

UNITED TECHNOLOGIES CORP /DE/  
Form 10-Q  
October 23, 2015  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549

---

FORM 10-Q

---

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934  
For the quarterly period ended September 30, 2015  
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

---

UNITED TECHNOLOGIES CORPORATION

---

DELAWARE 06-0570975  
10 Farm Springs Road, Farmington, Connecticut 06032  
(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, 2015 there were 887,020,937 shares of Common Stock outstanding.



Table of Contents

UNITED TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES  
CONTENTS OF QUARTERLY REPORT ON FORM 10-Q  
Quarter Ended September 30, 2015

	Page
<u>PART I – FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1. Unaudited Financial Statements:</u>	<u>3</u>
Condensed Consolidated Statement of Operations for the quarters ended September 30, 2015 and 2014	<u>3</u>
<u>Condensed Consolidated Statement of Operations for the nine months ended September 30, 2015 and 2014</u>	<u>4</u>
<u>Condensed Consolidated Statement of Comprehensive Income for the quarters and nine months ended September 30, 2015 and 2014</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheet at September 30, 2015 and December 31, 2014</u>	<u>6</u>
<u>Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2015 and 2014</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>28</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>29</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>45</u>
<u>Item 4. Controls and Procedures</u>	<u>46</u>
<u>PART II – OTHER INFORMATION</u>	<u>48</u>
<u>Item 1. Legal Proceedings</u>	<u>48</u>
<u>Item 1A. Risk Factors</u>	<u>48</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>48</u>
<u>Item 6. Exhibits</u>	<u>49</u>
<u>SIGNATURES</u>	<u>50</u>
<u>EXHIBIT INDEX</u>	<u>51</u>

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.

Table of Contents

## 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,		
	2015	2014	
Net Sales:			
Product sales	\$9,642	\$10,250	
Service sales	4,146	4,363	
	13,788	14,613	
Costs and Expenses:			
Cost of products sold	7,114	7,342	
Cost of services sold	2,686	2,823	
Research and development	546	640	
Selling, general and administrative	1,359	1,501	
	11,705	12,306	
Other income, net	219	305	
Operating profit	2,302	2,612	
Interest expense, net	184	185	
Income from continuing operations before income taxes	2,118	2,427	
Income tax expense	592	575	
Net income from continuing operations	1,526	1,852	
Less: Noncontrolling interest in subsidiaries' earnings from continuing operations	100	97	
Income from continuing operations attributable to common shareowners	1,426	1,755	
Discontinued operations (Note 2):			
Income from operations	27	133	
Transaction related expenses	(38	) —	
Income tax expense	(54	) (33	)
(Loss) income from discontinued operations	(65	) 100	
Less: Noncontrolling interest in subsidiaries' earnings from discontinued operations	(1	) 1	
(Loss) income from discontinued operations attributable to common shareowners	(64	) 99	
Net income attributable to common shareowners	\$1,362	\$1,854	
Earnings Per Share of Common Stock - Basic:			
Income from continuing operations attributable to common shareowners	\$1.63	\$1.96	
Net income attributable to common shareowners	\$1.55	\$2.07	
Earnings Per Share of Common Stock - Diluted:			
Income from continuing operations attributable to common shareowners	\$1.61	\$1.93	
Net income attributable to common shareowners	\$1.54	\$2.04	
See accompanying Notes to Condensed Consolidated Financial Statements			

Table of Contents

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

	Nine Months Ended September 30,	
(Dollars in millions, except per share amounts)	2015	2014
Net Sales:		
Product sales	\$29,725	\$30,834
Service sales	12,073	12,086
	41,798	42,920
Costs and Expenses:		
Cost of products sold	21,952	22,415
Cost of services sold	7,826	7,752
Research and development	1,668	1,851
Selling, general and administrative	4,261	4,552
	35,707	36,570
Other income, net	808	963
Operating profit	6,899	7,313
Interest expense, net	618	615
Income from continuing operations before income taxes	6,281	6,698
Income tax expense	1,748	1,610
Net income from continuing operations	4,533	5,088
Less: Noncontrolling interest in subsidiaries' earnings from continuing operations	281	300
Income from continuing operations attributable to common shareowners	4,252	4,788
Discontinued operations (Note 2):		
Income (loss) from operations	284	(116 )
Transaction related expenses	(66	) —
Income tax (expense) benefit	(140	) 76
Income (loss) from discontinued operations	78	(40 )
Less: Noncontrolling interest in subsidiaries' earnings from discontinued operations	—	1
Income (loss) from discontinued operations attributable to common shareowners	78	(41 )
Net income attributable to common shareowners	\$4,330	\$4,747
Earnings Per Share of Common Stock - Basic:		
Income from continuing operations attributable to common shareowners	\$4.82	\$5.32
Net income attributable to common shareowners	\$4.91	\$5.28
Earnings Per Share of Common Stock - Diluted:		
Income from continuing operations attributable to common shareowners	\$4.76	\$5.24
Net income attributable to common shareowners	\$4.85	\$5.20
See accompanying Notes to Condensed Consolidated Financial Statements		

Table of Contents

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

(Dollars in millions)	Quarter Ended		Nine Months Ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
Net income from continuing operations	\$1,526	\$1,852	\$4,533	\$5,088	
Net (loss) income from discontinued operations	(65	) 100	78	(40	)
Net income	1,461	1,952	4,611	5,048	
Other comprehensive income, net of tax					
Foreign currency translation adjustments					
Foreign currency translation adjustments arising during period	(936	) (744	) (1,202	) (429	)
Reclassification adjustments for loss (gain) on sale of an investment in a foreign entity recognized in Other income, net	—	1	(1	) 4	
	(936	) (743	) (1,203	) (425	)
Pension and post-retirement benefit plans					
Pension and post-retirement benefit plans adjustments during the period	112	14	157	15	
Amortization of actuarial loss, prior service cost and transition obligation	216	104	651	312	
	328	118	808	327	
Tax expense	(120	) (42	) (296	) (111	)
	208	76	512	216	
Unrealized (loss) gain on available-for-sale securities					
Unrealized holding (loss) gain arising during period	(69	) (59	) 18	(71	)
Reclassification adjustments for gain included in Other income, net	(2	) —	(56	) (30	)
	(71	) (59	) (38	) (101	)
Tax benefit	28	22	17	40	
	(43	) (37	) (21	) (61	)
Change in unrealized cash flow hedging					
Unrealized cash flow hedging loss arising during period	(152	) (142	) (274	) (120	)
Loss reclassified into Product sales	64	24	164	55	
	(88	) (118	) (110	) (65	)
Tax benefit	25	29	32	12	
	(63	) (89	) (78	) (53	)
Other comprehensive income, net of tax	(834	) (793	) (790	) (323	)
Comprehensive income	627	1,159	3,821	4,725	
Comprehensive income attributable to noncontrolling interest	(76	) (71	) (218	) (267	)
Comprehensive income attributable to common shareowners	\$551	\$1,088	\$3,603	\$4,458	

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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

(Dollars in millions)	September 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$5,477	\$ 5,229
Accounts receivable, net	10,647	10,448
Inventories and contracts in progress, net	8,453	7,642
Future income tax benefits, current	1,997	1,923
Assets held for sale	4,836	4,868
Other assets, current	949	1,373
Total Current Assets	32,359	31,483
Customer financing assets	1,008	958
Future income tax benefits	1,341	1,491
Fixed assets	18,244	18,069
Less: Accumulated depreciation	(9,729)	(9,477)
Fixed assets, net	8,515	8,592
Goodwill	27,354	27,448
Intangible assets, net	15,572	15,528
Other assets	5,986	5,789
Total Assets	\$92,135	\$ 91,289
Liabilities and Equity		
Short-term borrowings	\$3,024	\$ 126
Accounts payable	6,333	6,250
Accrued liabilities	11,875	12,527
Liabilities held for sale	2,242	2,781
Long-term debt currently due	215	1,791
Total Current Liabilities	23,689	23,475
Long-term debt	19,428	17,867
Future pension and postretirement benefit obligations	6,235	6,681
Other long-term liabilities	10,600	10,562
Total Liabilities	59,952	58,585
Commitments and contingent liabilities (Note 14)		
Redeemable noncontrolling interest	132	140
Shareowners' Equity:		
Common Stock	16,731	15,300
Treasury Stock	(25,946)	(21,922)
Retained earnings	47,236	44,611
Unearned ESOP shares	(108)	(115)
Accumulated other comprehensive loss	(7,388)	(6,661)
Total Shareowners' Equity	30,525	31,213
Noncontrolling interest	1,526	1,351
Total Equity	32,051	32,564
Total Liabilities and Equity	\$92,135	\$ 91,289
See accompanying Notes to Condensed Consolidated Financial Statements		





Table of Contents

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

	Nine Months Ended September 30,	
(Dollars in millions)	2015	2014
Operating Activities of Continuing Operations:		
Income from continuing operations	\$4,533	\$5,088
Adjustments to reconcile income from continuing operations to net cash flows provided by operating activities of continuing operations:		
Depreciation and amortization	1,401	1,352
Deferred income tax provision	444	231
Stock compensation cost	108	187
Change in:		
Accounts receivable	(430	) 48
Inventories and contracts in progress	(1,070	) (843
Other current assets	(100	) (117
Accounts payable and accrued liabilities	(88	) 43
Global pension contributions	(93	) (204
Other operating activities, net	(661	) (763
Net cash flows provided by operating activities of continuing operations	4,044	5,022
Investing Activities of Continuing Operations:		
Capital expenditures	(1,044	) (1,063
Investments in businesses	(329	) (378
Dispositions of businesses	172	244
(Increase) decrease in customer financing assets, net	(128	) 72
Increase in collaboration intangible assets	(331	) (459
Receipts from settlements of derivative contracts	147	153
Other investing activities, net	97	39
Net cash flows used in investing activities of continuing operations	(1,416	) (1,392
Financing Activities of Continuing Operations:		
Issuance (repayment) of long-term debt, net	4	(221
Increase (decrease) in short-term borrowings, net	2,891	(137
Proceeds from Common Stock issuance - equity unit remarketing	1,100	—
Proceeds from Common Stock issued under employee stock plans	39	131
Dividends paid on Common Stock	(1,643	) (1,538
Repurchase of Common Stock	(4,000	) (1,095
Other financing activities, net	(252	) (213
Net cash flows used in financing activities of continuing operations	(1,861	) (3,073
Discontinued Operations:		
Net cash (used in) provided by operating activities	(299	) 3
Net cash used in investing activities	(66	) (85
Net cash used in financing activities	(1	) —
Net cash flows used in discontinued operations	(366	) (82
Effect of foreign exchange rate changes on cash and cash equivalents	(143	) (59
Net increase in cash and cash equivalents	258	416
Cash and cash equivalents, beginning of year	5,235	4,619
Cash and cash equivalents, end of period	5,493	5,035

Less: Cash and cash equivalents of businesses held for sale	16	5
Cash and cash equivalents, end of period	\$5,477	\$5,030
See accompanying Notes to Condensed Consolidated Financial Statements		

7

---

Table of Contents

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

The Condensed Consolidated Financial Statements at September 30, 2015 and for the quarters and nine months ended September 30, 2015 and 2014 are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement 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. The financial information included herein should be read in conjunction with the financial statements and notes in our Annual Report to Shareowners (2014 Annual Report) incorporated by reference to our Annual Report on Form 10-K for calendar year 2014 (2014 Form 10-K).

Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. On July 20, 2015, we announced an agreement to sell our Sikorsky Aircraft (Sikorsky) business to Lockheed Martin Corp. for \$9 billion in cash, subject to a working capital and net indebtedness adjustment. As a result, Sikorsky met "held for sale" criteria in the quarter ended September 30, 2015. Sikorsky's results of operations and the related cash flows which result from this business have been reclassified to Discontinued Operations in our Condensed Consolidated Statement of Operations and Condensed Consolidated Statement of Cash Flows for all periods presented. The assets and liabilities of Sikorsky have been reclassified to Assets held for sale and Liabilities held for sale, respectively, in our Condensed Consolidated Balance Sheet as of September 30, 2015 and December 31, 2014. The sale is expected to close during the fourth quarter of 2015, subject to customary closing conditions, including regulatory approval. See Note 2 to the Condensed Consolidated Financial Statements for further discussion.

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

Business Acquisitions and Dispositions. During the nine months ended September 30, 2015, our investment in business acquisitions was \$347 million, including debt assumed of \$18 million, and consisted of the acquisition of the majority interest in a UTC Climate, Controls & Security business 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 jet engine 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, 2015 are as follows:

(Dollars in millions)

Current assets	\$1,719
Noncurrent assets	1,073
Total assets	\$2,792
Current liabilities	\$1,738
Noncurrent liabilities	1,457
Total liabilities	\$3,195

Table of Contents

Goodwill. Changes in our goodwill balances for the nine months ended September 30, 2015 were as follows:

(Dollars in millions)	Balance as of January 1, 2015	Goodwill Resulting from Business Combinations	Foreign Currency Translation and Other	Balance as of September 30, 2015
Otis	\$1,664	\$6	\$(121)	) \$1,549
UTC Climate, Controls & Security	9,408	386	(267)	) 9,527
Pratt & Whitney	1,481	36	—	) 1,517
UTC Aerospace Systems	14,892	—	(135)	) 14,757
Total Segments	27,445	428	(523)	) 27,350
Eliminations and other	3	1	—	) 4
Total	\$27,448	\$429	\$(523)	) \$27,354

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

(Dollars in millions)	September 30, 2015		December 31, 2014	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized:				
Service portfolios	\$1,976			