

UNITED TECHNOLOGIES CORP /DE/  
Form 10-Q  
October 24, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549

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FORM 10-Q

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934  
For the quarterly period ended September 30, 2014  
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 1-812

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UNITED TECHNOLOGIES CORPORATION

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DELAWARE 06-0570975  
One Financial Plaza, Hartford, Connecticut 06101  
(860) 728-7000

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 (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes . No .

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

At September 30, 2014 there were 911,658,325 shares of Common Stock outstanding.



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AND SUBSIDIARIES  
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United Technologies Corporation and its subsidiaries' names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or tradenames of United Technologies Corporation and its subsidiaries. Names, abbreviations of names, logos, and products and service designators of other companies are either the registered or unregistered trademarks or tradenames of their respective owners. As used herein, the terms "we," "us," "our," "the Company," or "UTC," unless the context otherwise requires, mean United Technologies Corporation and its subsidiaries. References to internet web sites in this Form 10-Q are provided for convenience only. Information available through these web sites is not incorporated by reference into this Form 10-Q.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

UNITED TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)

(Dollars in millions, except per share amounts)	Quarter Ended September 30,	
	2014	2013
Net Sales:		
Product sales	\$11,507	\$11,243
Service sales	4,661	4,219
	16,168	15,462
Costs and Expenses:		
Cost of products sold	8,444	8,316
Cost of services sold	3,022	2,704
Research and development	677	630
Selling, general and administrative	1,580	1,633
	13,723	13,283
Other income, net	301	187
Operating profit	2,746	2,366
Interest expense, net	186	226
Income from continuing operations before income taxes	2,560	2,140
Income tax expense	608	614
Net income from continuing operations	1,952	1,526
Less: Noncontrolling interest in subsidiaries' earnings from continuing operations	98	111
Income from continuing operations attributable to common shareowners	1,854	1,415
Discontinued operations (Note 2):		
Gain on disposal	—	10
Income tax benefit	—	7
Income from discontinued operations attributable to common shareowners	—	17
Net income attributable to common shareowners	\$1,854	\$1,432
Earnings Per Share of Common Stock - Basic:		
Income from continuing operations attributable to common shareowners	\$2.07	\$1.57
Net income attributable to common shareowners	\$2.07	\$1.59
Earnings Per Share of Common Stock - Diluted:		
Income from continuing operations attributable to common shareowners	\$2.04	\$1.55
Net income attributable to common shareowners	\$2.04	\$1.57
See accompanying Notes to Condensed Consolidated Financial Statements		

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UNITED TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS  
(Unaudited)

(Dollars in millions, except per share amounts)	Nine Months Ended	
	September 30,	
	2014	2013
Net Sales:		
Product sales	\$35,216	\$33,159
Service sales	12,888	12,708
	48,104	45,867
Costs and Expenses:		
Cost of products sold	26,707	24,876
Cost of services sold	8,380	8,161
Research and development	1,967	1,871
Selling, general and administrative	4,799	4,997
	41,853	39,905
Other income, net	948	917
Operating profit	7,199	6,879
Interest expense, net	617	679
Income from continuing operations before income taxes	6,582	6,200
Income tax expense	1,534	1,677
Net income from continuing operations	5,048	4,523
Less: Noncontrolling interest in subsidiaries' earnings from continuing operations	301	286
Income from continuing operations attributable to common shareowners	4,747	4,237
Discontinued operations (Note 2):		
Income from operations	—	63
Loss on disposal	—	(30)
Income tax expense	—	(12)
Income from discontinued operations attributable to common shareowners	—	21
Net income attributable to common shareowners	\$4,747	\$4,258
Earnings Per Share of Common Stock - Basic:		
Income from continuing operations attributable to common shareowners	\$5.28	\$4.70
Net income attributable to common shareowners	\$5.28	\$4.73
Earnings Per Share of Common Stock - Diluted:		
Income from continuing operations attributable to common shareowners	\$5.20	\$4.64
Net income attributable to common shareowners	\$5.20	\$4.66
See accompanying Notes to Condensed Consolidated Financial Statements		

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UNITED TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(Unaudited)

(Dollars in millions)	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income from continuing operations	\$1,952	\$1,526	\$5,048	\$4,523
Net income from discontinued operations	—	17	—	21
Net income	1,952	1,543	5,048	4,544
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustments				
Foreign currency translation adjustments arising during period	(744	) 436	(429	) (448
Reclassification adjustments for loss (gain) on sale of an investment in a foreign entity recognized in Other income, net	1	(1	) 4	31
	(743	) 435	(425	) (417
Pension and post-retirement benefit plans				
Pension and post-retirement benefit plans adjustments during the period	14	(18	) 15	39
Amortization of actuarial loss, prior service cost and transition obligation	104	226	312	680
	118	208	327	719
Tax expense	(42	) (64	) (111	) (247
	76	144	216	472
Unrealized (loss) gain on available-for-sale securities				
Unrealized holding (loss) gain arising during period	(59	) 93	(71	) 226
Reclassification adjustments for gain included in Other income, net	—	(27	) (30	) (81
	(59	) 66	(101	) 145
Tax benefit (expense)	22	(25	) 40	(55
	(37	) 41	(61	) 90
Change in unrealized cash flow hedging				
Unrealized cash flow hedging (loss) gain arising during period	(142	) 97	(120	) (62
Loss (gain) reclassified into Product sales	24	(1	) 55	22
Gain reclassified into Other income, net	—	—	—	(2
	(118	) 96	(65	) (42
Tax benefit (expense)	29	(24	) 12	11
	(89	) 72	(53	) (31
Other comprehensive (loss) income, net of tax	(793	) 692	(323	) 114
Comprehensive income	1,159	2,235	4,725	4,658
Comprehensive income attributable to noncontrolling interest	(71	) (128	) (267	) (277
Comprehensive income attributable to common shareowners	\$1,088	\$2,107	\$4,458	\$4,381

See accompanying Notes to Condensed Consolidated Financial Statements





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UNITED TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEET  
(Unaudited)

(Dollars in millions)	September 30, 2014	December 31, 2013
Assets		
Cash and cash equivalents	\$5,035	\$4,619
Accounts receivable, net	11,080	11,458
Inventories and contracts in progress, net	10,341	10,330
Future income tax benefits, current	1,989	1,964
Other assets, current	966	1,071
Total Current Assets	29,411	29,442
Customer financing assets	1,081	1,156
Future income tax benefits	1,223	1,236
Fixed assets	19,744	18,661
Less: Accumulated depreciation	(10,562	) (9,795
Fixed assets, net	9,182	8,866
Goodwill	28,169	28,168
Intangible assets, net	15,684	15,521
Other assets	7,024	6,205
Total Assets	\$91,774	\$90,594
Liabilities and Equity		
Short-term borrowings	\$347	\$388
Accounts payable	7,046	6,965
Accrued liabilities	14,721	15,335
Long-term debt currently due	1,794	112
Total Current Liabilities	23,908	22,800
Long-term debt	17,857	19,741
Future pension and postretirement benefit obligations	3,033	3,444
Other long-term liabilities	11,446	11,279
Total Liabilities	56,244	57,264
Commitments and contingent liabilities (Note 14)		
Redeemable noncontrolling interest	141	111
Shareowners' Equity:		
Common Stock	15,187	14,764
Treasury Stock	(21,519	) (20,431
Retained earnings	43,668	40,539
Unearned ESOP shares	(118	) (126
Accumulated other comprehensive loss	(3,169	) (2,880
Total Shareowners' Equity	34,049	31,866
Noncontrolling interest	1,340	1,353
Total Equity	35,389	33,219
Total Liabilities and Equity	\$91,774	\$90,594
See accompanying Notes to Condensed Consolidated Financial Statements		

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UNITED TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
(Unaudited)

	Nine Months Ended September 30,	
(Dollars in millions)	2014	2013
Operating Activities of Continuing Operations:		
Income from continuing operations	\$5,048	\$4,523
Adjustments to reconcile income from continuing operations to net cash flows provided by operating activities of continuing operations:		
Depreciation and amortization	1,418	1,335
Deferred income tax provision	118	13
Stock compensation cost	203	216
Change in:		
Accounts receivable	159	(198 )
Inventories and contracts in progress	(1,345 )	(1,461 )
Other current assets	(128 )	118 )
Accounts payable and accrued liabilities	(82 )	1,077 )
Global pension contributions	(204 )	(72 )
Other operating activities, net	(162 )	(660 )
Net cash flows provided by operating activities of continuing operations	5,025	4,891
Investing Activities of Continuing Operations:		
Capital expenditures	(1,154 )	(1,047 )
Investments in businesses	(378 )	(120 )
Dispositions of businesses	244	1,465
Decrease (increase) in customer financing assets, net	72	(121 )
Increase in collaboration intangible assets	(459 )	(547 )
Other investing activities, net	199	(229 )
Net cash flows used in investing activities of continuing operations	(1,476 )	(599 )
Financing Activities of Continuing Operations:		
Repayment of long-term debt, net	(222 )	(1,795 )
Decrease in short-term borrowings, net	(128 )	(204 )
Proceeds from Common Stock issued under employee stock plans	131	336
Dividends paid on Common Stock	(1,538 )	(1,395 )
Repurchase of Common Stock	(1,095 )	(1,000 )
Other financing activities, net	(222 )	(168 )
Net cash flows used in financing activities of continuing operations	(3,074 )	(4,226 )
Discontinued Operations:		
Net cash used in operating activities	—	(603 )
Net cash provided by investing activities	—	351
Net cash flows used in discontinued operations	—	(252 )
Effect of foreign exchange rate changes on cash and cash equivalents	(59 )	(29 )
Net increase (decrease) in cash and cash equivalents	416	(215 )
Cash and cash equivalents, beginning of year	4,619	4,836
Cash and cash equivalents, end of period	\$5,035	\$4,621

See accompanying Notes to Condensed Consolidated Financial Statements



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UNITED TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

The Condensed Consolidated Financial Statements at September 30, 2014 and for the quarters and nine months ended September 30, 2014 and 2013 are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. The results reported in these Condensed Consolidated Financial Statements should not necessarily be taken as indicative of results that may be expected for the entire year. Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. The financial information included herein should be read in conjunction with the financial statements and notes in our Annual Report to Shareowners (2013 Annual Report) incorporated by reference to our Annual Report on Form 10-K for calendar year 2013 (2013 Form 10-K).

Note 1: Acquisitions, Dispositions, Goodwill and Other Intangible Assets

Business Acquisitions and Dispositions. During the nine months ended September 30, 2014, our investment in business acquisitions was \$506 million, including debt assumed of \$128 million, and consisted of the acquisition of the majority interest in a Pratt & Whitney joint venture and a number of small acquisitions, primarily in our commercial businesses.

As a result of the 2012 transactions related to IAE International Aero Engines AG (IAE), Pratt & Whitney holds a 61% net interest in the collaboration and a 49.5% ownership interest in IAE. IAE's business purpose is to coordinate the design, development, manufacturing and product support of the V2500 program through involvement with the collaborators. IAE retains limited equity with the primary economics of the V2500 program passed to the participants in the separate collaboration arrangement. As such, we have determined that IAE is a variable interest entity with Pratt & Whitney its primary beneficiary, and IAE has, therefore, been consolidated. The carrying amounts and classification of assets and liabilities for IAE in our Condensed Consolidated Balance Sheet as of September 30, 2014 are as follows:

(Dollars in millions)

Current assets	\$1,855
Noncurrent assets	1,184
Total assets	\$3,039
Current liabilities	\$2,141
Noncurrent liabilities	1,209
Total liabilities	\$3,350

Goodwill. Changes in our goodwill balances for the nine months ended September 30, 2014 were as follows:

(Dollars in millions)	Balance as of January 1, 2014	Goodwill Resulting from Business Combinations	Foreign Currency Translation and Other	Balance as of September 30, 2014
Otis	\$1,741	\$21	\$(48)	) \$1,714
UTC Climate, Controls & Security	9,727	11	(133)	) 9,605
Pratt & Whitney	1,273	209	—	1,482
UTC Aerospace Systems	15,069	—	(55)	) 15,014
Sikorsky	353	—	(4)	) 349
Total Segments	28,163	241	(240)	) 28,164
Eliminations and other	5	—	—	5
Total	\$28,168	\$241	\$(240)	) \$28,169

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Intangible Assets. Identifiable intangible assets are comprised of the following:

(Dollars in millions)	September 30, 2014		December 31, 2013	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized:				
Service portfolios	\$2,183	\$(1,334)	) \$2,234	\$(1,295)
Patents and trademarks	376	(192)	) 380	(181)
IAE collaboration	2,738	(15)	) 2,273	—
Customer relationships and other	12,260	(2,556)	) 12,049	(2,199)
	17,557	(4,097)	) 16,936	(3,675)
Unamortized:				
Trademarks and other	2,224	—	) 2,260	—
Total	\$19,781	\$(4,097)	) \$19,196	\$(3,675)

Customer relationship intangible assets include payments made to our customers to secure certain contractual rights. We amortize these intangible assets based on the underlying pattern of economic benefit, which may result in an amortization method other than straight-line. We classify amortization of such payments as a reduction of sales. The IAE collaboration intangible asset is amortized based upon the economic pattern of benefits as represented by the underlying cash flows. Prior to 2014, these cash flows were negative, and, accordingly, no amortization had previously been recorded. Amortization of intangible assets for the quarter and nine months ended September 30, 2014 was \$182 million and \$540 million, respectively, compared with \$180 million and \$531 million for the same periods of 2013. The following is the expected amortization of intangible assets for the years 2014 through 2019, which reflects an increase in expected amortization expense due to the pattern of economic benefit on certain aerospace intangible assets.

(Dollars in millions)	Remaining 2014	2015	2016	2017	2018	2019
Amortization expense	\$162	\$669	\$677	\$751	\$819	\$810

#### Note 2: Discontinued Operations

In 2012, the UTC Board of Directors approved plans for the divestiture of a number of non-core businesses, which were completed with the sale of substantially all operations of Pratt & Whitney Rocketdyne (Rocketdyne) on June 14, 2013. Cash generated from these divestitures was used to repay debt incurred to finance the acquisition of Goodrich Corporation (Goodrich) in 2012. On February 12, 2013, we completed the disposition of UTC Power to ClearEdge Power. We have no continuing involvement with the UTC Power business post-disposition.

The following summarized financial information for our discontinued operations businesses was segregated from continuing operations and reported as Discontinued Operations in 2013. There was no discontinued operations activity in the nine months ended September 30, 2014.

(Dollars in millions)	Quarter Ended September 30, 2013	Nine Months Ended September 30, 2013
Discontinued Operations:		
Net sales	\$—	\$309
Income from operations	\$—	\$63
Income tax expense	—	(32)
Income from operations, net of income taxes	—	31
Gain (loss) on disposal	10	(30)
Income tax benefit	7	20
Income from discontinued operations	\$17	\$21



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## Note 3: Earnings Per Share

(Dollars in millions, except per share amounts; shares in millions)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income attributable to common shareowners:				
Net income from continuing operations	\$1,854	\$1,415	\$4,747	\$4,237
Net income from discontinued operations	—	17	—	21
Net income attributable to common shareowners	\$1,854	\$1,432	\$4,747	\$4,258
Basic weighted average number of shares outstanding	897.7	900.8	899.3	900.9
Stock awards and equity units	12.5	14.7	13.8	13.2
Diluted weighted average number of shares outstanding	910.2	915.5	913.1	914.1
Earnings Per Share of Common Stock - Basic:				
Net income from continuing operations	\$2.07	\$1.57	\$5.28	\$4.70
Net income from discontinued operations	—	0.02	—	0.02
Net income attributable to common shareowners	2.07	1.59	5.28	4.73
Earnings Per Share of Common Stock - Diluted:				
Net income from continuing operations	\$2.04	\$1.55	\$5.20	\$4.64
Net income from discontinued operations	—	0.02	—	0.02
Net income attributable to common shareowners	2.04	1.57	5.20	4.66

The computation of diluted earnings per share excludes the effect of the potential exercise of stock awards, including stock appreciation rights and stock options, when the average market price of the common stock is lower than the exercise price of the related stock awards during the period. These outstanding stock awards are not included in the computation of diluted earnings per share because the effect would be anti-dilutive. For the quarter ended September 30, 2014, the number of stock awards excluded from the computation was approximately 3.6 million. For the nine months ended September 30, 2014, there were no anti-dilutive stock awards excluded from the computation. There were no anti-dilutive stock awards excluded from the computation for the quarter and nine months ended September 30, 2013.

## Note 4: Inventories and Contracts in Progress

(Dollars in millions)	September 30, 2014	December 31, 2013
Raw materials	\$2,073	\$1,983
Work-in-process	3,945	4,600
Finished goods	3,957	3,360
Contracts in progress	8,756	7,929
	18,731	17,872
Less:		
Progress payments, secured by lien, on U.S. Government contracts	(440	) (279
Billings on contracts in progress	(7,950	) (7,263
	\$10,341	\$10,330

During the quarter ended June 30, 2014, Sikorsky and the Canadian Government signed amendments to their existing contracts for development, production and support of the CH-148 helicopter. These amendments include significant changes in program scope, governance and delivery methodology. Accordingly, in the quarter ended June 30, 2014, we recognized a change in estimate on this program resulting in the liquidation of approximately \$1.3 billion of inventory, including all capitalized contract development costs related to this program. As of December 31, 2013, inventory included approximately \$740 million of capitalized contract development costs related to this program. Inventory also includes capitalized contract development costs related to certain aerospace programs at UTC Aerospace Systems. As of September 30, 2014 and December 31, 2013, these capitalized costs were \$149 million and \$159 million, respectively, which will be liquidated as production units are delivered to the customer.





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## Note 5: Borrowings and Lines of Credit

(Dollars in millions)	September 30, 2014	December 31, 2013
Commercial paper	\$ 135	\$ 200
Other borrowings	212	188
Total short-term borrowings	\$ 347	\$ 388

At September 30, 2014, we had revolving credit agreements with various banks permitting aggregate borrowings of up to \$4.35 billion pursuant to a \$2.20 billion revolving credit agreement and a \$2.15 billion multicurrency revolving credit agreement, both of which expire in May 2019. As of September 30, 2014, there were no borrowings under either of these revolving credit agreements. The undrawn portions of these revolving credit agreements are also available to serve as backup facilities for the issuance of commercial paper. As of September 30, 2014, our maximum commercial paper borrowing limit was \$4 billion. We use our commercial paper borrowings for general corporate purposes, including the funding of potential acquisitions, debt refinancing, and repurchases of our common stock. On April 1, 2014, we redeemed all remaining outstanding 2016 Goodrich 6.290% notes, representing approximately \$188 million in aggregate principal, under our redemption notice issued on February 28, 2014.

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Long-term debt consisted of the following:

(Dollars in millions)	September 30, 2014	December 31, 2013
LIBOR <sup>§</sup> plus 0.500% floating rate notes due 2015	\$500	\$500
4.875% notes due 2015*	1,200	1,200
6.290% notes due 2016 <sup>‡</sup>	—	188
5.375% notes due 2017*	1,000	1,000
1.800% notes due 2017*	1,500	1,500
6.800% notes due 2018 <sup>‡</sup>	99	99
6.125% notes due 2019*	1,250	1,250
8.875% notes due 2019	271	271
4.500% notes due 2020*	1,250	1,250
4.875% notes due 2020 <sup>‡</sup>	171	171
8.750% notes due 2021	250	250
3.100% notes due 2022*	2,300	2,300
1.550% junior subordinated notes due 2022 <sup>†</sup>	1,100	1,100
7.100% notes due 2027 <sup>‡</sup>	141	141
6.700% notes due 2028	400	400
7.500% notes due 2029*	550	550
5.400% notes due 2035*	600	600
6.050% notes due 2036*	600	600
6.800% notes due 2036 <sup>‡</sup>	134	134
7.000% notes due 2038 <sup>‡</sup>	159	159
6.125% notes due 2038*	1,000	1,000
5.700% notes due 2040*	1,000	1,000
4.500% notes due 2042*	3,500	3,500
Project financing obligations	109	86
Other (including capitalized leases) <sup>‡</sup>	395	394
Total principal long-term debt	19,479	19,643
Other (fair market value adjustments and discounts) <sup>‡</sup>	172	210
Total long-term debt	19,651	19,853
Less: current portion	1,794	112
Long-term debt, net of current portion	\$17,857	\$19,741

We may redeem the above notes, in whole or in part, at our option at any time at a redemption price in U.S. Dollars equal to the greater of 100% of the principal amount of the notes to be redeemed or the sum of the present values of \*the remaining scheduled payments of principal and interest on the notes to be redeemed, discounted to the redemption date on a semiannual basis at the adjusted treasury rate plus 10-50 basis points. The redemption price will also include interest accrued to the date of redemption on the principal balance of the notes being redeemed. The junior subordinated notes are redeemable at our option, in whole or in part, on a date not earlier than August 1, 2017. The redemption price will be the principal amount, plus accrued and unpaid interest, if any, up to but excluding the redemption date. We may extend or eliminate the optional redemption date as part of a remarketing of the junior subordinated notes which could occur between April 29, 2015 and July 15, 2015 or between July 23, 2015 and July 29, 2015.

<sup>†</sup> Includes notes and remaining fair market value adjustments that were assumed as a part of the Goodrich acquisition on July 26, 2012.

<sup>§</sup> The three-month LIBOR rate as of September 30, 2014 was approximately 0.2%.

We have an existing universal shelf registration statement filed with the Securities and Exchange Commission (SEC) for an indeterminate amount of equity and debt securities for future issuance, subject to our internal limitations on the amount of equity and debt to be issued under this shelf registration statement.



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## Note 6: Income Taxes

We conduct business globally and, as a result, UTC or one or more of our subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as Australia, Belgium, Canada, China, France, Germany, Hong Kong, Italy, Japan, South Korea, Singapore, Spain, the United Kingdom and the United States. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2000.

In the ordinary course of business, there is inherent uncertainty in quantifying our income tax positions. We assess our income tax positions and record tax benefits for all years subject to examination based upon management's evaluation of the facts, circumstances, and information available at the reporting date. It is reasonably possible that over the next 12 months the amount of unrecognized tax benefits may change within a range of a net increase of \$30 million to a net decrease of \$150 million as a result of additional worldwide uncertain tax positions, the revaluation of current uncertain tax positions arising from developments in examinations, in appeals, or in the courts, or the closure of tax statutes. See Note 14, Contingent Liabilities, for discussion regarding uncertain tax positions which are not included in this range related to previously disclosed German tax litigation.

The Company is engaged in litigation with the Internal Revenue Service (IRS) with respect to an issue involving the proper timing of deductions taken by Goodrich Corporation in its tax years 2005 and 2006, prior to its acquisition by UTC. This is a recurring issue, and the IRS may continue to challenge it in subsequent tax years until the issue is resolved. Goodrich Corporation tax years 2007 through 2010 are currently before the Appeals Division of the IRS (IRS Appeals) for resolution discussions regarding certain proposed adjustments with which UTC does not agree, including the recurring timing issue described above. Both the 2005 - 2006 litigation and the 2007 - 2010 appeals proceedings, together with all final computations for open tax years through 2010, are expected to be resolved during the fourth quarter of 2014. As a result, we currently expect to recognize non-cash gains of approximately \$90 million during the fourth quarter of 2014, primarily comprised of pre-tax interest. IRS examination activity for Goodrich Corporation tax years 2011 and 2012, prior to its acquisition by UTC, commenced during the third quarter of 2014. UTC tax years 2006 through 2008 have been before IRS Appeals for resolution of certain proposed adjustments with which UTC did not agree. These proceedings were completed and resolution was achieved during the quarter ended September 30, 2014. IRS examination activity for UTC tax years 2011 and 2012 commenced during the third quarter of 2014. Additionally, during the quarter ended September 30, 2014, an agreement was reached between the Company and the Canada Revenue Agency (CRA) with respect to the amount of the research credits to which the Company was entitled for tax years 2006 through 2012. As a result of the completed IRS Appeals activity and agreement with the CRA, the Company recognized non-cash gains in the quarter ended September 30, 2014 of approximately \$141 million, including a pre-tax interest adjustment of \$23 million.

During the quarter ended June 30, 2014, the Examination Division of the IRS completed a review of UTC tax years 2009 and 2010 and the Examination Division of the Connecticut Department of Revenue Services completed a review of UTC's 2010 - 2012 tax years. As a result of the completion of these examinations, the Company recognized non-cash gains of approximately \$274 million, including a pre-tax interest adjustment of \$21 million, during the second quarter of 2014. Additionally, the Company reached an agreement with a state taxing authority during the second quarter of 2014 for the monetization of tax credits resulting in a gain of approximately \$220 million through Other Income in the quarter ended June 30, 2014.

During the quarter ended June 30, 2014, the Company also settled a dispute with the French Tax Authority related to the proposed disallowance of certain recurring deductions claimed in France for tax years 2008 through 2011.

## Note 7: Employee Benefit Plans

Pension and Postretirement Plans. We sponsor both funded and unfunded domestic and foreign defined pension and other postretirement benefit plans, and defined contribution plans. Contributions to our plans were as follows:

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
(Dollars in millions)	2014	2013	2014	2013
Defined benefit plans	\$60	\$21	\$204	\$72

Defined contribution plans	\$79	\$75	\$249	\$258
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There were no contributions to our domestic defined benefit pension plans in the quarters and nine months ended September 30, 2014 and 2013. The following table illustrates the components of net periodic benefit cost for our defined pension and other postretirement benefit plans:

(Dollars in millions)	Pension Benefits		Other Postretirement Benefits	
	Quarter Ended September 30,		Quarter Ended September 30,	
	2014	2013	2014	2013
Service cost	\$122	\$142	\$1	\$1
Interest cost	381	343	10	9
Expected return on plan assets	(555)	(526)	—	—
Amortization	(3)	(8)	—	(2)
Recognized actuarial net loss (gain)	108	237	(1)	(1)
Net settlement and curtailment loss	2	—	—	—
Total net periodic benefit cost	\$55	\$188	\$10	\$7
(Dollars in millions)	Pension Benefits		Other Postretirement Benefits	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Service cost	\$366	\$428	\$3	\$3
Interest cost	1,141	1,029	30	28
Expected return on plan assets	(1,663)	(1,579)	—	—
Amortization	(7)	(26)	—	(8)
Recognized actuarial net loss (gain)	322	717	(3)	(3)
Net settlement and curtailment loss (gain)	8	(17)	—	—
Total net periodic benefit cost	\$167	\$552	\$30	\$20

Net settlement and curtailment loss (gain) for pension benefits includes curtailment gains of approximately \$24 million related to, and recorded in, discontinued operations for the nine months ended September 30, 2013. There were no curtailment gains related to discontinued operations for the quarter ended September 30, 2013.

**Note 8: Restructuring Costs**

During the nine months ended September 30, 2014, we recorded net pre-tax restructuring costs totaling \$243 million for new and ongoing restructuring actions. We recorded charges in the segments as follows:

(Dollars in millions)	
Otis	\$53
UTC Climate, Controls & Security	82
Pratt & Whitney	55
UTC Aerospace Systems	36
Sikorsky	17
Total	\$243

Restructuring charges incurred during the nine months ended September 30, 2014 primarily relate to actions initiated during 2014 and 2013, and were recorded as follows:

(Dollars in millions)	
Cost of sales	\$136
Selling, general and administrative	107
Total	\$243

2014 Actions. During the nine months ended September 30, 2014, we initiated restructuring actions relating to ongoing cost reduction efforts, including workforce reductions and the consolidation of field operations. We recorded net pre-tax



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restructuring costs totaling \$215 million, including \$109 million in cost of sales and \$106 million in selling, general and administrative expenses.

We are targeting the majority of the remaining workforce and all facility related cost reduction actions for completion during 2014 and 2015. No specific plans for significant other actions have been finalized at this time. The following table summarizes the accrual balances and utilization by cost type for the 2014 restructuring actions:

(Dollars in millions)	Severance	Asset Write-Downs	Facility Exit, Lease Termination and Other Costs	Total
Restructuring accruals at July 1, 2014	\$112	\$—	\$1	\$113
Net pre-tax restructuring costs	43	4	17	64
Utilization and foreign exchange	(45)	(4)	(7)	(56)
Balance at September 30, 2014	\$110	\$—	\$11	\$121

The following table summarizes expected, incurred and remaining costs for the 2014 restructuring actions by segment:

(Dollars in millions)	Expected Costs	Costs Incurred Quarter Ended March 31, 2014	Costs Incurred Quarter Ended June 30, 2014	Costs Incurred Quarter Ended September 30, 2014	Remaining Costs at September 30, 2014
Otis	\$85	\$(18)	\$(28)	\$(17)	\$22
UTC Climate, Controls & Security	97	(16)	(21)	(16)	44
Pratt & Whitney	78	(37)	(10)	(8)	23
UTC Aerospace Systems	37	(3)	(2)	(22)	10
Sikorsky	17	(16)	—	(1)	—
Total	\$314	\$(90)	\$(61)	\$(64)	\$99

2013 Actions. During the nine months ended September 30, 2014, we recorded net pre-tax restructuring costs totaling \$33 million for restructuring actions initiated in 2013, including \$29 million in cost of sales and \$4 million in selling, general and administrative expenses. The 2013 actions relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of field operations. The following table summarizes the accrual balances and utilization by cost type for the 2013 restructuring actions:

(Dollars in millions)	Severance	Asset Write-Downs	Facility Exit, Lease Termination and Other Costs	Total
Restructuring accruals at July 1, 2014	\$132	\$—	\$23	\$155
Net pre-tax restructuring costs	(4)	—	4	—
Utilization and foreign exchange	(26)	—	(6)	(32)
Balance at September 30, 2014	\$102	\$—	\$21	\$123

The following table summarizes expected, incurred and remaining costs for the 2013 restructuring actions by segment:

(Dollars in millions)	Expected Costs	Costs Incurred in 2013	Costs Incurred Quarter Ended March 31, 2014	Costs Incurred Quarter Ended June 30, 2014	Costs Incurred Quarter Ended September 30, 2014	Remaining Costs at September 30, 2014
Otis	\$69	\$(69)	\$(1)	\$2	\$—	\$1



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UTC Climate, Controls & Security	124	(89	) (24	) (2	) 2	11
Pratt & Whitney	163	(154	) (6	) 1	—	4
UTC Aerospace Systems	88	(71	) (1	) (3	) (3	) 10
Sikorsky	36	(38	) —	1	1	—
Total	\$480	\$(421	) \$(32	) \$(1	) \$—	\$26

2012 Actions. As of September 30, 2014, we have approximately \$55 million of accrual balances remaining related to 2012 actions.

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## Note 9: Financial Instruments

We enter into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments under the Derivatives and Hedging Topic of the FASB ASC and those utilized as economic hedges. We operate internationally and, in the normal course of business, are exposed to fluctuations in interest rates, foreign exchange rates and commodity prices. These fluctuations can increase the costs of financing, investing and operating the business. We have used derivative instruments, including swaps, forward contracts and options to manage certain foreign currency, interest rate and commodity price exposures.

The four quarter rolling average of the notional amount of foreign exchange contracts hedging foreign currency transactions was \$13.0 billion and \$12.3 billion at September 30, 2014 and December 31, 2013, respectively.

The following table summarizes the fair value of derivative instruments as of September 30, 2014 and December 31, 2013 which consist solely of foreign exchange contracts:

(Dollars in millions)	Asset Derivatives		Liability Derivatives	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Derivatives designated as hedging instruments	\$13	\$59	\$128	\$103
Derivatives not designated as hedging instruments	87	31	89	54

The impact from foreign exchange derivative instruments that qualified as cash flow hedges was as follows:

(Dollars in millions)	Quarter Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
(Loss) gain recorded in Accumulated other comprehensive loss	\$(142)	\$97	\$(120)	\$(64)
Loss reclassified from Accumulated other comprehensive loss (gain) into Product sales (effective portion)	\$24	\$(1)	\$55	\$22

Assuming current market conditions continue, a \$72 million pre-tax loss is expected to be reclassified from Accumulated other comprehensive loss into Product sales to reflect the fixed prices obtained from foreign exchange hedging within the next 12 months. At September 30, 2014, all derivative contracts accounted for as cash flow hedges will mature by September 2016.

The effect on the Condensed Consolidated Statement of Operations of foreign exchange contracts not designated as hedging instruments was as follows:

(Dollars in millions)	Quarter Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Gain recognized in Other income, net	\$10	\$10	\$22	\$33

## Note 10: Fair Value Measurements

The Fair Value Measurements and Disclosure Topic of the FASB ASC establishes a valuation hierarchy for disclosure of the inputs to the valuations used to measure fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 - quoted prices in active markets for identical assets or liabilities;

Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly; and

Level 3 - unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

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The following tables provide the valuation hierarchy classification of assets and liabilities that are carried at fair value and measured on a recurring and nonrecurring basis in our Condensed Consolidated Balance Sheet as of September 30, 2014 and December 31, 2013:

September 30, 2014 (Dollars in millions)	Total	Level 1	Level 2	Level 3
Recurring fair value measurements:				
Available-for-sale securities	\$863	\$863	\$—	\$—
Derivative assets	100	—	100	—
Derivative liabilities	(217	) —	(217	) —
Nonrecurring fair value measurements:				
Business dispositions	44	—	44	—
December 31, 2013 (Dollars in millions)	Total	Level 1	Level 2	Level 3
Recurring fair value measurements:				
Available-for-sale securities	\$988	\$988	\$—	\$—
Derivative assets	90	—	90	—
Derivative liabilities	(157	) —	(157	) —
Nonrecurring fair value measurements:				
Business dispositions	66	—	66	—

We have recorded gains of approximately \$23 million, including a \$48 million net gain during the nine months ended September 30, 2014, as a result of fair value adjustments related to the acquisition of the majority interest in a Pratt & Whitney joint venture. During the nine months ended September 30, 2014, we also recorded an approximately \$30 million net gain from UTC Climate, Controls & Security's ongoing portfolio transformation, primarily due to a gain on the sale of an interest in a joint venture in North America, and a charge of approximately \$28 million to adjust the fair value of a Sikorsky joint venture investment.

During the nine months ended September 30, 2013, we recorded an approximately \$38 million net gain from UTC Climate, Controls & Security's ongoing portfolio transformation, primarily due to a gain on the sale of a business in Hong Kong. In addition, during that nine-month period we recorded a gain of approximately \$193 million from the sale of the Pratt & Whitney Power Systems business, as well as an approximately \$25 million charge to adjust the fair value of a Pratt & Whitney joint venture investment.

**Valuation Techniques.** Our available-for-sale securities include equity investments that are traded in active markets, either domestically or internationally, and are measured at fair value using closing stock prices from active markets. Our derivative assets and liabilities include foreign exchange contracts and commodity derivatives that are measured at fair value using internal models based on observable market inputs such as forward rates, interest rates, our own credit risk and our counterparties' credit risks. As of September 30, 2014, there were no significant transfers in and out of Level 1 and Level 2.

As of September 30, 2014, there has not been any significant impact to the fair value of our derivative liabilities due to our own credit risk. Similarly, there has not been any significant adverse impact to our derivative assets based on our evaluation of our counterparties' credit risks.

The following table provides carrying amounts and fair values of financial instruments that are not carried at fair value in our Condensed Consolidated Balance Sheet at September 30, 2014 and December 31, 2013:

(Dollars in millions)	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term receivables	\$1,016	\$954	\$655	\$586
Customer financing notes receivable	270	262	394	366
Short-term borrowings	(347	) (347	) (388	) (388
Long-term debt (excluding capitalized leases)	(19,614	) (21,992	) (19,807	) (21,525
Long-term liabilities	(294	) (268	) (283	) (253



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The following table provides the valuation hierarchy classification of assets and liabilities that are not carried at fair value in our Condensed Consolidated Balance Sheet as of September 30, 2014:

(Dollars in millions)	Total	Level 1	Level 2	Level 3
Long-term receivables	\$954	\$—	\$954	\$—
Customer financing notes receivable	262	—	262	—
Short-term borrowings	(347 )	—	(135 )	(212 )
Long-term debt (excluding capitalized leases)	(21,992 )	—	(21,644 )	(348 )
Long-term liabilities	(268 )	—	(268 )	—

We had commercial aerospace financing and other contractual commitments totaling approximately \$10.9 billion and \$11.3 billion as of September 30, 2014 and December 31, 2013, respectively, related to commercial aircraft and certain contractual rights to provide product on new aircraft platforms. Risks associated with changes in interest rates on these commitments are mitigated by the fact that interest rates are variable during the commitment term, and are set at the date of funding based on current market conditions, the fair value of the underlying collateral and the credit worthiness of the customers. As a result, the fair value of these financings is expected to equal the amounts funded. The fair value of these commitments is not readily determinable.

**Note 11: Long-Term Financing Receivables**

Our long-term financing receivables primarily represent balances related to our aerospace businesses, such as long-term trade accounts receivable, leases receivable, and notes receivable. We also have other long-term receivables related to our commercial businesses; however, both the individual and aggregate amounts of those other receivables are not significant.

Long-term trade accounts receivable represent amounts arising from the sale of goods and services with a contractual maturity date of greater than one year and are recognized as Other assets in our Condensed Consolidated Balance Sheet. The increase in long-term trade accounts receivable at September 30, 2014, relative to December 31, 2013, is primarily attributable to billings by Sikorsky on its CH-148 contract with the Canadian Government. Notes and leases receivable represent notes and lease receivables other than receivables related to operating leases, and are recognized as Customer financing assets in our Condensed Consolidated Balance Sheet. The following table summarizes the balance by class of aerospace business-related long-term receivables as of September 30, 2014 and December 31, 2013.

(Dollars in millions)	September 30, 2014	December 31, 2013
Long-term trade accounts receivable	\$1,007	\$714
Notes and leases receivable	436	583
Total long-term receivables	\$1,443	\$1,297

Customer credit ratings range from customers with an extremely strong capacity to meet financial obligations, to customers whose uncollateralized receivable is in default. There can be no assurance that actual results will not differ from estimates or that consideration of these factors in the future will not result in an increase or decrease to the allowance for credit losses on long-term receivables. Based upon the customer credit ratings, approximately 6% and 9% of the total long-term receivables reflected in the table above were considered to bear high credit risk as of September 30, 2014 and December 31, 2013, respectively.

For long-term trade accounts receivable, we evaluate credit risk and collectability individually to determine if an allowance is necessary. Our long-term receivables reflected in the table above, which include reserves of \$18 million and \$49 million as of September 30, 2014 and December 31, 2013, respectively, are individually evaluated for impairment. At both September 30, 2014 and December 31, 2013, we did not have any significant balances that are considered to be delinquent, on non-accrual status, past due 90 days or more, or considered to be impaired.

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## Note 12: Shareowners' Equity and Noncontrolling Interest

A summary of the changes in shareowners' equity and noncontrolling interest comprising total equity for the quarters and nine months ended September 30, 2014 and 2013 is provided below:

(Dollars in millions)	Quarter Ended September 30, 2014			2013		
	Share-own Equity	Non-controlling Interest	Total Equity	Share-own Equity	Non-controlling Interest	Total Equity
Equity, beginning of period	\$33,785	\$ 1,408	\$35,193	\$26,987	\$ 1,382	\$28,369
Comprehensive income for the period:						
Net income	1,854	98	1,952	1,432	111	1,543
Total other comprehensive (loss) income	(766 )	(27 )	(793 )	675	17	692
Total comprehensive income for the period	1,088	71	1,159	2,107	128	2,235
Common Stock issued under employee plans	154		154	312		312
Common Stock repurchased	(425 )		(425 )	(330 )		(330 )
Dividends on Common Stock	(512 )		(512 )	(465 )		(465 )
Dividends on ESOP Common Stock	(17 )		(17 )	(17 )		(17 )
Dividends attributable to noncontrolling interest		(145 )	(145 )		(161 )	(161 )
(Purchase) / sale of subsidiary shares from noncontrolling interest	(24 )	6	(18 )	(17 )	(56 )	(73 )
Disposition of noncontrolling interest						