comparative information has not been restated and is reported under the accounting standards in effect for those periods. A reconciliation of the financial statement line items impacted for the three and nine months ended September 29, 2018 under ASC 606 to the prior accounting standards is provided in Note 15.

Revenue Recognition

Revenue is recognized when control of the goods or services promised under the contract is transferred to the customer either at a point in time (e.g., upon delivery) or over time (e.g., as we perform under the contract). We account for a contract when it has approval and commitment from both parties, the rights and payment terms of the parties are identified, the contract has commercial substance and collectability of consideration is probable. Contracts are reviewed to determine whether there is one or multiple performance obligations. A performance obligation is a promise to transfer a distinct good or service to a customer and represents the unit of accounting for revenue recognition. For contracts with multiple performance obligations, the expected consideration, or the transaction price, is allocated to each performance obligation identified in the contract based on the relative standalone selling

price of each performance obligation. Revenue is then recognized for the transaction price allocated to the performance obligation when control of the promised goods or services underlying the performance obligation is transferred. Contract consideration is not adjusted for the effects of a significant financing component when, at contract inception, the period between when control transfers and when the customer will pay for that good or service is one year or less.

Commercial Contracts

The majority of our contracts with commercial customers have a single performance obligation as there is only one good or service promised or the promise to transfer the goods or services is not distinct or separately identifiable from other promises in the contract. Revenue is primarily recognized at a point in time, which is generally when the customer obtains control of the asset upon delivery and customer acceptance. Contract modifications that provide for additional distinct goods or services at the standalone selling price are treated as separate contracts.

For commercial aircraft, we contract with our customers to sell fully outfitted fixed-wing aircraft, which may include configuration options. The aircraft typically represents a single performance obligation and revenue is recognized upon customer acceptance and delivery. For commercial helicopters, our customers generally contract with us for fully functional basic configuration aircraft and control is transferred upon customer acceptance and delivery. At times, customers may separately contract with us for the installation of accessories and customization to the basic aircraft. If these contracts are entered into at or near the same time of the basic aircraft contract, we assess whether the contracts meet the criteria to be combined. For contracts that are combined, the basic aircraft and the accessories and customization are typically considered to be distinct, and therefore, are separate performance obligations. For these contracts, revenue is recognized on the basic aircraft upon customer acceptance and transfer of title and risk of loss and on the accessories and customization upon delivery and customer acceptance. We utilize observable prices to determine the standalone selling prices when allocating the transaction price to these performance obligations.

The transaction price for our commercial contracts reflects our estimate of returns, rebates and discounts, which are based on historical, current and forecasted information. Amounts billed to customers for shipping and handling are included in the transaction price and generally are not treated as separate performance obligations as these costs fulfill a promise to transfer the product to the customer. Taxes collected from customers and remitted to government authorities are recorded on a net basis.

We primarily provide standard warranty programs for products in our commercial businesses for periods that typically range from one to five years. These assurance-type programs typically cannot be purchased separately and do not meet the criteria to be considered a performance obligation.

U.S. Government Contracts

Our contracts with the U.S. Government generally include the design, development, manufacture or modification of aerospace and defense products as well as related services. These contracts, which also include those under the U.S. Government-sponsored foreign military sales program, accounted for approximately 24% of total revenues in 2017. The customer typically contracts with us to provide a significant service of integrating a complex set of tasks and components into a single project or capability, which often results in the delivery of multiple units. Accordingly, the entire contract is accounted for as one performance obligation. In certain circumstances, a contract may include both production and support services, such as logistics and parts plans, which are considered to be distinct in the context of the contract and represent separate performance obligations. When a contract is separated into more than one performance obligation, we generally utilize the expected cost plus a margin approach to determine the standalone selling prices when allocating the transaction price.

Our contracts are frequently modified for changes in contract specifications and requirements. Most of our contract modifications with the U.S. Government are for goods and services that are not distinct from the existing contract due to the significant integration service provided in the context of the contract and are accounted for as part of that existing contract. The effect of these contract modifications on our estimates is recognized using the cumulative catch-up method of accounting.

Contracts with the U.S. Government generally contain clauses that provide lien rights to work-in-process along with clauses that allow the customer to unilaterally terminate the contract for convenience, pay us for costs incurred plus a reasonable profit and take control of any work-in-process. Due to the continuous transfer of control to the U.S. Government, we recognize revenue over the time that we perform under the contract. Selecting the method to measure progress towards completion requires judgment and is based on the nature of the products or service to be provided. We generally use the cost-to-cost method to measure progress for our contracts because it best depicts the transfer of control to the customer that occurs as we incur costs on our contracts. Under this measure, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the estimated costs at completion of the performance obligation, and revenue is recorded proportionally as costs are incurred.

The transaction price for our contracts represents our best estimate of the consideration we will receive and includes assumptions regarding variable consideration as applicable. Certain of our long-term contracts contain incentive fees or other provisions that can either increase or decrease the transaction price. These variable amounts generally are awarded upon achievement of certain performance metrics, program milestones or cost targets and can be based upon customer discretion. We include estimated amounts

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in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. Our estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of our anticipated performance and all other information that is reasonably available to us.

Total contract cost is estimated utilizing current contract specifications and expected engineering requirements. Contract costs typically are incurred over a period of several years, and the estimation of these costs requires substantial judgment. Our cost estimation process is based on the professional knowledge and experience of engineers and program managers along with finance professionals. We review and update our projections of costs quarterly or more frequently when circumstances significantly change.

Approximately 80% of our 2017 revenues with the U.S. Government were under fixed-price and fixed-price incentive contracts. Under the typical payment terms of these contracts, the customer pays us either performance-based or progress payments. Performance-based payments represent interim payments of up to 90% of the contract price based on quantifiable measures of performance or on the achievement of specified events or milestones. Progress payments are interim payments of up to 80% of costs incurred as the work progresses. Because the customer retains a small portion of the contract price until completion of the contract, these contracts generally result in revenue recognized in excess of billings, which we present as contract assets in the Consolidated Balance Sheets. Amounts billed and due from our customers are classified in Accounts receivable, net. The portion of the payments retained by the customer until final contract settlement is not considered a significant financing component because the intent is to protect the customer. For cost-type contracts, we are generally paid for our actual costs incurred within a short period of time.

Contract Estimates

For contracts where revenue is recognized over time, we generally recognize changes in estimated contract revenues, costs and profits using the cumulative catch-up method of accounting. This method recognizes the cumulative effect of changes on current and prior periods with the impact of the change from inception-to-date recorded in the current period. Anticipated losses on contracts are recognized in full in the period in which the losses become probable and estimable.

In the third quarter of 2018 and 2017, our cumulative catch-up adjustments increased segment profit by $63 million and $5 million, respectively, and net income by $48 million and $3 million, respectively ($0.19 and $0.01 per diluted share, respectively). For the third quarter of 2018 and 2017, the gross favorable adjustments totaled $79 million and $20 million, respectively, and the gross unfavorable adjustments totaled $16 million and $15 million, respectively.

In the first nine months of 2018 and 2017, our cumulative catch-up adjustments increased segment profit by $167 million and $2 million, respectively, and net income by $127 million and $1 million, respectively ($0.49 and $0.00 per diluted share, respectively). For the first nine months of 2018 and 2017, the gross favorable adjustments totaled $205 million and $63 million, respectively, and the gross unfavorable adjustments totaled $38 million and $61 million, respectively.

No individual adjustment was material to our Consolidated Statements of Operations for the third quarter and first nine months of 2018 and 2017. We recognized revenue from performance obligations satisfied in prior periods of approximately $55 million and $159 million during the three and nine months ended September 29, 2018, which related to changes in profit booking rates that impacted revenue.

Contract Assets and Liabilities

Contract assets arise from contracts when revenue is recognized over time and the amount of revenue recognized exceeds the amount billed to the customer. These amounts are included in contract assets until the right to payment is no longer conditional on events other than the passage of time. Contract assets are included in Other current assets in the Consolidated Balance Sheet. Contract liabilities, which are primarily included in Other current liabilities, include deposits, largely from our commercial aviation customers, and billings in excess of revenue recognized.

The incremental costs of obtaining a contract with a customer that is expected to be recovered is expensed as incurred when the period to be benefitted is one year or less.

Accounts Receivable, Net

Accounts receivable, net includes amounts billed to customers where the right to payment is unconditional. We maintain an allowance for doubtful accounts to provide for the estimated amount of accounts receivable that will not be collected, which is based on an assessment of customer creditworthiness, historical payment experience, the age of outstanding receivable and collateral value, if any.

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Accounting Pronouncements Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (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. Under 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. The original guidance requires application of the standard on a modified retrospective basis at the earliest period presented. In July 2018, the FASB issued ASU No. 2018-11, which provides an alternate transition method that allows for application of the standard at the effective date without adjustment to comparative periods. We plan to elect this alternate transition method.

We are continuing to review and evaluate our leased assets to assess the impact of adopting the new standard and are implementing changes to our processes, systems and internal controls in order to quantify and account for the standard. Upon adoption, the assets and liabilities on our consolidated balance sheet will materially increase as we recognize the rights and corresponding obligations related to our operating leases. The standard is not expected to materially impact our cash flows or results of operations. We expect to complete our assessment of the impact of adopting this standard in the fourth quarter of 2018.

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.

Note 3. Business Disposition

On April 18, 2018, we entered into an agreement to sell the businesses that manufacture and sell the products in our Tools and Test Equipment product line within our Industrial segment to Emerson Electric Co. We completed this disposition on July 2, 2018 and received net cash proceeds of $807 million. In the third quarter of 2018, we recorded an after-tax gain of $410 million, subject to post-closing adjustments. The carrying amounts by major classes of assets and liabilities that were related to this disposition are as follows:

(In millions)		**July 2, 2018**
Assets		
Accounts receivable, net	$	71
Inventories		100
Property, plant and equipment, net		59
Goodwill		153
Other assets		24
Total Assets	$	407
Liabilities		
Accounts payable	$	30

Other current liabilities		25
Other liabilities		11
Total Liabilities	$	66

Note 4. Retirement Plans

In the first quarter of 2018, we adopted 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 cost in operating income in the same line as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic benefit cost must be presented separately from service cost and excluded from operating income. In addition, only the service cost component is eligible for capitalization into inventory. The change in the amount capitalized into inventory was applied prospectively. The reclassification of the other components of net periodic benefit cost (credit) to a separate line was applied retrospectively using a practical expedient that permits the usage of amounts previously disclosed in the pension and other postretirement benefit plan note for prior periods. As a result, we reclassified $(7) million and $(21) million of other components of net periodic benefit cost (credit) for the third quarter and first nine months of 2017, respectively, from Cost of sales to a separate line item in the Consolidated Statements of Operations.

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

	Three Months Ended		Nine Months Ended	
(In millions)	**September 29, 2018**	**September 30, 2017**	**September 29, 2018**	**September 30, 2017**
Pension Benefits				
Service cost	$ 26	$ 25	$ 79	$ 75
Interest cost	77	81	230	242
Expected return on plan assets	(138)	(127)	(415)	(380)
Amortization of net actuarial loss	38	34	115	102
Amortization of prior service cost	4	4	11	12
Net periodic benefit cost	$ 7	$ 17	$ 20	$ 51
Postretirement Benefits Other Than Pensions				
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost	2	3	7	9
Amortization of prior service credit	(2)	(2)	(5)	(6)
Net periodic benefit cost	$ 1	$ 2	$ 4	$ 5

Note 5. Earnings Per Share

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

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

	Three Months Ended		Nine Months Ended	
(In thousands)	**September 29, 2018**	**September 30, 2017**	**September 29, 2018**	**September 30, 2017**
Basic weighted-average shares outstanding	246,136	264,624	253,512	267,409
Dilutive effect of stock options	3,242	2,365	3,268	2,325
Diluted weighted-average shares outstanding	249,378	266,989	256,780	269,734

For the three and nine months ended September 29, 2018, there were no stock options excluded from the calculation of diluted weighted-average shares outstanding. Stock options to purchase 1.5 million and 1.2 million shares of common stock were 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.

Note 6. Accounts Receivable and Finance Receivables

Accounts Receivable

Accounts receivable is composed of the following:

(In millions)		**September 29, 2018**	**December 30, 2017**
Commercial	$	895	$ 1,007
U.S. Government contracts, including foreign military sales		156	383
		1,051	1,390
Allowance for doubtful accounts		(25)	(27)
Total	$	1,026	$ 1,363

Upon adoption of ASC 606, unbilled receivables, primarily related to U.S. Government contracts, totaling $203 million were reclassified from accounts receivable to contract assets or liabilities, depending on the net position of the contract as discussed in Note 15. In addition, $71 million of accounts receivable, net were sold in the third quarter of 2018 as a result of a business disposition as disclosed in Note 3.

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Finance Receivables

Finance receivables are presented in the following table:

(In millions)		September 29, 2018	December 30, 2017
Finance receivables	$	815$	850
Allowance for losses		(29)	(31)
Total finance receivables, net	$	786$	819

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.

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

(Dollars in millions)		September 29, 2018	December 30, 2017
Performing	$	723$	733
Watchlist		48	56
Nonaccrual		44	61
Nonaccrual as a percentage of finance receivables		5.40%	7.18%
Less than 31 days past due	$	752$	791
31-60 days past due		22	25
61-90 days past due		32	14

Over 90 days past due	9	20
60 + days contractual delinquency as a percentage of finance receivables	5.03%	4.00%

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 2018 or 2017.

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

(In millions)		September 29, 2018	December 30, 2017
Recorded investment:			
Impaired loans with related allowance for losses	$	14$	24
Impaired loans with no related allowance for losses		30	70
Total	$	44$	94
Unpaid principal balance	$	54$	106
Allowance for losses on impaired loans		4	6
Average recorded investment		62	92

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.

(In millions)		September 29, 2018	December 30, 2017
Allowance based on collective evaluation	$	25$	25
Allowance based on individual evaluation		4	6
Finance receivables evaluated collectively		671	658
Finance receivables evaluated individually		44	94

Note 7. Inventories

Inventories are composed of the following:

(In millions)		September 29, 2018	December 30, 2017
Finished goods	$	1,740$	1,790
Work in process		1,540	2,238
Raw materials and components		750	804
		4,030	4,832
Progress/milestone payments			(682)
Total	$	4,030$	4,150

Upon adoption of ASC 606, $199 million of inventories, net of progress/milestone payments, primarily related to our U.S. Government contracts, were reclassified from inventories to contract assets or liabilities depending on the net position of the contract as discussed in Note 15. In addition, $100 million of inventories were sold in the third quarter of 2018 as a result of a business disposition as disclosed in Note 3.

Note 8. Warranty Liability

Changes in our warranty liability are as follows:

	Nine Months Ended	
(In millions)	**September 29, 2018**	**September 30, 2017**
Beginning of period	$ 164	$ 138
Provision	50	54
Settlements	(60)	(55)
Acquisitions	1	32
Adjustments*		(2)
End of period	$ 155	$ 167

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

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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 29, 2018 and December 30, 2017, we had foreign currency exchange contracts with notional amounts upon which the contracts were based of $428 million and $426 million, respectively. At September 29, 2018, the fair value amounts of our foreign currency exchange contracts were a $7 million asset and a $2 million liability. At December 30, 2017, the fair value amounts of our foreign currency exchange contracts were a $13 million asset and a $7 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 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 29, 2018	December 30, 2017

(In millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Manufacturing group				
Debt, excluding leases	$ (3,004)	$ (3,004)	$ (3,007)	$ (3,136)
Finance group				
Finance receivables, excluding leases	614	642	643	675
Debt	(788)	(756)	(824)	(799)

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.

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Note 10. Shareholders Equity

A reconciliation of Shareholder s equity is presented below:

(In millions)	Common Stock	Capital Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance at December 30, 2017	$ 33	$ 1,669	$ (48)	$ 5,368	$ (1,375)	$ 5,647
Adoption of ASC 606				90		90
Balance at December 31, 2017	33	1,669	(48)	5,458	(1,375)	5,737
Net income				976		976
Other comprehensive income					78	78
Share-based compensation activity		150				150
Dividends declared				(15)		(15)
Purchases of common stock			(1,383)			(1,383)
Balance at September 29, 2018	$ 33	$ 1,819	$ (1,431)	$ 6,419	$ (1,297)	$ 5,543
Balance at December 31, 2016	$ 34	$ 1,599	$	$ 5,546	$ (1,605)	$ 5,574
Net income				413		413
Other comprehensive income					186	186
Share-based compensation activity		112				112
Dividends declared				(16)		(16)
Purchases of common stock			(451)			(451)
Balance at September 30, 2017	$ 34	$ 1,711	$ (451)	$ 5,943	$ (1,419)	$ 5,818

The components of Accumulated other comprehensive loss are presented below:

(In millions)	Pension and Postretirement Benefits Adjustments	Foreign Currency Translation Adjustments	Deferred Gains (Losses) on Hedge Contracts	Accumulated Other Comprehensive Loss
For the nine months ended September 29, 2018				
Beginning of period	$ (1,396)	$ 11	$ 10	$ (1,375)
Other comprehensive income before reclassifications		(26)		(26)
Reclassified from Accumulated other comprehensive loss	100	6	(2)	104
Other comprehensive income	100	(20)	(2)	78
End of period	$ (1,296)	$ (9)	$ 8	$ (1,297)
For the nine months ended September 30, 2017				
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)

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

	September 29, 2018			September 30, 2017		
(In millions)	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Three Months Ended						
Pension and postretirement benefits adjustments:						
Amortization of net actuarial loss*	$ 38	$ (9)	$ 29	$ 34	$ (12)	$ 22
Amortization of prior service cost*	2		2	2	(1)	1
Business disposition	7		7			
Pension and postretirement benefits adjustments, net	47	(9)	38	36	(13)	23
Deferred gains (losses) on hedge contracts:						
Current deferrals	3	(1)	2	9	(2)	7
Reclassification adjustments	(2)	1	(1)	3		3
Deferred gains (losses) on hedge contracts, net	1		1	12	(2)	10
Foreign currency translation adjustments:						
Foreign currency translation adjustments	1		1	31	3	34
Business disposition	6		6			
Foreign currency translation adjustments, net	7		7	31	3	34
Total	$ 55	$ (9)	$ 46	$ 79	$ (12)	$ 67
Nine Months Ended						
Pension and postretirement benefits adjustments:						
Amortization of net actuarial loss*	$ 115	$ (27)	$ 88	$ 102	$ (36)	$ 66
Amortization of prior service cost*	6	(1)	5	6	(2)	4
Business disposition	7		7			
Pension and postretirement benefits adjustments, net	128	(28)	100	108	(38)	70
Deferred gains (losses) on hedge contracts:						
Current deferrals	1	(1)		14	(4)	10
Reclassification adjustments	(3)	1	(2)	9	(1)	8
Deferred gains (losses) on hedge contracts, net	(2)		(2)	23	(5)	18
Foreign currency translation adjustments:						
Foreign currency translation adjustments	(25)	(1)	(26)	91	7	98
Business disposition	6		6			
Foreign currency translation adjustments, net	(19)	(1)	(20)	91	7	98
Total	$ 107	$ (29)	$ 78	$ 222	$ (36)	$ 186

**These components of Other comprehensive income are included in the computation of net periodic pension cost. See Note 11 of our 2017 Annual Report on Form 10-K for additional information.*

Note 11. Special Charges

In 2017, special charges were related to a 2016 restructuring plan and the Arctic Cat acquisition, which included both restructuring, integration and transaction costs. There were no special charges recorded in 2018.

Special charges recorded in 2017 are as follows:

(In millions)	Severance Costs	Asset Impairments	Contract Terminations and Other	Acquisition Integration/ Transaction Costs	Total Special Charges
For the three months ended September 30, 2017					
Industrial	$ 1	$ 1	$ 9	$ 2	$ 13
Textron Aviation	6				6
Textron Systems	1	3	2		6
	$ 8	$ 4	$ 11	$ 2	$ 25
For the nine months ended September 30, 2017					
Industrial	$ 20	$ 1	$ 15	$ 6	$ 42
Textron Aviation	11	17			28
Textron Systems	2	7	(4)		5
	$ 33	$ 25	$ 11	$ 6	$ 75

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Our restructuring reserve activity for the first nine months of 2018 is summarized below:

(In millions)		Severance Costs	Contract Terminations and Other	Total
Balance at December 30, 2017	$	24$	20$	44
Cash paid		(18)	(7)	(25)
Provision for 2016 Plan			3	3
Reversals		(2)		(2)
Balance at September 29, 2018	$	4$	16$	20

Both plans are substantially completed with approximately half of the remaining cash outlays of $20 million expected to be paid in the remainder of 2018. 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

Our effective tax rate for the third quarter and first nine months of 2018 was 10.4% and 11.8%, respectively. The effective tax rate was lower than the U.S. federal statutory tax rate of 21% for these periods, primarily due to the disposition of the Tools and Test equipment product line which resulted in a gain taxable primarily in a non-U.S. jurisdiction that partially exempts such gains from tax. The effective tax rate for the first nine months of 2018 also reflects a $25 million benefit recognized upon the reassessment of our reserve for uncertain tax positions based on new information, including interactions with the tax authorities and recent audit settlements.

Our effective tax rate for the third quarter and first nine months of 2017 was 21.7% and 23.6%, respectively. The effective tax rate was lower than the U.S. federal statutory tax rate of 35% for these periods, primarily due to 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.

U.S. Tax Reform

The Tax Cuts and Jobs Act (the   Act   ) was enacted on December 22, 2017. Among other things, the Act reduces the U.S. federal corporate tax rate from 35% to 21% and requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. We have reasonably estimated the effects of the Act and recorded provisional amounts in the fourth quarter of 2017 to remeasure our U.S. federal deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%, and for the one-time transition tax. The U.S. Government and state tax authorities are expected to continue to issue guidance regarding the Act, which may result in adjustments to our provisional estimates. We are continuing to analyze certain aspects of the Act and may refine our estimates, which could potentially affect the measurement of our net deferred tax assets or give rise to new deferred tax amounts.

In the first nine months of 2018, we have not recorded any measurement period adjustments to the provisional estimates recorded at the end of 2017. The final determination of the remeasurement of our net deferred tax assets and the transition tax will be completed as additional information becomes available, but no later than one year from the enactment date. Any subsequent adjustments to the provisional amounts will be recorded to current or deferred tax expense in the fourth quarter of 2018 when the analysis is complete.

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.

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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, gain on business disposition 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 included in the table below:

	Three Months Ended		Nine Months Ended	
(In millions)	**September 29, 2018**	**September 30, 2017**	**September 29, 2018**	**September 30, 2017**
Revenues				
Textron Aviation	$ 1,133	$ 1,154	$ 3,419	$ 3,295
Bell	770	812	2,353	2,334
Textron Systems	352	458	1,119	1,351
Industrial	930	1,042	3,283	3,147
Finance	15	18	48	54
Total revenues	$ 3,200	$ 3,484	$ 10,222	$ 10,181
Segment Profit				
Textron Aviation	$ 99	$ 93	$ 275	$ 183
Bell	113	106	317	301
Textron Systems	29	40	119	102
Industrial	1	49	145	207
Finance	3	7	14	16
Segment profit	245	295	870	809
Corporate expenses and other, net	(29)	(30)	(107)	(88)
Interest expense, net for Manufacturing group	(32)	(37)	(101)	(107)
Gain on business disposition	444		444	
Special charges		(25)		(75)
Income from continuing operations before income taxes	$ 628	$ 203	$ 1,106	$ 539

Note 15. Revenues

Disaggregation of Revenues

Our revenues disaggregated by major product type for the three and nine months ended September 29, 2018 are presented below:

(In millions)	**Three Months Ended**	**Nine Months Ended**
Aircraft	$ 756	$ 2,267
Aftermarket parts and services	377	1,152

Textron Aviation	1,133	3,419
Military aircraft and support programs	505	1,525
Commercial helicopters, parts and services	265	828
Bell	770	2,353
Unmanned systems	154	485
Marine and land systems	87	248
Simulation, training and other	111	386
Textron Systems	352	1,119
Fuel systems and functional components	522	1,804
Specialized vehicles	408	1,231
Tools and test equipment		248
Industrial	930	3,283
Finance	15	48
Total revenues	$ 3,200	$ 10,222

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Our revenues by customer type and geographic location for the three and nine months ended September 29, 2018 are presented below:

(In millions)		Textron Aviation	Bell	Textron Systems	Industrial	Finance	Total
Three months ended							
Customer type:							
Commercial	$	1,081$	258$	92$	923$	15$	2,369
U.S. Government		52	512	260	7		831
Total revenues	$	1,133$	770$	352$	930$	15$	3,200
Geographic location:							
United States	$	740$	392$	293$	435$	4$	1,864
International		393	378	59	495	11	1,336
Total revenues	$	1,133$	770$	352$	930$	15$	3,200
Nine months ended							
Customer type:							
Commercial	$	3,245$	801$	326$	3,262$	48$	7,682
U.S. Government		174	1,552	793	21		2,540
Total revenues	$	3,419$	2,353$	1,119$	3,283$	48$	10,222
Geographic location:							
United States	$	2,319$	1,444$	877$	1,521$	18$	6,179
International		1,100	909	242	1,762	30	4,043
Total revenues	$	3,419$	2,353$	1,119$	3,283$	48$	10,222

Remaining Performance Obligations

Our remaining performance obligations, which is the equivalent of our backlog, represent the expected transaction price allocated to our contracts that we expect to recognize as revenue in future periods when we perform under the contracts. These remaining obligations include amounts that have been formally appropriated under contracts with the U.S. Government, and exclude unexercised contract options and potential orders under ordering-type contracts such as Indefinite Delivery, Indefinite Quantity contracts. At September 29, 2018, we had $8.7 billion in remaining performance obligations of which we expect to recognize revenues of approximately 62% through 2019, an additional 22% through 2021, and the balance thereafter.

Contract assets and liabilities

Assets and liabilities related to our contracts with customers are reported on a contract-by-contract basis at the end of each reporting period. At September 29, 2018, contract assets and liabilities totaled $408 million and $1.1 billion, respectively. Upon adoption of ASC 606 on December 31, 2017, contract assets and liabilities related to our contracts with customers were $429 million and $1.0 billion, respectively. During the third quarter and first nine months of 2018, we recognized $56 million and $755 million, respectively, in revenues that were included in the contract liability balance at the adoption date.

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Reconciliation of ASC 606 to Prior Accounting Standards

The amount by which each financial statement line item is affected in 2018 as a result of applying the new accounting standard as discussed in Note 2 is presented below:

	September 29, 2018		
(In millions)	As Reported	Effect of the adoption of ASC 606	Under Prior Accounting
Consolidated Balance Sheets			
Accounts receivable, net	$ 1,026	$ 187	$ 1,213
Inventories	4,030	207	4,237
Other current assets	706	(418)	288
Property, plant and equipment, net	2,593	6	2,599
Other assets	1,868	40	1,908
Total Manufacturing group assets	13,582	22	13,604
Total assets	14,669	22	14,691
Other current liabilities	2,310	147	2,457
Total Manufacturing group liabilities	8,225	147	8,372
Total liabilities	9,126	147	9,273
Retained earnings	6,419	(125)	6,294
Total shareholders equity	5,543	(125)	5,418

	Three Months Ended September 29, 2018			Nine Months Ended September 29, 2018		
(In millions, except per share amounts)	As Reported	Effect of the adoption of ASC 606	Under Prior Accounting	As Reported	Effect of the adoption of ASC 606	Under Prior Accounting
Consolidated Statements of Operations						
Manufacturing revenues	$ 3,185	$ 21	$ 3,206	$ 10,174	$ (225)	$ 9,949
Total revenues	3,200	21	3,221	10,222	(225)	9,997
Cost of sales	2,687	25	2,712	8,489	(178)	8,311
Income from continuing operations before income taxes	628	(4)	624	1,106	(47)	1,059
Income tax expense	65	(1)	64	130	(12)	118
Income from continuing operations	563	(3)	560	976	(35)	941
Net income	563	(3)	560	976	(35)	941
Basic earnings per share - continuing operations	$ 2.29	$ (0.01)	$ 2.28	$ 3.85	$ (0.14)	$ 3.71
Diluted earnings per share - continuing operations	2.26	(0.01)	2.25	3.80	(0.14)	3.66
Consolidated Statements of Comprehensive Income						
Other comprehensive income	$ 46	$ (3)	$ 43	$ 78	$ (35)	$ 43
Comprehensive income	609	(3)	606	1,054	(35)	1,019

	Nine Months Ended September 29, 2018		
(In millions)	As Reported	Effect of the adoption of ASC 606	Under Prior Accounting
Consolidated Statements of Cash flows			
Net income	$ 976	$ (35)	$ 941
Income from continuing operations	976	(35)	941

Deferred income taxes	25	(12)	13
Accounts receivable, net	56	16	72
Inventories	(190)	(29)	(219)
Other assets	(28)	(12)	(40)
Other liabilities	(80)	72	(8)
Net cash provided by operating activities of continuing operations	697		697

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

Consolidated Results of Operations

	Three Months Ended			Nine Months Ended		
(Dollars in millions)	**September 29, 2018**	**September 30, 2017**	**% Change**	**September 29, 2018**	**September 30, 2017**	**% Change**
Revenues	$ 3,200	$ 3,484	(8)%	$ 10,222	$ 10,181	
Cost of sales	2,687	2,884	(7)%	8,489	8,472	
Selling and administrative expense	307	335	(8)%	1,004	987	2%
Gross margin percentage of Manufacturing revenues	15.6%	16.8%		16.6%	16.3%	

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 24 to 28.

At the beginning of 2018, we adopted Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (ASC 606)* using the modified retrospective transition method applied to contracts that were not substantially complete at the end of 2017. We recorded a $90 million adjustment to increase retained earnings to reflect the cumulative impact of adopting this standard at the beginning of 2018, primarily related to certain long-term contracts our Bell segment has with the U.S. Government that converted to the cost-to-cost method for revenue recognition. Revenues in 2018 for our U.S. Government contracts are primarily recognized as costs are incurred, while revenues for 2017 were primarily recognized as units were delivered. The comparative information has not been restated and is reported under the accounting standards in effect for those periods. A reconciliation of the financial statement line items impacted for the three and nine months ended September 29, 2018 under ASC 606 to the prior accounting standards is provided in Note 15 to the Consolidated Financial Statements.

Revenues

Revenues decreased $284 million, 8%, in the third quarter of 2018, compared with the third quarter of 2017, driven by decreases across all segments. The net revenue decrease included the following factors:

- Lower Industrial revenues of $112 million, primarily due to the disposition of the Tools and Test Equipment product line described in the Segment Analysis section below.

- Lower Textron Systems revenues of $106 million, primarily reflecting lower volume of $40 million in the Marine and Land Systems product line and $39 million in the Simulation, Training and Other product line.

- Lower Bell revenues of $42 million, primarily due to lower commercial revenues of $83 million, largely reflecting the mix of aircraft sold in the quarter, partially offset by higher military revenues of $41 million.

- Lower Textron Aviation revenues of $21 million, primarily due to lower volume and mix of $46 million, largely reflecting lower commercial turboprop volume, partially offset by favorable pricing of $25 million.

Revenues increased $41 million in the first nine months of 2018, compared with the first nine months of 2017, largely driven by increases in the Industrial, Textron Aviation and Bell segments, partially offset by lower revenues at the Textron Systems segment. The net revenue increase included the following factors:

- Higher Industrial revenues of $136 million, primarily due to higher volume of $140 million, largely related to the Textron Specialized Vehicles product line, a favorable impact of $73 million from foreign exchange, primarily related to the Euro, and the impact from the Arctic Cat acquisition of $49 million. These increases were partially offset by the impact of $120 million in lower revenues due to the disposition of the Tools and Test Equipment product line.

- Higher Textron Aviation revenues of $124 million, primarily due to favorable pricing of $77 million.

- Higher Bell revenues of $19 million, primarily due to higher military revenues of $96 million, partially offset by lower commercial revenues of $77 million, largely reflecting the mix of aircraft sold in the period.

- Lower Textron Systems revenues of $232 million, largely reflecting lower volume, primarily due to the discontinuance of our sensor-fuzed weapon product in 2017 and lower volume of $74 million in the Marine and Land Systems product line.

Cost of Sales and Selling and Administrative Expense

Cost of sales decreased $197 million, 7%, in the third quarter of 2018, compared with the third quarter of 2017, largely due to lower net volume described above and a decrease from the disposition of the Tools and Test Equipment product line. Cost of sales increased $17 million in the first nine months of 2018, compared with the first nine months of 2017, primarily due to an unfavorable impact from foreign exchange, largely within our Industrial segment, and an increase related to the Arctic Cat acquisition, partially offset by lower costs resulting from the disposition of the Tools and Test Equipment product line. Gross margin as a percentage of Manufacturing revenues decreased 120 basis points in the third quarter of 2018, primarily due to lower margin at the Industrial segment, which reflected the impact from the disposition of the Tools and Test Equipment product line and unfavorable performance

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and pricing, partially offset by improved margins at the Textron Aviation segment, primarily reflecting favorable pricing, and at the Bell segment from favorable performance.

Selling and administrative expense decreased $28 million, 8%, in the third quarter of 2018, compared with the third quarter of 2017, primarily due to lower selling and administrative expenses resulting from the disposition of the Tools and Test Equipment product line. Selling and administrative expense increased $17 million, 2%, in the first nine months of 2018, compared with the first nine months of 2017, primarily due to higher share-based compensation expense and higher selling and administrative expenses at the Bell segment, partially offset by lower selling and administrative expenses from the disposition of the Tools and Test Equipment product line.

Gain on Business Disposition

On April 18, 2018, we entered into an agreement to sell the businesses that manufacture and sell the products in our Tools and Test Equipment product line within our Industrial segment to Emerson Electric Co. We completed this disposition on July 2, 2018 and received net cash proceeds of $807 million. In the third quarter of 2018, we recorded an after-tax gain of $410 million, subject to post-closing adjustments.

Income Taxes

Our effective tax rate for the third quarter and first nine months of 2018 was 10.4% and 11.8%, respectively. The effective tax rate was lower than the U.S. federal statutory tax rate of 21% for these periods, primarily due to the disposition of the Tools and Test equipment product line which resulted in a gain taxable primarily in a non-U.S. jurisdiction that partially exempts such gains from tax. The effective tax rate for the first nine months of 2018 also reflects a $25 million benefit recognized upon the reassessment of our reserve for uncertain tax positions based on new information, including interactions with the tax authorities and recent audit settlements.

Our effective tax rate for the third quarter and first nine months of 2017 was 21.7% and 23.6%, respectively. The effective tax rate was lower than the U.S. federal statutory tax rate of 35% for these periods, primarily due to 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.

Backlog

Our backlog is summarized below:

(In millions)		**September 29, 2018**	**December 30, 2017**
Bell	$	5,731$	4,598
Textron Aviation		1,774	1,180
Textron Systems		1,148	1,406
Total backlog	$	8,653$	7,184

Bell s backlog increased $1.1 billion in the first nine months of 2018. New contracts received in excess of revenues recognized totaled $1.9 billion, which primarily reflected an increase of $2.2 billion for Bell s portion of a third multi-year V-22 contract for the production and delivery of 58 units along with related supplies and services through 2024. This was partially offset by a decrease of approximately $760 million upon the adoption of ASC 606 at the beginning of 2018, largely resulting from the acceleration of revenues upon conversion to the cost-to-cost method of revenue recognition.

Backlog at Textron Aviation increased $594 million in the first nine months of 2018 as a result of orders in excess of deliveries and an increase of approximately $170 million upon the adoption of ASC 606. Textron Systems backlog decreased $258 million in the first nine months of 2018 as revenues recognized exceeded new contracts.

At September 29, 2018, backlog includes amounts that have been formally appropriated under contracts with the U.S. Government and certain other agreements that meet the contract criteria under ASC 606 that had previously been excluded from backlog. For both periods, backlog excludes unexercised contract options and potential orders under ordering-type contracts such as Indefinite Delivery, Indefinite Quantity contracts.

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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, gain on business disposition and special charges. The measurement for the Finance segment includes interest income and expense along with intercompany interest income and expense. Operating expenses for the Manufacturing segments include cost of sales, selling and administrative expense and other components of net periodic benefit cost/(credit), and exclude certain corporate expenses and special charges.

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, while changes in segment profit may be expressed in terms of mix, inflation and cost performance. Volume changes in revenues for our commercial business represent increases or 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, while reductions in revenues from the sale of businesses are reflected as Dispositions. 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 service cost 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, non-service pension cost/(credit), product line profitability, start-up, ramp up and cost-reduction initiatives or other manufacturing inputs.

Approximately 24% of our 2017 revenues were derived from contracts with the U.S. Government, including those under the U.S. Government-sponsored foreign military sales program. For our segments that contract with the U.S. Government, changes in revenue related to these contracts are expressed in terms of volume. Revenues in 2018 for our U.S. Government contracts are primarily recognized as costs are incurred, while revenues for 2017 were primarily recognized as units were delivered. Changes in segment profit are typically expressed in terms of volume and performance; these include cumulative catch-up adjustments associated with a) revisions to the transaction price that may reflect contract modifications or changes in assumptions related to award fees and other variable consideration or b) changes in the total estimated costs at completion due to improved or deteriorated operating performance.

Textron Aviation

(Dollars in millions)	Three Months Ended September 29, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 29, 2018	Nine Months Ended September 30, 2017
Revenues:				
Aircraft	$ 756	$ 753	$ 2,267	$ 2,127
Aftermarket parts and services	377	401	1,152	1,168
Total revenues	1,133	1,154	3,419	3,295
Operating expenses	1,034	1,061	3,144	3,112
Segment profit	99	93	275	183
Profit margin	8.7%	8.1%	8.0%	5.6%

Textron Aviation Revenues and Operating Expenses

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

(In millions)	Q3 2018 versus Q3 2017	YTD 2018 versus YTD 2017
Pricing	$ 25	$ 77
Volume and mix	(46)	47
Total change	$ (21)	$ 124

Textron Aviation s revenues decreased $21 million, 2%, in the third quarter, compared with the third quarter of 2017, resulting from lower volume and mix of $46 million, largely reflecting lower commercial turboprop volume, partially offset by favorable pricing of $25 million. We delivered 41 Citation jets and 43 commercial turboprops in the third quarter of 2018, compared with 41 Citation jets and 57 commercial turboprops in the third quarter of 2017.

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In the first nine months of 2018, Textron Aviation s revenues increased $124 million, 4%, compared with the first nine months of 2017, primarily due to favorable pricing. We delivered 125 Citation jets and 119 commercial turboprops in the first nine months of 2018, compared with 122 Citation jets and 110 commercial turboprops in the first nine months of 2017.

Textron Aviation s operating expenses decreased $27 million, 3%, in the third quarter of 2018, compared with the third quarter of 2017, largely due to lower volume and mix described above.

Textron Aviation s operating expenses increased $32 million, 1%, in the first nine months of 2018, compared with the first nine months of 2017, largely due to inflation.

Textron Aviation Segment Profit

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

(In millions)	Q3 2018 versus Q3 2017	YTD 2018 versus YTD 2017
Pricing, net of inflation	$ 14	$ 43
Volume and mix	(17)	31
Performance	9	18
Total change	$ 6	$ 92

Segment profit at Textron Aviation increased $6 million, 6%, in the third quarter of 2018, compared with the third quarter of 2017, primarily due to favorable impact from pricing, net of inflation of $14 million and performance of $9 million, partially offset by the impact from lower volume and mix as described above.

Segment profit at Textron Aviation increased $92 million, 50%, in the first nine months of 2018, compared with the first nine months of 2017, primarily due to favorable impact from pricing, net of inflation of $43 million and the impact from higher volume and mix.

Bell

	Three Months Ended		Nine Months Ended	
(Dollars in millions)	September 29, 2018	September 30, 2017	September 29, 2018	September 30, 2017
Revenues:				
Military aircraft and support programs	$ 505	$ 464	$ 1,525	$ 1,429
Commercial helicopters, parts and services	265	348	828	905
Total revenues	770	812	2,353	2,334