

UNITED TECHNOLOGIES CORP /DE/  
Form 10-Q  
October 25, 2013  
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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, 2013  
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 06103  
(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, 2013 there were 917,581,965 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 COMPREHENSIVE INCOME  
(Unaudited)

(Dollars in millions, except per share amounts)	Quarter Ended September 30,	
	2013	2012
Net Sales:		
Product sales	\$11,243	\$10,839
Service sales	4,219	4,203
	15,462	15,042
Costs and Expenses:		
Cost of products sold	8,316	8,278
Cost of services sold	2,704	2,725
Research and development	630	590
Selling, general and administrative	1,633	1,619
	13,283	13,212
Other income, net	187	211
Operating profit	2,366	2,041
Interest expense, net	226	216
Income from continuing operations before income taxes	2,140	1,825
Income tax expense	614	484
Net income from continuing operations	1,526	1,341
Less: Noncontrolling interest in subsidiaries' earnings from continuing operations	111	94
Income from continuing operations attributable to common shareowners	1,415	1,247
Discontinued operations (Note 2):		
Income (loss) from operations	—	91
Gain (loss) on disposal	10	(26
Income tax benefit (expense)	7	105
Income (loss) from discontinued operations	17	170
Less: Noncontrolling interest in subsidiaries' earnings from discontinued operations	—	2
Income (loss) from discontinued operations attributable to common shareowners	17	168
Net income attributable to common shareowners	\$1,432	\$1,415
Comprehensive income	\$2,235	\$2,546
Less: Comprehensive income attributable to noncontrolling interest	128	119
Comprehensive income attributable to common shareowners	\$2,107	\$2,427
Earnings Per Share of Common Stock - Basic:		
Income from continuing operations attributable to common shareowners	\$1.57	\$1.39
Net income attributable to common shareowners	\$1.59	\$1.58
Earnings Per Share of Common Stock - Diluted:		
Income from continuing operations attributable to common shareowners	\$1.55	\$1.37
Net income attributable to common shareowners	\$1.57	\$1.56
See accompanying Notes to Condensed Consolidated Financial Statements		



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

	Nine Months Ended September 30,	
(Dollars in millions, except per share amounts)	2013	2012
Net Sales:		
Product sales	\$33,159	\$28,843
Service sales	12,708	12,422
	45,867	41,265
Costs and Expenses:		
Cost of products sold	24,876	21,724
Cost of services sold	8,161	8,143
Research and development	1,871	1,659
Selling, general and administrative	4,997	4,657
	39,905	36,183
Other income, net	917	851
Operating profit	6,879	5,933
Interest expense, net	679	513
Income from continuing operations before income taxes	6,200	5,420
Income tax expense	1,677	1,257
Net income from continuing operations	4,523	4,163
Less: Noncontrolling interest in subsidiaries' earnings from continuing operations	286	261
Income from continuing operations attributable to common shareowners	4,237	3,902
Discontinued operations (Note 2):		
Income (loss) from operations	63	(1,017 )
Gain (loss) on disposal	(30 )	(62 )
Income tax benefit (expense)	(12 )	256 )
Income (loss) from discontinued operations	21	(823 )
Less: Noncontrolling interest in subsidiaries' earnings from discontinued operations	—	6
Income (loss) from discontinued operations attributable to common shareowners	21	(829 )
Net income attributable to common shareowners	\$4,258	\$3,073
Comprehensive income	\$4,658	\$4,171
Less: Comprehensive income attributable to noncontrolling interest	277	271
Comprehensive income attributable to common shareowners	\$4,381	\$3,900
Earnings Per Share of Common Stock - Basic:		
Income from continuing operations attributable to common shareowners	\$4.70	\$4.37
Net income attributable to common shareowners	\$4.73	\$3.44
Earnings Per Share of Common Stock - Diluted:		
Income from continuing operations attributable to common shareowners	\$4.64	\$4.31
Net income attributable to common shareowners	\$4.66	\$3.39
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, 2013	December 31, 2012
Assets		
Cash and cash equivalents	\$4,621	\$4,819
Accounts receivable, net	11,135	11,099
Inventories and contracts in progress, net	10,765	9,537
Future income tax benefits, current	1,935	1,611
Assets held for sale	—	1,071
Other assets, current	895	1,473
Total Current Assets	29,351	29,610
Customer financing assets	1,229	1,150
Future income tax benefits	1,583	1,599
Fixed assets	18,388	18,065
Less: Accumulated depreciation	(9,839)	(9,547)
Fixed assets, net	8,549	8,518
Goodwill	28,100	27,801
Intangible assets, net	15,495	15,189
Other assets	6,019	5,542
Total Assets	\$90,326	\$89,409
Liabilities and Equity		
Short-term borrowings	\$303	\$503
Accounts payable	6,628	6,431
Accrued liabilities	15,488	15,310
Liabilities held for sale	—	421
Long-term debt currently due	1,100	1,121
Total Current Liabilities	23,519	23,786
Long-term debt	19,785	21,597
Future pension and postretirement benefit obligations	7,175	7,520
Other long-term liabilities	9,804	9,199
Total Liabilities	60,283	62,102
Commitments and contingent liabilities (Note 13)		
Redeemable noncontrolling interest	124	238
Shareowners' Equity:		
Common Stock	14,665	13,976
Treasury Stock	(20,233)	(19,251)
Retained earnings	39,599	36,776
Unearned ESOP shares	(129)	(139)
Accumulated other comprehensive loss	(5,325)	(5,448)
Total Shareowners' Equity	28,577	25,914
Noncontrolling interest	1,342	1,155
Total Equity	29,919	27,069
Total Liabilities and Equity	\$90,326	\$89,409
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,	2012
(Dollars in millions)	2013	2012
Operating Activities of Continuing Operations:		
Income from continuing operations	\$4,523	\$4,163
Adjustments to reconcile income from continuing operations to net cash flows provided by operating activities of continuing operations:		
Depreciation and amortization	1,335	1,047
Deferred income tax provision	13	29
Stock compensation cost	216	150
Change in:		
Accounts receivable	(198	) 406
Inventories and contracts in progress	(1,461	) (1,162
Other current assets	118	(101
Accounts payable and accrued liabilities	1,077	708
Global pension contributions	(72	) (233
Other operating activities, net	(660	) (356
Net cash flows provided by operating activities of continuing operations	4,891	4,651
Investing Activities of Continuing Operations:		
Capital expenditures	(1,047	) (748
Investments in businesses	(120	) (16,008
Dispositions of businesses	1,465	362
(Increase) decrease in customer financing assets, net	(121	) 1
Decrease (increase) in restricted cash, net	3	(191
Increase in collaboration intangible assets	(547	) (1,394
Other investing activities, net	(232	) (17
Net cash flows used in investing activities of continuing operations	(599	) (17,995
Financing Activities of Continuing Operations:		
(Repayment) issuance of long-term debt, net	(1,795	) 10,798
(Decrease) increase in short-term borrowings, net	(204	) 4,509
Proceeds from Common Stock issued under employee stock plans	336	460
Dividends paid on Common Stock	(1,395	) (1,288
Repurchase of Common Stock	(1,000	) —
Other financing activities, net	(168	) (493
Net cash flows (used in) provided by financing activities of continuing operations	(4,226	) 13,986
Discontinued Operations:		
Net cash (used in) provided by operating activities	(603	) 22
Net cash provided by (used in) investing activities	351	(352
Net cash flows used in discontinued operations	(252	) (330
Effect of foreign exchange rate changes on cash and cash equivalents	(29	) 25
Net (decrease) increase in cash and cash equivalents	(215	) 337
Cash and cash equivalents, beginning of year	4,836	5,960
Cash and cash equivalents, end of period	4,621	6,297
Less: Cash and cash equivalents of businesses held for sale	—	55
Cash and cash equivalents of continuing operations, end of period	\$4,621	\$6,242

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, 2013 and for the quarters and nine months ended September 30, 2013 and 2012 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 (2012 Annual Report) incorporated by reference to our Annual Report on Form 10-K for calendar year 2012 (2012 Form 10-K).

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

Business Acquisitions and Dispositions. During the first nine months of 2013, our cash investment in business acquisitions was \$120 million, and consisted of a number of small acquisitions, primarily in our commercial businesses.

On May 17, 2013, we completed the sale of the Pratt & Whitney Power Systems business to Mitsubishi Heavy Industries (MHI) and entered into a long-term engineering and manufacturing agreement with MHI. The sale generated a pre-tax gain of approximately \$193 million (\$132 million after tax). Cash received in connection with the sale was \$432 million, excluding contingent consideration valued at approximately \$200 million. Pratt & Whitney Power Systems has not been reclassified to Discontinued Operations due to our level of continuing involvement in the business post-sale.

On February 7, 2013, we completed the acquisition of Grupo Ascensores Enor, S.A. (Enor), a privately held company headquartered in Spain with operations in Spain and Portugal, which designs, manufactures, installs and services elevators. Enor's 2012 sales were approximately \$50 million. Under the terms of the transaction, Zardoya Otis, S.A. (ZOSA), a non-wholly owned subsidiary of the Company, exchanged publicly traded shares of ZOSA with a fair value of approximately \$240 million as of the transaction completion date for all of the shares of Enor.

On July 26, 2012, UTC acquired Goodrich Corporation (Goodrich), a global supplier of systems and services to the aerospace and defense industry with 2011 sales of \$8.1 billion. Goodrich products include aircraft nacelles and interior, actuation, landing and electronic systems. Under the terms of the agreement, Goodrich shareholders received \$127.50 in cash for each share of Goodrich common stock they owned on July 26, 2012. This equated to a total enterprise value of \$18.3 billion, including \$1.9 billion in net debt assumed. The acquired Goodrich businesses were combined with the legacy Hamilton Sundstrand businesses to form the new UTC Aerospace Systems segment. The Goodrich acquisition and the formation of UTC Aerospace Systems provides increased scale, financial strength and complementary product offerings, allowing us to significantly strengthen our position in the aerospace and defense industry, create aftermarket efficiencies for our customers, accelerate our ability to drive innovation within the aerospace industry, and enhance our ability to support our customers with more integrated systems. This acquisition, coupled with our acquisition of an additional interest in IAE International Aero Engines AG (IAE), as discussed below, further advances UTC's strategy of focusing on our core businesses.

To finance the cash consideration for the Goodrich acquisition and pay related fees, expenses and other amounts due and payable, we utilized the previously disclosed net proceeds of approximately \$9.6 billion from the \$9.8 billion of long-term notes issued on June 1, 2012, the net proceeds of approximately \$1.1 billion from the equity units issued on June 18, 2012, \$3.2 billion from the issuance of commercial paper during July 2012, and \$2.0 billion of proceeds borrowed under our April 24, 2012 term loan credit agreement. For the remainder of the cash consideration, we utilized approximately \$0.5 billion of cash and cash equivalents generated from operating activities.

Allocation of Consideration Transferred to Net Assets Acquired:

The following amounts represent the final determination as of July 26, 2012 of the fair value of identifiable assets acquired and liabilities assumed from the Goodrich acquisition, through completion of the one year measurement period from the date of acquisition as required by the Financial Accounting Standards Board (FASB) Accounting

Standards Codification (ASC) Topic 805, "Business Combinations" (ASC Topic 805). Measurement period adjustments were not significant and were not retroactively reclassified to prior periods.

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(Dollars in millions)

Cash and cash equivalents	\$538	
Accounts receivable, net	1,205	
Inventories and contracts in progress, net	1,673	
Future income tax benefits, current	515	
Other assets, current	647	
Fixed assets	2,209	
Intangible assets:		
Customer relationships and related program assets	8,550	
Trademarks	1,550	
Other assets	1,501	
Short-term borrowings	(84	)
Accounts payable	(587	)
Accrued liabilities	(1,919	)
Long-term debt	(2,961	)
Future pension and postretirement benefit obligations	(1,743	)
Other long-term liabilities:		
Customer contractual obligations	(2,200	)
Other long-term liabilities	(4,013	)
Noncontrolling interest	(41	)
Total identifiable net assets	4,840	
Goodwill	11,580	
Total consideration transferred	\$16,420	

In order to allocate the consideration transferred for Goodrich, the fair values of all identifiable assets and liabilities needed to be established. For accounting and financial reporting purposes, fair value is defined under FASB ASC Topic 820, "Fair Value Measurements and Disclosures" (ASC Topic 820) as the price that would be received upon sale of an asset or the amount paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market participants are assumed to be buyers and sellers in the principal (most advantageous) market for the asset or liability. Additionally, fair value measurements for an asset assume the highest and best use of that asset by market participants. Use of different estimates and judgments could yield different results.

In determining the fair value of identifiable assets acquired and liabilities assumed, a review was conducted for any significant contingent assets or liabilities existing as of the acquisition date. As of September 30, 2013, no significant contingencies related to existing legal or government action have been identified which existed as of the opening balance sheet date. Based upon our existing practices and phase II environmental assessments done on a number of Goodrich sites, we have determined that environmental liability obligations of \$325 million were assumed in connection with the Goodrich acquisition.

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The fair values of the customer relationships and related program intangible assets, which include the related aerospace program original equipment manufacturing (OEM) and aftermarket cash flows, were determined by using an “income approach” which is the most common valuation approach utilized. Under this approach, the net earnings attributable to the asset or liability being measured are isolated using the discounted projected net cash flows. These projected cash flows are isolated from the projected cash flows of the combined asset group over the remaining economic life of the intangible asset or liability being measured. Both the amount and the duration of the cash flows are considered from a market participant perspective. Our estimates of market participant net cash flows considered historical and projected pricing, remaining developmental effort, operational performance including company specific synergies, aftermarket retention, product life cycles, material and labor pricing, and other relevant customer, contractual and market factors. Where appropriate, the net cash flows are probability-adjusted to reflect the uncertainties associated with the underlying assumptions, as well as the risk profile of the net cash flows utilized in the valuation. The probability-adjusted future cash flows are then discounted to present value using an appropriate discount rate. The customer relationship and related program intangible assets are being amortized on a straight-line basis (which approximates the economic pattern of benefits) over the estimated economic life of the underlying programs of 10 to 25 years.

We also identified customer contractual obligations on certain OEM development programs where the expected costs exceed the expected revenue under contract. We measured these liabilities under the measurement provisions of ASC Topic 820, which is based on the price to transfer the obligation to a market participant at the measurement date, assuming that the liability will remain outstanding in the marketplace. Based on the estimated net cash outflows of the OEM developmental programs plus a reasonable contracting profit margin required to transfer the contracts to market participants, we recorded assumed liabilities of approximately \$2.2 billion. These liabilities will be liquidated in accordance with the underlying economic pattern of obligations, as reflected by the net cash outflows incurred on the OEM developmental programs. Total consumption of the contractual obligation for the quarter and nine months ended September 30, 2013 was approximately \$60 million and \$210 million, respectively. Total consumption of the contractual obligation is expected to be as follows: \$70 million remaining in 2013, \$274 million in 2014, \$213 million in 2015, \$242 million in 2016, \$233 million in 2017 and \$894 million thereafter.

Goodrich had not recorded an income tax liability on the unremitted earnings of its non-U.S. subsidiaries, which were approximately \$853 million as of December 31, 2011. In connection with the Goodrich acquisition, UTC made a determination to repatriate certain of these unremitted earnings, making such amounts subject to both U.S. and non-U.S. income taxes. Accordingly, an income tax liability of \$215 million was recorded in purchase accounting for the unremitted earnings no longer considered permanently reinvested.

In 2010, Pratt & Whitney entered into a preferred supplier contract with Goodrich for the development and subsequent production of nacelles for the PW1500G (Bombardier C Series) and PW1200G (Mitsubishi Regional Jet). That preferred supplier contract replaced previous contracts and preliminary Memorandum of Understandings entered into in 2006 and 2008. Under the 2010 agreement, Pratt & Whitney agreed to fund Goodrich's non-recurring development effort and established a recurring price for the production nacelles. Prior to the date of the Goodrich acquisition, Pratt & Whitney and Goodrich had asserted claims against each other in a contractual dispute and would have ultimately arbitrated the matter were it not for the acquisition. In accordance with ASC Topic 805, pre-existing relationships must be effectively settled at acquisition as the relationships become intercompany relationships upon acquisition and are eliminated in the post-combination financial statements. Any resulting settlement gains or losses should be measured at fair value and recorded on the acquisition date. Accordingly, a \$46 million gain was recorded in other income by Pratt & Whitney in the quarter ended September 30, 2012 based upon a third party determination of the probability-weighted outcome had the matter gone to arbitration. No additional gain or loss was recorded in connection with the settlement of these pre-existing relationships as we determined that the terms of these two contracts were consistent with other similar market transactions at the time of our acquisition of Goodrich.

Under Goodrich's pre-existing management continuity arrangements (MCAs), we assumed change-in-control obligations related to certain executives at Goodrich. We evaluated the change-in-control provisions governed by the MCAs and for certain of the executives, we determined that we had assumed liabilities of approximately \$74 million as the benefit payments were effectively single trigger arrangements in substance. We measured the assumed liability

based on fair value concepts of ASC Topic 820, using weighted average techniques of possible outcomes of the employees electing to receive such benefits. We expensed approximately \$12 million in the quarter ended September 30, 2012 for MCAs where we amended the term of the MCAs beyond the original expiration date for certain executives. We incurred expense of approximately \$9 million in connection with MCA payments made during the quarter ended June 30, 2013.

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## Supplemental Pro-Forma Data:

Goodrich's results of operations have been included in UTC's financial statements for the periods subsequent to the completion of the acquisition on July 26, 2012. The following unaudited supplemental pro-forma data for the quarter and nine months ended September 30, 2012 presents consolidated information as if the acquisition had been completed on January 1, 2011. There were no significant pro-forma adjustments required for the quarter and nine months ended September 30, 2013. The pro-forma results were calculated by combining the results of UTC with the stand-alone results of Goodrich for the pre-acquisition periods, which were adjusted to account for certain costs which would have been incurred during this pre-acquisition period:

(Dollars in millions, except per share amounts)	Quarter Ended September 30, 2012	Nine Months Ended September 30, 2012
Net sales	\$15,512	\$45,730
Net income attributable to common shareowners from continuing operations	1,315	4,145
Basic earnings per share of common stock from continuing operations	1.47	4.63
Diluted earnings per share of common stock from continuing operations	1.45	4.57

The unaudited supplemental pro-forma data above includes the following significant adjustments made to account for certain costs which would have been incurred if the acquisition had been completed on January 1, 2011, as adjusted for the applicable tax impact:

(Dollars in millions)	Quarter Ended September 30, 2012	Nine Months Ended September 30, 2012
Amortization of inventory fair value adjustment <sup>1</sup>	\$(49 )	\$(49 )
Amortization of acquired Goodrich intangible assets, net <sup>2</sup>	15	107
Utilization of contractual customer obligation <sup>3</sup>	(10 )	(103 )
Interest expense incurred on acquisition financing, net <sup>4</sup>	(3 )	63

1 Removed the expense for the amortization of inventory fair value adjustments recognized in the quarter ended September 30, 2012, as the corresponding inventory would have been completely sold during the first two quarters of 2011.

2 Added the additional amortization of the acquired Goodrich intangible assets recognized at fair value in purchase accounting and eliminated the historical Goodrich intangible asset amortization expense.

3 Added the additional utilization of the Goodrich contractual customer obligation recognized in purchase accounting.

4 Added the additional interest expense for the indebtedness we incurred to finance the acquisition of Goodrich and reduced interest expense for the debt fair value adjustment which would have been amortized.

The unaudited supplemental pro-forma financial information does not reflect the potential realization of cost savings relating to the integration of the two companies. Further, the pro-forma data should not be considered indicative of the results that would have occurred if the acquisition and related financing had been consummated on January 1, 2011, nor are they indicative of future results.

In connection with regulatory approval of UTC's acquisition of Goodrich, regulatory authorities required UTC to dispose of the Goodrich electric power systems and the Goodrich pumps and engine controls businesses. Pursuant to regulatory obligations, these businesses had been held separately from UTC's and Goodrich's ongoing businesses since the acquisition of Goodrich by UTC. On March 18, 2013, we completed the sale of the Goodrich pumps and engine controls business to Triumph Group, Inc., and on March 26, 2013, we completed the sale of the Goodrich electric power systems business to Safran S.A. Combined proceeds from the sales of the two businesses were approximately \$600 million.

In 2012, the UTC Board of Directors approved plans for the divestiture of a number of non-core businesses. Cash generated from these divestitures was used to repay debt incurred to finance the acquisition of Goodrich. See Note 2 for further discussion.

On June 29, 2012, Pratt & Whitney, Rolls Royce plc (Rolls-Royce), MTU Aero Engines AG (MTU), and Japanese Aero Engines Corporation (JAEC), participants in the IAE collaboration, completed a restructuring of their interests in IAE. Under the terms of the agreement, Rolls-Royce sold its ownership and collaboration interests in IAE to Pratt & Whitney, while also entering into an agreement to license its V2500 intellectual property to Pratt & Whitney. In exchange for the increased ownership and collaboration interests and intellectual property license, Pratt & Whitney paid Rolls-Royce \$1.5 billion at closing with additional payments due to Rolls-Royce during the fifteen year period following closing of the purchase,

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conditional upon each hour flown by V2500-powered aircraft in service at the closing. Payments made to Rolls-Royce under this agreement are capitalized as collaboration intangible assets, as further discussed below. In October 2011, Pratt & Whitney and Rolls-Royce announced their intention to form a new partnership to develop an engine to power future mid-sized aircraft. In September 2013, following further discussion and because of the current regulatory environment, the parties agreed not to proceed with this partnership. As a result of this decision, an additional collaboration intangible asset payment was made to Rolls-Royce in accordance with the underlying agreement. The collaboration interest and intellectual property licenses are reflected as intangible assets and will be amortized in relation to the economic benefits received over the remaining estimated 30 year life of the V2500 program. As a result of these transactions, 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, and Pratt & Whitney its primary beneficiary under the criteria established in the FASB ASC Topic 810 "Consolidations" and has, therefore, been consolidated. The carrying amounts and classification of assets and liabilities for IAE in our Consolidated Balance Sheet as of September 30, 2013 are as follows:

(Dollars in millions)

Current assets	\$1,636
Noncurrent assets	1,023
Total assets	\$2,659
Current liabilities	\$1,821
Noncurrent liabilities	1,067
Total liabilities	\$2,888

Goodwill. Changes in our goodwill balances for the nine months ended September 30, 2013 were as follows:

(Dollars in millions)	Balance as of January 1, 2013	Goodwill resulting from business combinations	Foreign currency translation and other	Balance as of September 30, 2013
Otis	\$ 1,583	\$ 139	\$ (7 )	\$ 1,715
UTC Climate, Controls & Security	9,868	2	(149 )	9,721
Pratt & Whitney	1,238	—	35	1,273
UTC Aerospace Systems	14,754	301	(20 )	15,035
Sikorsky	353	—	(1 )	352
Total Segments	27,796	442	(142 )	28,096
Eliminations and other	5	—	(1 )	4
Total	\$ 27,801	\$ 442	\$ (143 )	\$ 28,100

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

(Dollars in millions)	September 30, 2013		December 31, 2012	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized:				
Service portfolios	\$2,235	\$(1,272 )	\$2,127	\$(1,202 )
Patents and trademarks	382	(178 )	412	(167 )
IAE collaboration	2,093	—	1,526	—
Customer relationships and other	12,025	(2,064 )	11,901	(1,718 )
	16,735	(3,514 )	15,966	(3,087 )
Unamortized:				
Trademarks and other	2,274	—	2,310	—
Total	\$19,009	\$(3,514 )	\$18,276	\$(3,087 )

The customer relationships intangible assets include payments made to our customers to secure certain contractual rights and are being amortized on a straight-line basis, as it approximates the underlying economic pattern of benefits. In accordance with the FASB ASC Topic 605, "Customer Payments and Incentives," we classify amortization of such payments as a reduction of sales. The IAE collaboration intangible asset is being amortized based upon the economic pattern of benefits as represented by the underlying cash flows. As these cash flows have been negative to date, no amortization has yet been recorded. Amortization of intangible assets for the quarter and nine months ended September 30, 2013 was \$180 million and \$531 million respectively, compared with \$166 million and \$360 million for the same periods of 2012. The following is the expected amortization of intangible assets for the years 2013 through 2018:

(Dollars in millions)	Remaining 2013	2014	2015	2016	2017	2018
Amortization expense	\$171	\$681	\$645	\$626	\$619	\$648

#### 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 Pratt & Whitney Rocketdyne (Rocketdyne) on June 14, 2013, as discussed below. Cash generated from these divestitures was used to repay debt incurred to finance the Goodrich acquisition.

The sale of substantially all operations of Rocketdyne to GenCorp Inc. generated a pre-tax loss of approximately \$7 million (\$3 million after tax) through September 30, 2013, which has been included in discontinued operations in the Condensed Consolidated Statement of Comprehensive Income. During the nine months ended September 30, 2012, we recorded pre-tax goodwill impairment charges of approximately \$360 million (\$220 million after tax) related to Rocketdyne.

On February 12, 2013, we completed the disposition of UTC Power to ClearEdge Power. The disposition resulted in payments by UTC totaling \$48 million, which included capitalization of the business prior to the sale and interim funding of operations as the buyer took control of a loss generating business. We have no continuing involvement with the UTC Power business post disposition.

The legacy Hamilton Sundstrand Industrial businesses, as well as Clipper Windpower (Clipper), Rocketdyne and UTC Power all met the "held-for-sale" criteria in 2012. The results of operations, including the net realized gains and losses on disposition, and the related cash flows which resulted from these non-core businesses, have been reclassified to Discontinued Operations in our Condensed Consolidated Statements of Comprehensive Income and Cash Flows. The dispositions of Clipper and the legacy Hamilton Sundstrand Industrial businesses were completed in 2012.

The following summarized financial information for our discontinued operations businesses has been segregated from continuing operations and reported as Discontinued Operations:

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(Dollars in millions)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Discontinued Operations:				
Net sales	\$—	\$522	\$309	\$1,607
Income (loss) from operations	\$—	\$91	\$63	\$(1,017)
Income tax expense	—	(30)	(32)	(38)
Income (loss) from operations, net of income taxes	—	61	31	(1,055)
Gain (loss) on disposal	10	(26)	(30)	(62)
Income tax benefit	7	135	20	294
Net income (loss) on discontinued operations	\$17	\$170	\$21	\$(823)

Income (loss) from operations of discontinued operations for the nine months ended September 30, 2012 includes pre-tax impairment charges of approximately \$1,135 million. There were no impairment charges for the quarter ended September 30, 2012. These amounts were previously included in loss on disposal of discontinued operations and have been reclassified for consistency of presentation.

## Note 3: Earnings Per Share

(Dollars in millions, except per share amounts; shares in millions)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income attributable to common shareowners:				
Net income from continuing operations	\$1,415	\$1,247	\$4,237	\$3,902
Net income (loss) from discontinued operations	17	168	21	(829)
Net income attributable to common shareowners	\$1,432	\$1,415	\$4,258	\$3,073
Basic weighted average number of shares outstanding	900.8	896.3	900.9	893.6
Stock awards and equity units	14.7	10.9	13.2	11.7
Diluted weighted average number of shares outstanding	915.5	907.2	914.1	905.3
Earnings (Loss) Per Share of Common Stock - Basic:				
Net income from continuing operations	\$1.57	\$1.39	\$4.70	\$4.37
Net income (loss) from discontinued operations	0.02	0.19	0.02	(0.93)
Net income attributable to common shareowners	1.59	1.58	4.73	3.44
Earnings (Loss) Per Share of Common Stock - Diluted:				
Net income from continuing operations	\$1.55	\$1.37	\$4.64	\$4.31
Net income (loss) from discontinued operations	0.02	0.19	0.02	(0.92)
Net income attributable to common shareowners	1.57	1.56	4.66	3.39

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 and nine months ended September 30, 2013 there were no anti-dilutive stock awards excluded from the computation. For the quarter and nine months ended September 30, 2012, the number of stock awards excluded from the computation was 6.1 million and 4.8 million, respectively. The dilutive impact of our equity units issued in 2012 was not significant for the quarter and nine months ended September 30, 2013. There was no impact on diluted earnings per share due to equity units for the quarter and nine months ended September 30, 2012.

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## Note 4: Inventories and Contracts in Progress

(Dollars in millions)	September 30, 2013	December 31, 2012
Raw materials	\$ 1,967	\$ 1,861
Work-in-process	4,864	4,151
Finished goods	3,556	3,205
Contracts in progress	8,038	7,354
	18,425	16,571
Less:		
Progress payments, secured by lien, on U.S. Government contracts	(379	) (274
Billings on contracts in progress	(7,281	) (6,760
	\$ 10,765	\$ 9,537

As of September 30, 2013 and December 31, 2012, inventories include capitalized contract development costs of \$866 million and \$823 million, respectively, related to certain aerospace programs. These capitalized costs are liquidated as production units are delivered to the customer. The capitalized contract development costs within inventories principally relate to costs capitalized on Sikorsky's CH-148 contract with the Canadian Government. The CH-148 is a derivative of the H-92, a military variant of the S-92 helicopter.

## Note 5: Borrowings and Lines of Credit

(Dollars in millions)	September 30, 2013	December 31, 2012
Commercial paper	\$ 100	\$ 320
Other borrowings	203	183
Total short-term borrowings	\$ 303	\$ 503

At September 30, 2013, we had revolving credit agreements with various banks permitting aggregate borrowings of up to \$4 billion pursuant to a \$2 billion revolving credit agreement and a \$2 billion multicurrency revolving credit agreement, both of which expire in November 2016. As of September 30, 2013, 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, 2013, our maximum commercial paper borrowing authority as set by our Board of Directors 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 May 7, 2013, we commenced cash tender offers for two series of outstanding notes issued by Goodrich and the UTC 1.200% Senior Notes. A total of \$874 million principal amount of all notes subject to the tender offers, and \$36 million of the fair value adjustment related to the notes assumed in the Goodrich acquisition, were repaid, including approximately \$103 million principal amount of the 2016 Goodrich 6.290% notes, approximately \$98 million principal amount of the 2019 Goodrich 6.125% notes, and approximately \$674 million principal amount of the 2015 UTC 1.200% Senior Notes. An extinguishment loss of approximately \$18 million was recognized within Interest expense, net in the accompanying Condensed Consolidated Statements of Comprehensive Income.

On June 24, 2013, we redeemed all remaining outstanding 2015 UTC 1.200% Senior Notes, representing \$327 million in aggregate principal, under our redemption notice issued on May 24, 2013. An extinguishment loss of approximately \$6 million was recognized within Interest expense, net in the accompanying Condensed Consolidated Statements of Comprehensive Income.

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On August 23, 2013, we redeemed all remaining outstanding 2019 Goodrich 6.125% notes, representing \$202 million in aggregate principal, under our redemption notice issued on July 24, 2013. On September 27, 2013, we redeemed all remaining outstanding 2021 Goodrich 3.600% notes, representing \$294 million in aggregate principal, under our redemption notice issued on August 28, 2013. A combined extinguishment gain of approximately \$1 million was recognized within Interest expense, net in the accompanying Condensed Consolidated Statements of Comprehensive Income.

As previously disclosed, on December 6, 2012, we announced that we had commenced cash tender offers for six series of outstanding notes issued by Goodrich. These offers expired on January 7, 2013. Approximately \$637 million in aggregate principal amount of notes subject to the tender offers and \$126 million of the fair value adjustment were repaid, with \$635 million in aggregate principal amount being eligible for the early tender premium and approximately \$2 million in aggregate principal amount being paid on January 8, 2013. An extinguishment loss of approximately \$26 million was recognized during 2012 within Interest expense, net in the accompanying Condensed Consolidated Statements of Comprehensive Income.

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Long-term debt consisted of the following:

(Dollars in millions)	September 30, 2013	December 31, 2012
LIBOR <sup>§</sup> plus 0.270% floating rate notes due 2013	\$ 1,000	\$ 1,000
LIBOR <sup>§</sup> plus 0.500% floating rate notes due 2015	500	500
1.200% notes due 2015*	—	1,000
4.875% notes due 2015*	1,200	1,200
6.290% notes due 2016 <sup>‡</sup>	188	291
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 <sup>‡</sup>	—	300
6.125% notes due 2019*	1,250	1,250
8.875% notes due 2019	272	272
4.500% notes due 2020*	1,250	1,250
4.875% notes due 2020 <sup>‡</sup>	171	171
3.600% notes due 2021 <sup>‡</sup>	—	295
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	69	100
Other (including capitalized leases and discounts) <sup>‡</sup>	438	403
Total principal long-term debt	20,671	22,365
Other (fair market value adjustment) <sup>‡</sup>	214	353
Total long-term debt	20,885	22,718
Less: current portion	1,100	1,121
Long-term debt, net of current portion	\$ 19,785	\$ 21,597

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.



§ The three-month LIBOR rate as of September 30, 2013 was approximately 0.3%.

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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.

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. For those tax positions where it is more likely than not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. Where applicable, associated interest has also been recognized; interest accrued in relation to unrecognized tax benefits is recorded in interest expense.

Penalties, if incurred, would be recognized as a component of income tax expense.

It is reasonably possible that over the next twelve months the amount of unrecognized tax benefits may change within a range of a net increase of \$45 million to a net decrease of \$490 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. A portion of this net change may impact the Company's income tax expense. Not included in the range are assessments made by the French Tax Authority of €237 million (approximately \$320 million) related to the proposed disallowance of certain deductions claimed in France for tax years 2008 through 2011. This is a recurring issue and it is expected that similar challenges will be raised in subsequent tax years until the issue is resolved. Resolution discussions with the French Revenue Authority on this matter have been unsuccessful to date and UTC may be required to pursue the defense of the issue through litigation, which could be commenced as early as the fourth quarter of 2013. UTC intends to assert a vigorous defense and believes it should prevail on the issue. Accordingly, no accrual has been made for this matter. Also, not included in the range is €204 million (approximately \$275 million) of tax benefits that we have claimed related to a 1998 German reorganization. A portion of these tax benefits was denied by the German Tax Office on July 5, 2012, as a result of the audit of tax years 1999 to 2000. On August 3, 2012, the Company filed suit in the German Tax Court and expects to litigate this case. In 2008 the German Federal Tax Court denied benefits to another taxpayer in a case involving a German tax law relevant to our reorganization. The determination of the German Federal Tax Court on this other matter was appealed to the European Court of Justice (ECJ) to determine if the underlying German tax law is violative of European Union (EU) principles. On September 17, 2009 the ECJ issued an opinion in this case that is generally favorable to the other taxpayer and referred the case back to the German Federal Tax Court for further consideration of certain related issues. In May 2010, the German Federal Tax Court released its decision, in which it resolved certain tax issues that may be relevant to our audit and remanded the case to a lower court for further development. After consideration of the ECJ decision and the latest German Federal Tax Court decision, we continue to believe that it is more likely than not that the relevant German tax law is violative of EU principles and we have not accrued tax expense for this matter. As we continue to monitor developments related to this matter, it may become necessary for us to accrue tax expense and related interest.

UTC tax years 2006 through 2008 are currently before the Appeals Division of the IRS (IRS Appeals) for resolution discussions regarding certain proposed adjustments with which UTC does not agree. Such resolution discussions are currently expected to continue into 2014 and be completed within the next 12 months. Tax years 2009 and 2010 are under review by the Examination Division of the IRS (IRS Examination), which is expected to continue into 2014 and be completed within the next 12 months.

The Company is currently engaged in litigation regarding the proper timing of certain deductions taken by Goodrich in its tax years 2001 and 2002, prior to its acquisition by UTC, which could be settled as early as the fourth quarter of 2013. UTC believes that this matter is adequately reserved and it is not expected that any potential settlement would have a material adverse impact on financial results. The Company is also engaged in litigation with respect to a separate issue involving the proper timing of deductions taken by Goodrich Corporation in its tax years 2005 and 2006, prior to its acquisition by UTC, which is expected to continue into 2014. This is a recurring issue and it is expected that the IRS will continue to challenge it in

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subsequent tax years, potentially including post-acquisition years, until the issue is resolved. Goodrich pre-acquisition tax years 2007 through 2010 are currently before IRS Appeals for resolution discussions regarding certain disputed proposed adjustments, including the recurring timing issue described above. These resolution discussions are expected to continue into 2014.

## 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. As part of our acquisition of Goodrich on July 26, 2012, we assumed approximately \$1.5 billion of pension and postretirement benefit plan obligations. Contributions to our plans were as follows:

(Dollars in millions)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Defined Benefit Plans	\$21	\$209	\$72	\$233
Defined Contribution Plans	\$75	\$65	\$258	\$183

There were no contributions to our domestic defined benefit pension plans in the first nine months of 2013. In the first nine months of 2012, we made contributions of \$201 million to our domestic defined benefit pension plans, all of which was contributed in the third quarter of 2012.

The following tables illustrate the components of net periodic benefit cost for our defined pension and other postretirement benefit plans:

(Dollars in millions)	Pension Benefits Quarter Ended September 30,		Other Postretirement Benefits Quarter Ended September 30,	
	2013	2012	2013	2012
Service cost	\$142	\$131	\$1	\$1
Interest cost	343	344	9	10
Expected return on plan assets	(526	) (503	) —	) —
Amortization	(8	) (7	) (2	) (2
Recognized actuarial net loss (gain)	237	180	(1	) (1
Net settlement and curtailment loss	—	15	—	—
Total net periodic benefit cost	\$188	\$160	\$7	\$8

(Dollars in millions)	Pension Benefits Nine Months Ended September 30,		Other Postretirement Benefits Nine Months Ended September 30,	
	2013	2012	2013	2012
Service cost	\$428	\$361	\$3	\$3
Interest cost	1,029	970	28	26
Expected return on plan assets	(1,579	) (1,415	) —	) —
Amortization	(26	) (13	) (8	) (2
Recognized actuarial net loss (gain)	717	541	(3	) (5
Net settlement and curtailment (gain) loss	(17	) 50	—	—
Total net periodic benefit cost	\$552	\$494	\$20	\$22

Net settlements and curtailment gains for pension benefits include 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. Net settlements and curtailment losses for pension benefits include curtailment losses of approximately \$24 million related to, and recorded in, discontinued operations for the nine months ended September 30, 2012. There were no curtailment losses related to discontinued operations for the quarter ended September 30, 2012.



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## Note 8: Restructuring Costs

During the nine months ended September 30, 2013, we recorded net pre-tax restructuring costs totaling \$343 million for new and ongoing restructuring actions as follows:

(Dollars in millions)

Otis	\$68
UTC Climate, Controls & Security	66
Pratt & Whitney	122
UTC Aerospace Systems	65
Sikorsky	25
Eliminations and other	(1 )
Restructuring costs recorded within continuing operations	345
Restructuring costs recorded within discontinued operations	(2 )
Total	\$343

The net costs included \$145 million recorded in cost of sales, \$199 million in selling, general and administrative expenses, \$1 million in other income, net, and (\$2) million in discontinued operations. As described below, these costs primarily relate to actions initiated during 2013 and 2012.

2013 Actions. During the nine months ended September 30, 2013, we initiated restructuring actions relating to ongoing cost reduction efforts, including workforce reductions and the consolidation of field operations. We recorded net pre-tax restructuring costs totaling \$298 million, including \$100 million in cost of sales and \$198 million in selling, general and administrative expenses.

We expect the actions initiated in the nine months ended September 30, 2013 to result in net workforce reductions of approximately 3,600 hourly and salaried employees, the exiting of approximately 600 thousand net square feet of facilities and the disposal of assets associated with exited facilities. As of September 30, 2013, we have completed net workforce reductions of approximately 2,400 employees and have exited approximately 5,000 net square feet. We are targeting the majority of the remaining workforce and all facility related cost reduction actions for completion during 2013 and 2014. 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 2013 restructuring actions:

(Dollars in millions)	Severance	Asset Write-Downs	Facility Exit, Lease Termination and Other Costs	Total
Restructuring accruals at July 1, 2013	\$153	\$—	\$7	\$160
Net pre-tax restructuring costs	89	1	6	96
Utilization and foreign exchange	(108 )	(1 )	(2 )	(111 )
Balance at September 30, 2013	\$134	\$—	\$11	\$145

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

(Dollars in millions)	Severance	Asset Write-Downs	Facility Exit, Lease Termination and Other Costs	Total
Expected costs	\$287	\$13	\$41	\$341
Costs incurred - quarter ended March 31, 2013	(19 )	—	(1 )	(20 )
Costs incurred - quarter ended June 30, 2013	(163 )	(12 )	(7 )	(182 )
Costs incurred - quarter ended September 30, 2013	(89 )	(1 )	(6 )	(96 )
Balance at September 30, 2013	\$16	\$—	\$27	\$43

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



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(Dollars in millions)	Expected Costs	Costs incurred Quarter ended March 31, 2013	Costs incurred Quarter ended June 30, 2013	Costs incurred Quarter ended September 30, 2013	Remaining Costs at September 30, 2013
Otis	\$61	\$(6	) \$(35	) \$(12	) \$8
UTC Climate, Controls & Security	81	(8	) (18	) (34	) 21
Pratt & Whitney	127	(6	) (93	) (22	) 6
UTC Aerospace Systems	55	—	(28	) (19	) 8
Sikorsky	18	—	(8	) (10	) —
Eliminations and other	(1	) —	—	1	—
Total	\$341	\$(20	) \$(182	) \$(96	) \$43

2012 Actions. During the nine months ended September 30, 2013, we recorded net pre-tax restructuring costs totaling \$44 million for restructuring actions initiated in 2012, including \$40 million in cost of sales, \$3 million in selling, general and administrative expenses, and \$1 million in other income, net. The 2012 actions relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of field operations.

As of September 30, 2013, we have completed net workforce reductions of approximately 6,100 employees of an expected 7,300 employees, and have exited approximately 1.6 million net square feet of facilities of an expected 3.6 million net square feet. We are targeting the majority of the remaining workforce and facility related cost reduction actions for completion during 2013 and 2014.

The following table summarizes the accrual balances and utilization by cost type for the 2012 restructuring actions:

(Dollars in millions)	Severance	Asset Write-Downs	Facility Exit, Lease Termination and Other Costs	Total	
Restructuring accruals at July 1, 2013	\$142	\$—	\$47	\$189	
Net pre-tax restructuring costs	(3	) —	9	6	
Utilization and foreign exchange	(32	) —	(13	) (45	)
Balance at September 30, 2013	\$107	\$—	\$43	\$150	

The following table summarizes expected, incurred and remaining costs for the 2012 restructuring actions by type:

(Dollars in millions)	Severance	Asset Write-Downs	Facility Exit, Lease Termination and Other Costs	Total	
Expected costs	\$477	\$15	\$168	\$660	
Costs incurred through December 31, 2012	(452	) (14	) (110	) (576	)
Costs incurred - quarter ended March 31, 2013	(18	) (1	) (10	) (29	)
Costs incurred - quarter ended June 30, 2013	1	—	(10	) (9	)
Costs incurred - quarter ended September 30, 2013	3	—	(9	) (6	)
Balance at September 30, 2013	\$11	\$—	\$29	\$40	

The following table summarizes expected, incurred and remaining costs for the 2012 restructuring actions by segment:



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(Dollars in millions)	Expected Costs	Costs incurred through December 31, 2012	Costs incurred Quarter ended March 31, 2013	Costs incurred Quarter ended June 30, 2013	Costs incurred Quarter ended September 30, 2013	Remaining Costs at September 30, 2013
Otis	\$157	\$(146)	\$(1)	\$(2)	\$(1)	\$7
UTC Climate, Controls & Security	149	(123)	(14)	(1)	1	12
Pratt & Whitney	98	(94)	(1)	—	—	3
UTC Aerospace Systems	154	(121)	(8)	(5)	(5)	15
Sikorsky	57	(47)	(5)	(1)	(1)	3
Eliminations and other	19	(19)	—	—	—	—
Discontinued operations	26	(26)	—	—	—	—
Total	\$660	\$(576)	\$(29)	\$(9)	\$(6)	\$40

2011 Actions. As of September 30, 2013, we have approximately \$5 million of accrual balances remaining related to 2011 actions.

#### 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.

By their nature, all financial instruments involve market and credit risks. We enter into derivative and other financial instruments with major investment grade financial institutions and have policies to monitor the credit risk of those counterparties. We limit counterparty exposure and concentration of risk by diversifying counterparties. While there can be no assurance, we do not anticipate any material non-performance by any of these counterparties.

Foreign Currency Forward Contracts. We manage our foreign currency transaction risks to acceptable limits through the use of derivatives that hedge forecasted cash flows associated with foreign currency transaction exposures, which are accounted for as cash flow hedges, as we deem appropriate. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, and otherwise meet the hedge accounting criteria of the Derivatives and Hedging Topic of the FASB ASC, the changes in the derivatives' fair values are not included in current earnings but are included in "Accumulated other comprehensive loss." These changes in fair value will subsequently be reclassified into earnings as a component of product sales or expenses, as applicable, when the forecasted transaction occurs. To the extent that a previously designated hedging transaction is no longer an effective hedge, any ineffectiveness measured in the hedging relationship is recorded currently in earnings in the period in which it occurs. To the extent the hedge accounting criteria are not met, the foreign currency forward contracts are utilized as economic hedges and changes in the fair value of these contracts are recorded currently in earnings in the period in which they occur. These include hedges that are used to reduce exchange rate risks arising from the change in fair value of certain foreign currency denominated assets and liabilities (e.g. payables, receivables) and other economic hedges where the hedge accounting criteria were not met.

The four quarter rolling average of the notional amount of foreign exchange contracts hedging foreign currency transactions was \$12.6 billion and \$11.8 billion at September 30, 2013 and December 31, 2012, respectively. We enter into transactions that are subject to arrangements designed to provide for netting of offsetting obligations in the event of the insolvency or default of a counterparty. However, we have not elected to offset multiple contracts with a single counterparty and, as a result, the fair value of the derivative instruments in a loss position is not offset against the fair value of derivative instruments in a gain position.

The following table summarizes the fair value of derivative instruments as of September 30, 2013 and December 31, 2012 which consist solely of foreign exchange contracts:

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(Dollars in millions)	September 30, 2013		December 31, 2012	
	Derivatives designated as hedging instruments	Derivatives not designated as hedging instruments	Derivatives designated as hedging instruments	Derivatives not designated as hedging instruments
Balance Sheet Asset Locations:				
Other assets, current	\$38	\$ 23	\$48	\$ 47
Other assets	22	3	30	3
	60	26	78	50
Total Asset Derivative Contracts		\$ 86		\$ 128
Balance Sheet Liability Locations:				
Accrued liabilities	\$20	\$ 53	\$10	\$ 136
Other long-term liabilities	13	2	1	2
	33	55	11	138
Total Liability Derivative Contracts		\$ 88		\$ 149

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

(Dollars in millions)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Gain (loss) recorded in Accumulated other comprehensive loss	\$97	\$146	\$(64	) \$83
Gain (loss) reclassified from Accumulated other comprehensive loss into Product sales (effective portion)	\$1	\$7	\$(22	) \$26

Assuming current market conditions continue, a \$15 million pre-tax gain 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, 2013, all derivative contracts accounted for as cash flow hedges will mature by September 2015.

The effect on the Condensed Consolidated Statement of Comprehensive Income from derivative contracts not designated as hedging instruments was as follows:

(Dollars in millions)	Quarter Ended September 30,		Nine Months Ended September 30,		
	2013	2012	2013	2012	
Gain (loss) recognized in Other income, net	\$10	\$(19	) \$33	\$(21	)

Valuation Hierarchy. The following table provides 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, 2013 and December 31, 2012:

(Dollars in millions)	Total Carrying Value at September 30, 2013	Quoted price in active markets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)
Recurring fair value measurements:				
Available-for-sale securities	\$ 882	\$ 882	\$—	\$—
Derivative assets	86	—	86	—
Derivative liabilities	(88	) —	(88	) —
Nonrecurring fair value measurements:				
Business dispositions	40	—	40	—

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, we recorded an approximately \$193 million gain from the sale of the Pratt & Whitney Power

Systems business (see Note 1), as well as an approximately \$25 million charge to adjust the fair value of a Pratt & Whitney joint venture investment.

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(Dollars in millions)	Total Carrying Value at December 31, 2012	Quoted price in active markets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)
Recurring fair value measurements:				
Available-for-sale securities	\$781	\$781	\$ —	\$ —
Derivative assets	128	—	128	—
Derivative liabilities	(149)	) —	(149)	) —
Nonrecurring fair value measurements:				
Equity method investment	432	—	432	—
Business dispositions	84	—	84	—

During the nine months ended September 30, 2012, we recorded net gains on nonrecurring fair value measurements of approximately \$220 million within Other income, net from UTC Climate, Controls & Security's ongoing portfolio transformation efforts. These net gains include approximately \$357 million from the sales of controlling interests in manufacturing and distribution joint ventures in Asia and Canada, of which approximately \$272 million were non-cash. These gains were partially offset by \$103 million of other-than-temporary impairment charges related to business dispositions and a \$32 million loss on the disposition of the U.S. fire and security branch operations. In addition, we recorded a \$34 million gain on the fair market measurement of the shares of Goodrich that the Company held prior to its acquisition of Goodrich.

**Valuation Techniques.** Our available-for-sale securities include equity investments that are traded in active markets, either domestically or internationally. They are measured at fair value using closing stock prices from active markets and are classified within Level 1 of the valuation hierarchy. Our derivative assets and liabilities are managed on the basis of net exposure to market and credit risks of each of the counterparties. The fair value for these derivative assets and liabilities is measured at the price that would be received on a net asset position for a particular risk or to transfer a net liability position for a particular risk in an orderly transaction between market participants at the measurement date. 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. Based on these inputs, the derivative assets and liabilities are classified within Level 2 of the valuation hierarchy. Based on our continued ability to trade securities and enter into forward contracts, we consider the markets for our fair value instruments to be active. As of September 30, 2013, there were no significant transfers in and out of Level 1 and Level 2.

As of September 30, 2013, 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, 2013 and December 31, 2012:

(Dollars in millions)	September 30, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term receivables	\$651	\$642	\$499	\$464
Customer financing notes receivable	438	388	375	371
Short-term borrowings	(303)	) (303)	(503)	) (503)
Long-term debt (excluding capitalized leases)	(20,837)	) (20,937)	(22,665)	) (25,606)
Long-term liabilities	(284)	) (257)	(182)	) (167)

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, 2013:

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(Dollars in millions)	Total Fair Value at September 30, 2013	Quoted price in active markets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)
Long-term receivables	\$642	\$—	\$ 642	\$—
Customer financing notes receivable	388	—	388	—
Short-term borrowings	(303 )	—	(100 )	(203 )
Long-term debt (excluding capitalized leases)	(20,937 )	—	(20,830 )	(107 )
Long-term liabilities	(257 )	—	(257 )	—

Valuation Techniques. Our long-term receivables and customer financing notes receivable include our commercial and aerospace long-term trade, government and other receivables, leases, and notes receivable. Our long-term receivables and customer financing notes receivable are measured and presented in the table above at fair value using an income approach based on the present value of the contractual, promised or most likely cash flows discounted at observed or estimated market rate for comparable assets or liabilities that are traded in the market. Based on these inputs, long-term receivables and customer financing notes receivable are presented in the table above within Level 2 of the valuation hierarchy. Our short-term borrowings include commercial paper and other international credit facility agreements. Our long-term debt includes domestic and international notes. Commercial paper and domestic long-term notes are measured and presented in the table above at fair values based on comparable transactions and current market interest rates quoted in active markets for similar assets, and are classified within Level 2 of the valuation hierarchy. Foreign short-term borrowings and foreign long-term notes are measured and presented in the table above at fair value based on comparable transactions and rates calculated from the respective countries' yield curves. Based on these inputs, foreign borrowings and foreign long-term notes are classified within Level 3 of the valuation hierarchy. The fair values of Accounts receivable and Accounts payable approximate the carrying amounts due to the short-term maturities of these instruments.

We had commercial aerospace financing and other contractual commitments totaling approximately \$11.7 billion at September 30, 2013, including approximately \$6.4 billion of IAE commitments, related to commercial aircraft and certain contractual rights to provide product on new aircraft platforms. We had commercial aerospace financing and other contractual commitments of approximately \$10.9 billion at December 31, 2012, which included approximately \$5.8 billion of IAE commitments. 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 the commitments is not readily determinable.

#### Note 10: Credit Quality of Long-Term Receivables

A long-term or financing receivable represents a contractual right to receive money on demand or on fixed and determinable dates, including trade receivable balances with maturity dates greater than one year. Our long-term and financing receivables primarily represent balances related to the aerospace businesses such as long-term trade accounts receivable, leases, and notes receivable. We also have other long-term receivables in our commercial businesses; however, both the individual and aggregate amounts 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. 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 long-term receivables as of September 30, 2013 and December 31, 2012:

(Dollars in millions)	September 30, 2013	December 31, 2012
Long-term trade accounts receivable	\$630	\$593
Notes and leases receivable	630	584

Total long-term receivables	\$ 1,260	\$ 1,177
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Economic conditions and air travel influence the operating environment for most airlines, and the financial performance of our aerospace businesses is directly tied to the economic conditions of the commercial aerospace and defense industries. Additionally, the value of the collateral is also closely tied to commercial airline performance and may be subject to exposure of reduced valuation as a result of market declines. We determine a receivable is impaired when, based on current information and

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events, it is probable that we will be unable to collect amounts due according to the contractual terms of the receivable agreement. Factors considered in assessing collectability and risk include, but are not limited to, examination of credit quality indicators and other evaluation measures, underlying value of any collateral or security interests, significant past due balances, historical losses, and existing economic conditions.

Long-term receivables can be considered delinquent if payment has not been received in accordance with the underlying agreement. If determined delinquent, long-term trade accounts receivable and notes and leases receivable balances accruing interest may be placed on non-accrual status. We record potential losses related to long-term receivables when identified. The reserve for credit losses on these receivables relates to specifically identified receivables that are evaluated individually for impairment. For notes and leases receivable, we determine a specific reserve for exposure based on the difference between the carrying value of the receivable and the estimated fair value of the related collateral in connection with the evaluation of credit risk and collectability. For long-term trade accounts receivable, we evaluate credit risk and collectability individually to determine if an allowance is necessary.

Uncollectible long-term receivables are written-off when collection of the indebtedness has been pursued for a reasonable period of time without collection; the customer is no longer in operation; or judgment has been levied, but the underlying assets are not adequate to satisfy the indebtedness. At both September 30, 2013 and December 31, 2012, 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.

The following table provides the balance of aerospace industry long-term receivables and summarizes the associated changes in the reserve for estimated credit losses and exposure for the nine months ended September 30, 2013 and 2012, respectively:

(Dollars in millions)	2013	2012
Beginning balance of the reserve for credit losses and exposure as of January 1	\$60	\$70
Provision	7	1
Charge-offs	(13	) —
Recoveries	(1	) (5
Other	(3	) (5
Ending balance of the reserve for credit losses and exposure: individually evaluated for impairment as of September 30	\$50	\$61
Ending balance of long-term receivables: individually evaluated for impairment as of September 30	\$1,260	\$1,036

We determine credit ratings for each customer in the portfolio based upon public information and information obtained directly from our customers. We conduct a review of customer credit ratings, published historical credit default rates for different rating categories, and multiple third party aircraft value publications as a basis to validate the reasonableness of the allowance for losses on these balances quarterly or when events and circumstances warrant. The credit ratings listed below range from “A” which indicates an extremely strong capacity to meet financial obligations and the receivable is either collateralized or uncollateralized, to “D” which indicates that payment is in default and the receivable is uncollateralized. 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.

The following table summarizes the credit risk profile by creditworthiness category for aerospace long-term receivable balances at September 30, 2013 and December 31, 2012:

(Dollars in millions)	September 30, 2013		December 31, 2012	
	Long-term trade accounts receivable	Notes and leases receivable	Long-term trade accounts receivable	Notes and leases receivable
A - (low risk, collateralized/uncollateralized)	\$607	\$30	\$569	\$26
B - (moderate risk, collateralized/uncollateralized)	20	478	21	458
C - (high risk, collateralized/uncollateralized)	3	122	3	100
D - (in default, uncollateralized)	—	—	—	—



Total	\$630	\$630	\$593	\$584
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## Note 11: Shareowners' Equity and Noncontrolling Interest

A summary of the changes in shareowners' equity and noncontrolling interest comprising total equity for the quarter and nine months ended September 30, 2013 and 2012 is provided below:

(Dollars in millions)	Quarter Ended September 30, 2013			2012		
	Share-owners' Equity	Non-controlling Interest	Total	Share-owners' Equity	Non-controlling Interest	Total
Equity, beginning of period	\$26,987	\$ 1,382	\$28,369	\$22,604	\$ 1,121	\$23,725
Comprehensive income for the period:						
Net income	1,432	111	1,543	1,415	96	1,511
Total other comprehensive income	675	17	692	1,012	23	1,035
Total comprehensive income for the period	2,107	128	2,235	2,427	119	2,546
Common Stock issued under employee plans	312		312	275		275
Common Stock repurchased	(330 )		(330 )	—		—
Treasury Stock reissued under employee plans	—		—	141		141
Equity Units Issuance	—		—	—		—
Dividends on Common Stock	(465 )		(465 )	(463 )		(463 )
Dividends on ESOP Common Stock	(17 )		(17 )	(18 )		(18 )
Dividends attributable to noncontrolling interest		(161 )	(161 )		(162 )	(162 )
Purchase of subsidiary shares from noncontrolling interest	(17 )	(56 )	(73 )	(11 )	(1 )	(12 )
Sale of subsidiary shares in noncontrolling interest	—	—	—	—	17	17
Acquisition of noncontrolling interest		—	—		39	39
Disposition of noncontrolling interest		(1 )	(1 )		—	—
Redeemable noncontrolling interest in subsidiaries' earnings		(1 )	(1 )		(11 )	(11 )
Redeemable noncontrolling interest in total other comprehensive income		(1 )	(1 )		(7 )	(7 )
Change in redemption value of put options	—		—	—		—
Redeemable noncontrolling interest reclassification to noncontrolling interest		52	52		21	21
Equity, end of period	\$28,577	\$ 1,342	\$29,919	\$24,955	\$ 1,136	\$26,091

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(Dollars in millions)	Nine Months Ended September 30, 2013			2012		
	Share-owned Equity	Non-controlling Interest	Total Equity	Share-owned Equity	Non-controlling Interest	Total Equity
Equity, beginning of period	\$25,914	\$ 1,155	\$27,069	\$21,880	\$ 940	\$22,820
Comprehensive income for the period:						
Net income	4,258	286	4,544	3,073	267	3,340
Total other comprehensive income (loss)	123	(9 )	114	827	4	831
Total comprehensive income for the period	4,381	277	4,658	3,900	271	4,171
Common Stock issued under employee plans	764		764	608		608
Common Stock repurchased	(1,000 )		(1,000 )	—		—
Treasury Stock reissued under employee plans	—		—	141		141
Equity Units Issuance	—		—	(216 )		(216 )
Dividends on Common Stock	(1,395 )		(1,395 )	(1,288 )		(1,288 )
Dividends on ESOP Common Stock	(51 )		(51 )	(50 )		(50 )
Dividends attributable to noncontrolling interest		(288 )	(288 )		(292 )	(292 )
Purchase of subsidiary shares from noncontrolling interest	(36 )	(67 )	(103 )	(19 )	(4 )	(23 )
Sale of subsidiary shares in noncontrolling interest	—	242	242	—	52	52
Acquisition of noncontrolling interest		—	—		94	94
Disposition of noncontrolling interest		(6 )	(6 )		(4 )	(4 )
Redeemable noncontrolling interest in subsidiaries' earnings		(3 )	(3 )		(22 )	(22 )
Redeemable noncontrolling interest in total other comprehensive income		5	5		1	1
Change in redemption value of put options	—		—	(1 )		(1 )
Redeemable noncontrolling interest reclassification to noncontrolling interest		27	27		100	100
Equity, end of period	\$28,577	\$ 1,342	\$29,919	\$24,955	\$ 1,136	\$26,091

As of January 1, 2013, we adopted the provisions of the FASB issued Accounting Standards Update ("ASU") No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." As a result of this adoption, we have disclosed below the significant items reclassified to net income in their entirety during the period. A summary of the changes in each component of accumulated other comprehensive loss, net of tax for the nine months ended September 30, 2013 are provided below:

(Dollars in millions)	Foreign Currency Translation	Defined Benefit Pension and Post- retirement Plans	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrealized Hedging (Losses) Gains	Accumulated Other Comprehensive (Loss) Income
Balance at December 31, 2012	\$654	\$(6,250 )	\$ 145	\$3	\$(5,448 )

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Other comprehensive (loss) income before reclassifications	(439	) 27	140	(48	) (320	)
Amounts reclassified from accumulated other comprehensive loss (income)	31	445	(50	) 17	443	
Balance at September 30, 2013	\$246	\$(5,778	) \$ 235	\$(28	) \$(5,325	)

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Details of the reclassification out of accumulated other comprehensive loss for the quarter and nine months ended September 30, 2013 is provided below:

Details about Accumulated Other Comprehensive Loss Components Reclassified to Net Income (Dollars in millions)	Quarter Ended	Nine Months	Affected Line Item in the Condensed Consolidated Statement of Comprehensive Income
	September 30, 2013	Ended September 30, 2013	
	Income (Expense)	Income (Expense)	
<b>Foreign Currency Translation:</b>			
Recognized due to business disposition	\$1	\$(31)	) Other income, net
<b>Defined Benefit Pension and Post-retirement Plans:</b>			
Amortization of prior-service costs and transition obligation	\$10	\$34	Note (1)
Recognized actuarial net loss	(236)	(714)	) Note (1)
Total before tax	(226)	(680)	)
Tax benefit	71	235	Income tax expense
Net of tax	\$(155)	\$(445)	)
<b>Unrealized Gains on Available-for-Sale Securities:</b>			
Realized gain on sale of securities, before tax	\$27	\$81	Other income, net
Tax expense	(10)	(31)	) Income tax expense
Net of tax	\$17	\$50	)
<b>Unrealized Hedging (Losses) Gains:</b>			
Foreign exchange contracts	\$1	\$(22)	) Product sales
Other contracts	—	2	Other income, net
Total before tax	1	(20)	)
Tax (expense) benefit	(1)	3	Income tax expense
Net of tax	\$—	\$(17)	)

(1) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 7 for additional details).

All noncontrolling interests with redemption features, such as put options, that are not solely within our control (redeemable noncontrolling interests) are reported in the mezzanine section of the Condensed Consolidated Balance Sheet, between liabilities and equity, at the greater of redemption value or initial carrying value. A summary of the changes in redeemable noncontrolling interest recorded in the mezzanine section of the Condensed Consolidated Balance Sheet for the quarters and nine months ended September 30, 2013 and 2012 is provided below:

(Dollars in millions)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Redeemable noncontrolling interest, beginning of period	\$174	\$238	\$238	\$358
Net income	1	11	3	22
Foreign currency translation, net	1	7	(5)	(1)
Dividends attributable to noncontrolling interest	—	(2)	(3)	(13)
Purchase of subsidiary shares from noncontrolling interest	—	—	—	(34)
Disposition of noncontrolling interest	—	—	(82)	—
Change in redemption value of put options	—	—	—	1
Redeemable noncontrolling interest reclassification to noncontrolling interest	(52)	(21)	(27)	(100)
Redeemable noncontrolling interest, end of period	\$124	\$233	\$124	\$233



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Changes in noncontrolling interests that do not result in a change of control and where there is a difference between fair value and carrying value are accounted for as equity transactions. A summary of these changes in ownership interests in subsidiaries and the effect on shareowners' equity for the quarters and nine months ended September 30, 2013 and 2012 is provided below:

(Dollars in millions)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income attributable to common shareowners	\$ 1,432	\$ 1,415	\$ 4,258	\$ 3,073
Transfers to noncontrolling interests:				
Decrease in common stock for purchase of subsidiary shares	(17 )	(11 )	(36 )	(19 )
Change from net income attributable to common shareowners and transfers to noncontrolling interests	\$ 1,415	\$ 1,404	\$ 4,222	\$ 3,054

## Note 12: Guarantees

We extend a variety of financial, market value and product performance guarantees to third parties. As disclosed in Note 2, on June 14, 2013 we completed the sale of substantially all operations of Rocketdyne to GenCorp Inc. Following the sale, certain guarantees of Rocketdyne's performance under existing contracts remain in place, which resulted in an increase in our performance guarantees of approximately \$124 million, with no associated significant carrying amount of a liability as of September 30, 2013. There have been no other material changes to guarantees outstanding since December 31, 2012.

The changes in the carrying amount of service and product warranties and product performance guarantees for the nine months ended September 30, 2013 and 2012 are as follows:

(Dollars in millions)	2013	2012
Balance as of January 1	\$ 1,332	\$ 1,468
Warranties and performance guarantees issued	232	235
Settlements made	(223 )	(217 )
Other	22	(165 )
Balance as of September 30	\$ 1,363	\$ 1,321

The decrease reflected in "Other" during the nine months ended September 30, 2012 primarily reflects the impact of warranty reserves reclassified to Liabilities held for sale, as part of the Clipper disposition, partially offset by an increase in warranty reserves arising out of our acquisition of Goodrich. See Notes 1 and 2 for further discussion.

## Note 13: Contingent Liabilities

Summarized below are the matters previously described in Note 18 of the Notes to the Consolidated Financial Statements in our 2012 Annual Report, incorporated by reference in our 2012 Form 10-K, updated as applicable. Environmental. Our operations are subject to environmental regulation by federal, state and local authorities in the U.S. and regulatory authorities with jurisdiction over our non-U.S. operations. We accrue for the costs of environmental investigatory, remediation, operating and maintenance costs when it is probable that a liability has been incurred and the amount can be reasonably estimated. The most likely cost to be incurred is accrued based on an evaluation of currently available facts with respect to each individual site, including existing technology, current laws and regulations and prior remediation experience. Where no amount within a range of estimates is more likely, we accrue the minimum. For sites with multiple responsible parties, we consider our likely proportionate share of the anticipated remediation costs and the ability of the other parties to fulfill their obligations in establishing a provision for those costs. We discount liabilities with fixed or reliably determinable future cash payments. We do not reduce accrued environmental liabilities by potential insurance reimbursements. We periodically reassess these accrued amounts. We believe that the likelihood of incurring losses materially in excess of amounts accrued is remote. In conjunction with the completion of our acquisition of Goodrich on July 26, 2012, we recorded additional environmental reserves of \$325 million. See Note 1 for further discussion.





Government. We are now, and believe that in light of the current U.S. Government contracting environment we will continue to be, the subject of one or more U.S. Government investigations. If we or one of our business units were charged with wrongdoing as a result of any of these investigations or other government investigations (including violations of certain environmental or export laws) the U.S. Government could suspend us from bidding on or receiving awards of new U.S. Government contracts pending the completion of legal proceedings. If convicted or found liable, the U.S. Government could fine and debar us from new U.S. Government contracting for a period generally not to exceed three years. The U.S. Government could void any contracts found to be tainted by fraud. Our contracts with the U.S. Government are also subject to audits. Like many defense contractors, we have received audit reports, which recommend that certain contract prices should be reduced to comply with various government regulations. Some of these audit reports involve substantial amounts. We have made voluntary refunds in those cases we believe appropriate, have settled some allegations and continue to litigate certain other cases. In addition, we accrue for liabilities associated with those matters that are probable and can be reasonably estimated. The most likely settlement amount to be incurred is accrued based upon a range of estimates. Where no amount within a range of estimates is more likely, then we accrue the minimum amount.

As previously disclosed, the United States government sued us in 1999 in the United States District Court for the Southern District of Ohio, claiming that Pratt & Whitney violated the civil False Claims Act and common law. The claims relate to the "Fighter Engine Competition" between Pratt & Whitney's F100 engine and General Electric's F110 engine. The government alleged that it overpaid for F100 engines under contracts awarded by the U.S. Air Force in fiscal years 1985 through 1990 because Pratt & Whitney inflated its estimated costs for some purchased parts and withheld data that would have revealed the overstatements. At trial, which ended in April, 2005, the government claimed Pratt & Whitney's liability to be approximately \$624 million. On August 1, 2008, the trial court held that the Air Force had not suffered any actual damages because Pratt & Whitney had made significant price concessions after the alleged overstatements were made. However, the trial court judge found that Pratt & Whitney violated the False Claims Act due to inaccurate statements contained in its 1983 initial engine pricing proposal. In the absence of actual damages, the trial court awarded the government the maximum civil penalty of approximately \$7 million, or \$10,000 for each of the 709 invoices Pratt & Whitney submitted in 1989 and later under the contracts. In September 2008, both the government and UTC appealed the decision to the United States Court of Appeals for the Sixth Circuit. On November 18, 2010, the Sixth Circuit affirmed Pratt & Whitney's liability under the False Claims Act, but remanded the case to the trial court for further proceedings on the issues of False Claims Act damages and common law liability and damages.

On June 18, 2012, the trial court found that Pratt & Whitney had breached obligations imposed by common law based on the same conduct with respect to which the court previously found liability under the False Claims Act. Under the common law claims, the U.S. Air Force is entitled to seek damages for events occurring before March 3, 1989, which are not recoverable under the False Claims Act.

On June 17, 2013, the trial court awarded the government approximately \$473 million in damages and penalties, plus prejudgment interest in an amount to be determined. On July 1, 2013, the trial court, after determining the amount of prejudgment interest, entered judgment in favor of the government in the amount of approximately \$664 million. The trial court also awarded postjudgment interest on the full amount of the judgment to accrue from July 2, 2013, at the federal variable interest rate determined pursuant to 28 U.S.C. § 1961. The judgment included four different components of damages: (1) common law damages of approximately \$109 million; (2) prejudgment interest on common law damages of approximately \$191 million; (3) False Claims Act treble damages of approximately \$357 million; and (4) penalties of approximately \$7 million. The penalty component of the judgment previously was affirmed by the United States Court of Appeals in 2010.

We strongly disagree with the trial court's analysis and conclusions. We filed an appeal from the judgment to the United States Court of Appeals for the Sixth Circuit on August 26, 2013. Based on our analysis, we continue to believe that there is no basis for any common law liability for the inaccurate statements. We also believe that the government suffered no actual damages as a result of the inaccurate statements made in 1983 and, therefore, there is no basis in fact or law for the award of common law damages, prejudgment interest or False Claims Act treble damages. If, contrary to our expectations, all or any portion of the judgment should ultimately be affirmed, we estimate a range of possible loss from approximately \$24 million to \$657 million in excess of amounts previously

accrued, plus postjudgment interest. The outcome of this matter could result in a material adverse effect on our results of operations in the period in which a liability would be recognized and cash flows for the period in which damages would be paid.

As previously disclosed, in December 2008, the Department of Defense (DOD) issued a contract claim against Sikorsky to recover overpayments the DOD alleges that it made to Sikorsky since January 2003 in connection with cost accounting changes approved by the DOD and implemented by Sikorsky in 1999 and 2006. These changes relate to the calculation of material overhead rates in government contracts. The DOD claimed that Sikorsky's liability was approximately \$96 million (including interest through September 30, 2013). We believed this claim was without merit and Sikorsky filed an appeal in December 2009 with the U.S. Court of Federal Claims. Trial in the matter concluded in January 2013, and on March 22, 2013,

the U.S. Court of Federal Claims issued a written decision in favor of Sikorsky determining that the DOD had failed to prove its claims because Sikorsky's calculation of material overhead complied with the cost accounting standards. While the DOD has appealed this decision, we do not believe the ultimate resolution of this matter will have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

**Tax Matters.** As previously disclosed, UTC is involved in litigation in Germany concerning €204 million (approximately \$275 million) of tax benefits that we have claimed related to a 1998 reorganization of the corporate structure of Otis operations in Germany. A portion of these tax benefits were disallowed by the local German Tax Office on July 5, 2012, as a result of the audit of tax years 1999 to 2000. The legal and factual issues relating to the denial of the tax benefits center on the interpretation and application of a German tax law. On August 3, 2012, the Company filed suit in the local German tax court and intends to litigate vigorously the matter to conclusion. We do not believe the resolution of this matter will have a material adverse effect on our results of operations, cash flows or financial condition.

UTC has also been involved in administrative review proceedings with the French Revenue Authority concerning €237 million (approximately \$320 million) related to certain deductions claimed in France for tax years 2008 through 2011 that the French Revenue Authority has proposed to disallow. This is a recurring issue and it is expected that similar challenges will be raised in subsequent tax years until the issue is resolved. Resolution discussions with the French Revenue Authority on this matter have been unsuccessful to date and UTC may be required to pursue the defense of the issue through litigation, which could be commenced as early as the fourth quarter of 2013. UTC intends to assert a vigorous defense and believes it should prevail on the issue. Accordingly, no accrual has been made for this matter. See "Note 6 Income Taxes" of our Condensed Consolidated Financial Statements for further discussion of these tax matters.

**Other.** We extend performance and operating cost guarantees beyond our normal warranty and service policies for extended periods on some of our products. We have accrued our estimate of the liability that may result under these guarantees and for service costs that are probable and can be reasonably estimated.

Like many other industrial companies in recent years, we or our subsidiaries are named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos integrated into certain of our products or premises. While we have never manufactured asbestos and no longer incorporate it in any currently-manufactured products, certain of our historical products, like those of many other manufacturers, have contained components incorporating asbestos. A substantial majority of these asbestos-related claims have been covered by insurance or other forms of indemnity or have been dismissed without payment. The remainder of the closed cases have been resolved for amounts that are not material individually or in the aggregate. While insurance coverage litigation is pending against a number of Goodrich insurers, based on information currently available we do not believe that resolution of asbestos-related matters will have a material adverse effect upon our competitive position, results of operations, cash flows or financial condition. We are involved in a number of other legal proceedings, investigations and other contingency matters, including government audit matters, environmental investigatory, remediation, operating and maintenance costs, performance guarantees, self-insurance programs and matters arising out of the normal course of business. We are also subject to a number of routine lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the ordinary course of our business. Many of these proceedings are at preliminary stages, and many of these cases seek an indeterminate amount of damages. We regularly evaluate the status of legal proceedings in which we are involved, to assess whether a loss is probable and reasonably estimable in light of the facts and circumstances known to us at a particular point in time or there is a reasonable possibility that a loss or additional loss may have been incurred and determine if accruals and related disclosures are appropriate. The Company has established reserves for several hundred of its legal proceedings and other matters. We accrue contingencies based upon a range of possible outcomes. If no amount within this range is a better estimate than any other, then we accrue the minimum amount. With respect to any additional losses that may be incurred in excess of those accrued, either they are considered not material or we do not believe that a range of reasonably possible losses (defined by the relevant accounting literature to include all potential losses other than those deemed "remote") can be determined. We do not believe that these matters will have a material adverse effect upon our competitive position, results of operations, cash flows or financial condition.

All forward-looking statements concerning the possible or anticipated outcome of environmental, investigatory, litigation proceedings and other contingency matters involve risks and uncertainties that could cause actual results to

differ materially from those expressed or implied in the forward-looking statements. For further information as to these risks and uncertainties, see “Cautionary Note Concerning Factors That May Affect Future Results” and Part II, Item 1A, “Risk Factors” in this Form 10-Q.

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## Note 14: Segment Financial Data

Our operations are classified into five principal segments: Otis, UTC Climate, Controls & Security, Pratt & Whitney, UTC Aerospace Systems and Sikorsky. The segments are generally based on the management structure of the businesses and the grouping of similar operating companies, where each management organization has general operating autonomy over diversified products and services. On September 23, 2013, we announced the formation of UTC Building and Industrial Systems, a new organizational structure consisting of Otis and UTC Climate, Controls & Security. This new organizational structure is intended to enhance our ability to deliver more integrated solutions to our customers and accelerate innovation in smart building technologies and sustainable designs. Otis and UTC Climate, Controls & Security each will continue to report their financial and operational results as separate segments, which is consistent with how we will allocate resources and measure the financial performance of these businesses. Subsequent to the completion of our acquisition of Goodrich on July 26, 2012, the Goodrich businesses were combined with the legacy Hamilton Sundstrand businesses to form the new UTC Aerospace Systems segment. Effective July 1, 2012, the Auxiliary Power Unit (APU) business of UTC Aerospace Systems was transferred to the Pratt & Whitney business segment. The APU business designs and manufactures a variety of products for commercial and military aircraft. Annual sales for the APU business are approximately \$600 million. The reclassification has been made prospectively; prior year segment results have not been restated for the transfer of the business.

Results for the quarters ended September 30, 2013 and 2012 are as follows:

(Dollars in millions)	Net Sales		Operating Profits		Operating Profit Margins		
	2013	2012	2013	2012	2013	2012	
Otis	\$3,188	\$3,054	\$681	\$651	21.4	% 21.3	%
UTC Climate, Controls & Security	4,237	4,259	696	632	16.4	% 14.8	%
Pratt & Whitney	3,386	3,574	439	409	13.0	% 11.4	%
UTC Aerospace Systems	3,312	2,670	501	271	15.1	% 10.1	%
Sikorsky	1,541	1,649	159	203	10.3	% 12.3	%
Total segments	15,664	15,206	2,476	2,166	15.8	% 14.2	%
Eliminations and other	(202	) (164	) 7	(22	)		
General corporate expenses	—	—	(117	) (103	)		
Consolidated	\$15,462	\$15,042	\$2,366	\$2,041	15.3	% 13.6	%

Results for the nine months ended September 30, 2013 and 2012 are as follows:

(Dollars in millions)	Net Sales		Operating Profits		Operating Profit Margins		
	2013	2012	2013	2012	2013	2012	
Otis	\$9,140	\$8,851	\$1,906	\$1,868	20.9	% 21.1	%
UTC Climate, Controls & Security	12,617	12,943	1,968	1,965	15.6	% 15.2	%
Pratt & Whitney	10,412	10,073	1,412	1,225	13.6	% 12.2	%
UTC Aerospace Systems	9,896	5,160	1,501	680	15.2	% 13.2	%
Sikorsky	4,356	4,615	405	552	9.3	% 12.0	%
Total segments	46,421	41,642	7,192	6,290	15.5	% 15.1	%
Eliminations and other	(554	) (377	) 32	(54	)		
General corporate expenses	—	—	(345	) (303	)		
Consolidated	\$45,867	\$41,265	\$6,879	\$5,933	15.0	% 14.4	%

See Note 8 to the Condensed Consolidated Financial Statements for a discussion of restructuring costs included in segment operating results.

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Note 15: Accounting Pronouncements

In March 2013, the FASB issued ASU No. 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Group of Assets within a Foreign Entity or of an Investment in a Foreign Entity." This ASU is intended to eliminate diversity in practice on the release of cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest. In addition, the amendments in this ASU resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. The provisions of this ASU are effective for interim and annual periods beginning after December 15, 2013 and must be applied prospectively. This ASU is not expected to have a material impact on our financial statements or disclosures.

In July 2013, the FASB issued ASU No. 2013-10, "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes." This ASU is intended to permit the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes under FASB ASC Topic 815, "Derivatives and Hedging", in addition to UST and LIBOR, as well as to remove the restriction on using different benchmark rates for similar hedges. The provisions of this ASU are effective for new or redesignated hedging relationships entered into on or after July 17, 2013. This ASU is not expected to have a material effect on our financial statements or disclosures.

In July 2013, the FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists." This ASU is intended to provide guidance and reduce diversity in practice in the presentation of an unrecognized tax benefit when a tax loss or credit carryforward exists. The provisions of this ASU are effective for periods beginning after December 15, 2013 and must be applied prospectively for unrecognized tax benefits that exist at the effective date. Early adoption is permitted. There are no material effects on, or changes to, our financial statements or disclosures as a result of this ASU.

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With respect to the unaudited condensed consolidated financial information of UTC for the quarters and nine months ended September 30, 2013 and 2012, PricewaterhouseCoopers LLP (PricewaterhouseCoopers) reported that it has applied limited procedures in accordance with professional standards for a review of such information. However, its report dated October 25, 2013, appearing below, states that the firm did not audit and does not express an opinion on that unaudited condensed consolidated financial information. PricewaterhouseCoopers has not carried out any significant or additional audit tests beyond those that would have been necessary if their report had not been included. Accordingly, the degree of reliance on its report on such information should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers is not subject to the liability provisions of Section 11 of the Securities Act of 1933, as amended (the Act) for its report on the unaudited condensed consolidated financial information because that report is not a "report" or a "part" of a registration statement prepared or certified by PricewaterhouseCoopers within the meaning of Sections 7 and 11 of the Act.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareowners of United Technologies Corporation:

We have reviewed the accompanying condensed consolidated balance sheet of United Technologies Corporation and its subsidiaries as of September 30, 2013 and the related condensed consolidated statements of comprehensive income for the three-month and nine-month periods ended September 30, 2013 and 2012 and the condensed consolidated statement of cash flows for the nine-month periods ended September 30, 2013 and 2012. This interim financial information is the responsibility of the Corporation's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial information for it to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations, of comprehensive income, of cash flows, and of changes in equity for the year then ended (not presented herein), and in our report dated February 7, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2012, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP  
Hartford, Connecticut  
October 25, 2013

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

**BUSINESS OVERVIEW**

We are a global provider of high technology products and services to the building systems and aerospace industries. Our operations are classified into five principal business segments: Otis, UTC Climate, Controls & Security, Pratt & Whitney, UTC Aerospace Systems and Sikorsky. Otis and UTC Climate, Controls & Security are referred to as the "commercial businesses," while Pratt & Whitney, UTC Aerospace Systems and Sikorsky are collectively referred to as the "aerospace businesses." On September 23, 2013, we announced the formation of UTC Building and Industrial Systems, a new organizational structure consisting of Otis and UTC Climate, Controls & Security. This new organizational structure will enhance our ability to deliver more integrated solutions to our customers and accelerate innovation in smart building technologies and sustainable designs. Otis and UTC Climate, Controls & Security each will continue to report their financial and operational results as separate segments, which is consistent with how we will allocate resources and measure the financial performance of these businesses.

On July 26, 2012, UTC acquired Goodrich Corporation (Goodrich) pursuant to a merger agreement dated September 21, 2011. As a result of the acquisition, Goodrich became a wholly-owned subsidiary of UTC. The acquired Goodrich business and the legacy Hamilton Sundstrand business have been combined to form a new segment named UTC Aerospace Systems. The results of the acquired Goodrich business have been included in UTC's financial statements only for periods subsequent to the completion of the acquisition. The acquisition resulted in the inclusion of Goodrich's assets and liabilities as of the acquisition date at their respective fair values. Accordingly, the acquisition materially affected UTC's results of operations and financial position.

Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. The current status of significant factors impacting our business environment in 2013 is discussed below. For additional discussion, refer to the "Business Overview" section in Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2012 Annual Report, which is incorporated by reference in our 2012 Form 10-K.

**General**

Our worldwide operations can be affected by industrial, economic and political factors on both a regional and global level. To limit the impact of any one industry, or the economy of any single country on our consolidated operating results, our strategy has been, and continues to be, the maintenance of a balanced and diversified portfolio of businesses. Our operations include original equipment manufacturing (OEM) and extensive related aftermarket parts and services in both our commercial and aerospace businesses. Our business mix also reflects the combination of shorter cycles at UTC Climate, Controls & Security and in our commercial aerospace aftermarket businesses, and longer cycles at Otis and in our aerospace OEM businesses. Our customers include companies in the private sector and governments, and our businesses reflect an extensive geographic diversification that has evolved with the continued globalization of world economies.

Growth in emerging markets continues to be led by China where our sales for the quarter grew 11% over the prior year, while European economic conditions continue to stagnate. During the first nine months of 2013, organic sales in Europe declined 3% across our commercial businesses. The European market, together with U.S. Government defense spending, represent over 35% of UTC sales. The economic environment in North America has continued to rebound on improving consumer sentiment, lower unemployment rates, an improving housing market, and increasing commercial construction. However, economic uncertainty persists in the U.S., in part as a result of the continued political impasse in Washington D.C, including the sequestration, government shut-down and Congressional fight over the debt ceiling.

U.S. Government deficit reduction measures continue to pressure U.S. Department of Defense spending and adversely affect our military businesses. Total sales to the U.S. Government were \$2.4 billion and \$2.6 billion, or 16% and 17% of total UTC sales in the third quarter of 2013 and 2012, respectively. Our participation in long-term production and development programs for the U.S. Government has, and is expected to contribute positively to our results in 2013. In July 2012, the U.S. Government and Sikorsky signed a five-year multiservice contract (Multi-year 8) for approximately 650 H-60 helicopters. Actual production quantities will be determined year-by-year over the life of the program based on funding allocations set by Congress and Pentagon acquisition priorities. Sikorsky's commercial business has benefited from increases in off-shore oil platform activity and those benefits are projected to continue



throughout 2013.

Disposition Activity

In 2012, the Board of Directors of the Company approved a plan for the divestiture of a number of non-core businesses. Cash generated from these divestitures has been used to repay debt incurred to finance the acquisition of Goodrich. The legacy Hamilton Sundstrand Industrial businesses, as well as Clipper Windpower (Clipper), Pratt & Whitney Rocketdyne (Rocketdyne) and UTC Power all met the "held-for-sale" criteria in 2012. The results of operations, including the net realized

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gain and losses on disposition, and the related cash flows which result from these non-core businesses have been reclassified to Discontinued Operations in our Condensed Consolidated Statements of Comprehensive Income and Cash Flows. The dispositions of Clipper and the legacy Hamilton Sundstrand Industrial businesses were completed in 2012. On February 12, 2013, we completed the disposition of UTC Power to ClearEdge Power. The UTC Power disposition resulted in payments by UTC totaling \$48 million, which included capitalization of the business prior to the sale and interim funding of operations as the buyer took control of a loss generating business. We have no continuing involvement with the UTC Power business.

On June 14, 2013, we completed the sale of substantially all operations of Rocketdyne to GenCorp Inc. for \$411 million. The sale generated a pre-tax loss of approximately \$7 million (\$3 million after tax) through September 30, 2013, which has been included in discontinued operations in the accompanying Condensed Consolidated Statement of Comprehensive Income. On May 17, 2013, we completed the sale of the Pratt & Whitney Power Systems business to Mitsubishi Heavy Industries (MHI) and entered into a long-term engineering and manufacturing agreement with MHI. The sale generated a pre-tax gain of approximately \$193 million (\$132 million after tax). Cash received in connection with the sale was \$432 million, and excludes contingent consideration valued at approximately \$200 million. Pratt & Whitney Power Systems was not reclassified to Discontinued Operations due to our level of continuing involvement in the business post-sale.

In connection with regulatory approval of the Goodrich acquisition, regulatory authorities required UTC to dispose of the Goodrich electric power systems and the pumps and engine controls businesses. Pursuant to these regulatory obligations, these businesses had been held separately from UTC's and Goodrich's ongoing businesses since the acquisition of Goodrich by UTC. On March 18, 2013, we completed the sale of the Goodrich pumps and engine controls business to Triumph Group, Inc., and on March 26, 2013, we completed the sale of the Goodrich electric power systems business to Safran S.A. Combined proceeds from the sales of the two businesses were approximately \$600 million.

As discussed below in "Results of Operations," our results include the impact from non-recurring items such as the beneficial impact of gains from business divestiture activities, including those related to the ongoing portfolio transformation at UTC Climate, Controls & Security.

### Acquisition Activity

Our growth strategy contemplates acquisitions. Our operations and results can be affected by the rate and extent to which appropriate acquisition opportunities are available, acquired businesses are effectively integrated, and anticipated synergies or cost savings are achieved. On February 7, 2013, we completed the acquisition of Grupo Ascensores Enor, S.A. (Enor), a privately held company headquartered in Spain with operations in Spain and Portugal, which designs, manufactures, installs and services elevators. Enor's 2012 sales were approximately \$50 million. Under the terms of the transaction, Zardoya Otis, S.A. (ZOSA), a non-wholly owned subsidiary of the Company, exchanged publicly traded shares of ZOSA with a fair value of approximately \$240 million as of the transaction completion date for all of the shares of Enor.

During the nine months ended September 30, 2013, our cash investment in business acquisitions was approximately \$120 million and consisted of a number of additional small acquisitions primarily in our commercial businesses. We expect cash investment in businesses of approximately \$250 million in 2013. However, actual acquisition spending may vary depending upon the timing, availability and value of acquisition opportunities.

### Other

Government legislation, policies and regulations can have a negative impact on our worldwide operations.

Government regulation of refrigerants and energy efficiency standards, elevator safety codes and fire protection regulations are important to our commercial businesses. Government and market-driven safety and performance regulations, restrictions on aircraft engine noise and emissions, and government procurement practices can impact our aerospace and defense businesses.

Commercial airline financial distress and consolidation, global economic conditions, changes in raw material and commodity prices, interest rates, foreign currency exchange rates, energy costs, and the impact from natural disasters and weather conditions create uncertainties that could impact our earnings outlook for the remainder of 2013. See Part II, Item 1A, "Risk Factors" in this Form 10-Q for further discussion.

The following activities are disclosed as required by Section 13(r)(1)(D)(iii) of the Securities Exchange Act of 1934, as amended (Exchange Act), as transactions or dealings with the government of Iran that have not been specifically authorized by a U.S. federal department or agency:

In 2012 and 2013, non-U.S. affiliates of Otis provided elevator maintenance services at the residence of the Iranian Ambassador in Athens, Greece, pursuant to a contract executed in September 2012; the London branch office of Bank Sepah (an Iranian bank), pursuant to a contract executed in 2005; and the London branch office of the Persia International Bank (an Iranian bank), pursuant to a contract executed in 2008. Both banks are designated by the U.S. Department of the Treasury's

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Office of Foreign Assets Control on the Specially Designated Nationals and Blocked Persons List pursuant to Executive Order 13382. In 2012, the aggregate revenues and net profits attributable to these three contracts were approximately \$21 thousand and \$16 thousand, respectively. In 2013, the aggregate revenues and net profits attributable to these three contracts were approximately \$20 thousand and \$15 thousand, respectively. The provision of elevator maintenance services by non-U.S. affiliates of Otis was permissible under applicable law when the associated contracts were executed. However, the services continued after the President issued Executive Order 13628 on October 9, 2012, which implemented Section 218 of the Iran Threat Reduction and Syria Human Rights Act (ITRA) by prohibiting any entity owned or controlled by a U.S. person and established or maintained outside the U.S. from knowingly engaging in any transaction, directly or indirectly, with the Government of Iran. Otis has filed appropriate disclosures with the Office of Foreign Assets Control. The non-U.S. Otis affiliates have ceased performance under these contracts and do not intend to continue or enter into any new Iran-related activity.

**CRITICAL ACCOUNTING ESTIMATES**

Preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, sales and expenses. We believe the most complex and sensitive judgments, because of their significance to the Consolidated Financial Statements, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 1 to the Consolidated Financial Statements in our 2012 Annual Report, incorporated by reference in our 2012 Form 10-K, describe the significant accounting estimates and policies used in preparation of the Consolidated Financial Statements. Actual results in these areas could differ from management's estimates. There have been no significant changes in our critical accounting estimates during the nine months ended September 30, 2013.

**RESULTS OF OPERATIONS**

## Net Sales

(Dollars in millions)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net Sales	\$15,462	\$15,042	\$45,867	\$41,265

The factors contributing to the total percentage change year-over-year in total net sales for the quarter and nine months ended September 30, 2013 are as follows:

	Quarter Ended September 30, 2013		Nine Months Ended September 30, 2013	
Organic change	1	%	—	%
Foreign currency translation	—		—	
Acquisitions and divestitures, net	2	%	11	%
Other	—		—	
Total % Change	3	%	11	%

During the third quarter of 2013, organic sales growth at Otis (4%), UTC Climate, Controls & Security (2%) and UTC Aerospace Systems (2%), was offset by organic sales contraction at Sikorsky (7%). Organic sales growth at Otis was led by higher new equipment sales volume in the U.S., China, Russia and Brazil, while the organic sales decline at Sikorsky was driven by lower military helicopter and aftermarket sales.

During the nine months ended September 30, 2013, Otis experienced organic sales growth of 3% driven by higher new equipment sales, while UTC Aerospace Systems realized organic sales growth of 2% on higher commercial aerospace OEM volume. These increases were offset by a contraction in Sikorsky organic sales (6%) driven by lower aircraft and aftermarket sales to the U.S. Government, and organic sales contraction at Pratt & Whitney (3%) driven by lower military engine volume.

The sales increase from acquisitions for the quarter ended September 30, 2013 was primarily a result of the acquisition of Goodrich, partially offset by the ongoing portfolio transformation initiatives at UTC Climate, Controls & Security. The sales increase from acquisitions for the nine months ended September 30, 2013 was primarily a result of the

acquisitions of Goodrich and IAE, partially offset by the ongoing portfolio transformation initiatives at UTC Climate, Controls & Security.

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## Cost of Products and Services Sold

(Dollars in millions)	Quarter Ended September 30,		Nine Months Ended September 30,		
	2013	2012	2013	2012	
Cost of products sold	\$8,316	\$8,278	\$24,876	\$21,724	
Percentage of product sales	74.0	% 76.4	% 75.0	% 75.3	%
Cost of services sold	\$2,704	\$2,725	\$8,161	\$8,143	
Percentage of service sales	64.1	% 64.8	% 64.2	% 65.6	%
Total cost of products and services sold	\$11,020	\$11,003	\$33,037	\$29,867	

The factors contributing to the percentage change year-over-year for the quarter and nine months ended September 30, 2013 in total cost of products and services sold are as follows:

	Quarter Ended September 30, 2013		Nine Months Ended September 30, 2013	
Organic change	(2	)%	(1	)%
Foreign currency translation	—		—	
Acquisitions and divestitures, net	2	%	12	%
Restructuring	—		—	
Other	—		—	
Total % Change	—	%	11	%

The organic decrease in total cost of products and services sold (2%) in the third quarter of 2013 was driven by the absence of amortization of inventory fair-value adjustments related to the Goodrich acquisition that were recorded in 2012 within the UTC Aerospace Systems segment. The increase in “Acquisitions and divestitures, net” (2%) is largely attributable to the acquisition of Goodrich, partially offset by the disposition of the Pratt & Whitney Power Systems business.

The organic decrease in total cost of products and services sold (1%) in the nine months ended September 30, 2013 is a result of the absence of inventory fair-value adjustment amortization noted above. The increase in “Acquisitions and divestitures, net” (12%) is attributable to the acquisitions of Goodrich and IAE, partially offset by the ongoing portfolio transformation initiatives at UTC Climate, Controls & Security and the disposition of the Pratt & Whitney Power Systems business.

## Gross Margin

(Dollars in millions)	Quarter Ended September 30,		Nine Months Ended September 30,		
	2013	2012	2013	2012	
Gross margin	\$4,442	\$4,039	\$12,830	\$11,398	
Percentage of net sales	28.7	% 26.9	% 28.0	% 27.6	%

The 180 basis point increase in gross margin as a percentage of sales for the third quarter of 2013 is due to the absence of amortization of an inventory fair-value adjustment related to the Goodrich acquisition that was recorded in 2012 (100 basis points) favorable military contract performance at Pratt & Whitney, the favorable gross margin impact of higher commercial spares sales at Pratt & Whitney and the benefit of increased productivity and restructuring savings at UTC Climate, Controls & Security.

The 40 basis point increase in gross margin as a percentage of sales for the first nine months of 2013 is largely due to the absence of amortization of inventory fair-value adjustment related to the Goodrich acquisition that was recorded in 2012 (30 basis points) and the benefit of increased productivity and restructuring savings at UTC Climate, Controls & Security.

## Research and Development

(Dollars in millions)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012

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Company-funded	\$630		\$590		\$1,871		\$1,659	
Percentage of net sales	4.1	%	3.9	%	4.1	%	4.0	%
Customer-funded	\$514		\$508		\$1,607		\$1,146	
Percentage of net sales	3.3	%	3.4	%	3.5	%	2.8	%

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Research and development spending is subject to the variable nature of program development schedules and, therefore, year-over-year fluctuations in spending levels are expected. The majority of the company-funded spending is incurred by the aerospace businesses. The year-over-year increase in company-funded research and development (7%) in the third quarter of 2013 is primarily related to the acquisition of Goodrich. Customer-funded research and development increased (1%) due to higher customer-funded spending at Pratt & Whitney on U.S. military programs (11%), offset by lower customer-funded spending at UTC Aerospace Systems on space programs and within U.S. Government programs at Sikorsky.

The year-over-year increase in company-funded research and development (13%) in the first nine months of 2013 is primarily related to the acquisition of Goodrich (17%), partially offset by lower research and development spending at Pratt & Whitney related to the development of multiple geared turbofan platforms (3%). The increase in customer-funded research and development (40%) is due to the acquisition of Goodrich (27%) and at Pratt & Whitney to military programs (12%).

We expect company-funded research and development for the full year 2013 to increase approximately \$200 million, as compared with 2012.

## Selling, General and Administrative

(Dollars in millions)	Quarter Ended September 30,		Nine Months Ended September 30,		
	2013	2012	2013	2012	
Selling, general and administrative expenses	\$1,633	\$1,619	\$4,997	\$4,657	
Percentage of net sales	10.6	% 10.8	% 10.9	% 11.3	%

Selling, general and administrative expenses increased 1% in the third quarter of 2013 due to the impact of acquisitions, net of divestitures, completed over the preceding twelve months (1%) and higher restructuring costs (1%), partially offset by savings from previous restructuring actions.

Selling, general and administrative expenses increased 7% in the first nine months of 2013 due primarily to the impact of acquisitions, net of divestitures, completed over the preceding twelve months. Higher pension and export compliance costs (combined 1%) were largely offset by savings from previous restructuring actions. The 40 basis point year-over-year decrease as a percentage of sales reflects higher sales volume as a result of the Goodrich acquisition and the benefits from previous restructuring actions.

## Other Income, Net

(Dollars in millions)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Other income, net	\$187	\$211	\$917	\$851

Other income, net includes equity earnings in unconsolidated entities, royalty income, foreign exchange gains and losses as well as other ongoing and non-recurring items. The year-over-year decrease in other income, net in the third quarter of 2013 (11%) is a result of the charge to adjust the fair value of a Pratt & Whitney joint venture investment (12%) and the absence of gains recognized in the third quarter of 2012 including the fair value re-measurement of the shares held by the Company prior to the acquisition of Goodrich (16%) and the effective settlement of a pre-existing contractual dispute in connection with the acquisition of Goodrich (22%). These decreases were partially offset by licensing income recognized in the third quarter of 2013 (10%), net gains recognized on miscellaneous asset sales (11%) and normal recurring operational activity as disclosed above.

The year-over-year increase in other income, net in the first nine months of 2013 (8%) is a result of a gain on the sale of Pratt & Whitney Power Systems (23%), the benefit of a settlement with an engine program partner (5%), higher licensing income (3%) and net gains recognized on miscellaneous asset sales (5%). These results were partially offset by a charge to adjust the fair value of a Pratt & Whitney joint venture investment (3%); the absence of gains recorded in the third quarter of 2012, including a fair value re-measurement of the shares of Goodrich held by the Company prior to the acquisition of Goodrich (4%) and a gain as a result of the effective settlement of a pre-existing contractual dispute in connection with the acquisition of Goodrich (5%); and a decline in net gains related to the ongoing UTC Climate, Controls & Security portfolio transformation (20%). The remaining increase in other income, net is



attributable to normal recurring operational activity as disclosed above.

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## Interest Expense, Net

(Dollars in millions)	Quarter Ended September 30,		Nine Months Ended September 30,		
	2013	2012	2013	2012	
Interest expense	\$248	\$260	\$775	\$614	
Interest income	(22	) (44	) (96	) (101	)
Interest expense, net	\$226	\$216	\$679	\$513	
Average interest expense rate	4.1	% 3.5	% 4.2	% 5.4	%

The decrease in interest expense in the third quarter of 2013 is a result of lower average debt balances as a result of debt repayments made since September 30, 2012. The decrease in interest income in the third quarter of 2013 reflects the absence of \$25 million favorable pre-tax interest adjustments related to the resolution of disputes with the Appeals Division of the IRS for the Company's 2004 - 2005 tax years, which were recognized in the third quarter of 2012.

The increase in interest expense in the first nine months of 2013 is a result of higher average debt balances associated with the financing of our acquisition of Goodrich. The decrease in interest income in the first nine months of 2013 reflects the absence of approximately \$40 million of favorable pre-tax interest adjustments related to the conclusion of the IRS's examination of our tax returns for the years 2006 to 2008 and resolution of disputes with the Appeals Division of the IRS for the Company's 2004 - 2005 tax years, which were recorded in 2012. This was partially offset by \$36 million of favorable pre-tax interest adjustments, which were recorded in 2013, related to settlements for the Company's tax years prior to 2006, as well as the conclusion of certain IRS examinations of the 2009 and 2010 tax years.

## Income Taxes

Effective tax rate	Quarter Ended September 30,		Nine Months Ended September 30,		
	2013	2012	2013	2012	
	28.7	% 26.6	% 27.1	% 23.2	%

The increase in the effective tax rate for the quarter ended September 30, 2013, primarily reflects the absence of a favorable non-cash income tax adjustment of \$34 million, recorded in the third quarter of 2012, related to the resolution of disputed tax matters with the Appeals Division of the IRS for the Company's 2004 and 2005 tax years. This increase is partially offset by the favorable tax impact of a U.K. tax rate reduction enacted in July 2013.

In addition to the item noted above, the increase in the effective tax rate for the nine months ended September 30, 2013, reflects the absence of a favorable non-cash tax adjustment of \$203 million, recorded in the first quarter of 2012, related to the conclusion of the IRS's examination of the Company's 2006 - 2008 tax years. The increase also reflects the absence of a favorable non-cash income adjustment of \$168 million, recorded in the second quarter of 2012, related to the release of valuation allowances resulting from internal legal entity reorganizations. Those items were partially offset by a favorable tax impact of \$95 million associated with the legislative corporate tax extenders enacted in January 2013, as part of the American Taxpayer Relief Act of 2012. That impact, related to the 2012 retroactive effect of the law, was recorded in the first quarter of 2013.

We anticipate that our full year annual effective income tax rate in 2013 will be approximately 29%, absent one-time adjustments.

## Net Income Attributable to Common Shareowners from Continuing Operations

(Dollars in millions, except per share amounts)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Income from continuing operations attributable to common shareowners	\$1,415	\$1,247	\$4,237	\$3,902
Diluted earnings per share from continuing operations	\$1.55	\$1.37	\$4.64	\$4.31

Net income attributable to common shareowners from continuing operations for the third quarter of 2013 includes restructuring charges, net of tax benefit, of \$69 million. The net effect on diluted earnings per share of restructuring charges was \$0.08 per share. The results for the third quarter of 2012 included a net \$0.09 per share benefit from

non-recurring items, offset by \$0.09 per share of restructuring charges. The impact of foreign currency translation and hedging generated a favorable effect of \$0.01 per diluted share on our operational performance in the third quarter of 2013.

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Net income attributable to common shareowners from continuing operations for the first nine months of 2013 includes restructuring charges, net of tax benefit, of \$230 million as well as a benefit from non-recurring items, net of tax expense, of \$307 million. The net benefit on diluted earnings per share of non-recurring items in excess of restructuring charges was \$0.08 per share. The results for the first nine months of 2012 included a net \$0.49 per share benefit from non-recurring items, partially offset by \$0.25 per share of restructuring charges. Foreign currency translation and hedging generated an adverse effect of \$0.02 per diluted share on our operational performance in the first nine months of 2013.

## Net Gain (Loss) Attributable to Common Shareowners from Discontinued Operations

(Dollars in millions, except per share amounts)	Quarter Ended September		Nine Months Ended	
	30, 2013	2012	September 30, 2013	2012
Net gain (loss) attributable to common shareowners from discontinued operations	\$ 17	\$ 168	\$ 21	\$(829)
Diluted earnings (loss) per share from discontinued operations	\$0.02	\$0.19	\$0.02	\$(0.92)

Diluted earnings per share from discontinued operations for the third quarter of 2013 includes \$0.02 earnings per share primarily reflecting favorable income tax adjustments related to the revaluation of a deferred tax liability initially recorded during the quarter ended December 31, 2012 on the planned repatriation of the non-U.S. proceeds from the sale of the Hamilton Sundstrand Industrial businesses. Diluted loss per share from discontinued operations for the third quarter of 2012 includes \$0.14 per share of favorable income tax adjustments related to the reversal of a portion of the deferred tax liability initially recorded during the quarter ended March 31, 2012 on the existing difference between the expected accounting versus tax gain on the planned disposition of the legacy Hamilton Sundstrand Industrial businesses, which was completed in December 2012.

Diluted earnings per share from discontinued operations for the first nine months of 2013 includes \$0.03 earnings per share from the results of operations of the discontinued entities offset by \$0.01 loss per share on the sales of Rocketdyne and UTC Power. Diluted loss per share from discontinued operations for the first nine months of 2012 includes \$0.82 per share of goodwill impairment charges related to Rocketdyne and Clipper and net asset impairment charges at UTC Power, and \$0.12 per share unfavorable income tax adjustments related to the recognition of a deferred tax liability on the existing difference between the accounting versus tax gain on the planned disposition of Hamilton Sundstrand's Industrial businesses. A \$0.09 per share benefit from the results of operations of discontinued entities was partially offset by the \$0.07 per share Clipper warranty charge.

## Restructuring Costs

We recorded net pre-tax restructuring costs totaling \$343 million and \$360 million in the first nine months of 2013 and 2012, respectively, for new and ongoing restructuring actions as follows:

(Dollars in millions)	Nine Months Ended September	
	30, 2013	2012
Otis	\$68	\$105
UTC Climate, Controls & Security	66	98
Pratt & Whitney	122	57
UTC Aerospace Systems	65	40
Sikorsky	25	18
Eliminations and other	(1)	) 14
Restructuring costs recorded within continuing operations	345	332
Restructuring costs recorded within discontinued operations	(2)	) 28
Total	\$343	\$360

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The net costs for the first nine months of 2013 and 2012 were recorded as follows:

(Dollars in millions)	Nine Months Ended September 30,	
	2013	2012
Cost of sales	\$145	\$191
Selling, general and administrative	199	141
Other income, net	1	—
Restructuring costs recorded within continuing operations	345	332
Restructuring costs recorded within discontinued operations	(2	) 28
Total	\$343	\$360

As described below, the charges incurred in the first nine months of 2013 primarily relate to actions initiated during 2013 and 2012, while the charges incurred in the first nine months of 2012 primarily relate to actions initiated during 2012 and 2011.

2013 Actions. During the nine months ended September 30, 2013, we initiated restructuring actions relating to ongoing cost reduction efforts, including workforce reductions and the consolidation of field operations. We incurred net pre-tax restructuring costs totaling \$298 million as follows:

(Dollars in millions)	Nine Months Ended September 30, 2013
Otis	\$53
UTC Climate, Controls & Security	60
Pratt & Whitney	121
UTC Aerospace Systems	47
Sikorsky	18
Eliminations and other	(1 )
Restructuring costs recorded within continuing operations	298
Restructuring costs recorded within discontinued operations	—
Total	\$298

The following table summarizes the charges associated with the 2013 restructuring actions:

(Dollars in millions)	Nine Months Ended September 30, 2013
Cost of sales	\$100
Selling, general and administrative	198
Restructuring costs recorded within continuing operations	298
Restructuring costs recorded within discontinued operations	—
Total	\$298

The following table summarizes the charges associated with the 2013 restructuring actions by cost type:

(Dollars in millions)	Nine Months Ended September 30, 2013
Severance	\$271
Asset write-downs	13
Facility exit, lease termination and other costs	14
Restructuring costs recorded within continuing operations	298
Restructuring costs recorded within discontinued operations	—
Total	\$298

We expect the 2013 actions that were initiated in the first nine months to result in net workforce reductions of approximately 3,600 hourly and salaried employees, the exiting of approximately 600 thousand net square feet and the

disposal of assets associated with exited facilities. As of September 30, 2013, we have completed net workforce reductions of approximately 2,400 employees and have exited approximately 5 thousand net square feet. We are targeting the majority of the remaining workforce and all facility related cost reduction actions for completion during 2013 and 2014. Approximately 75% of the total pre-tax charge will require cash payments, which we expect to fund with cash generated from operations. During the nine months ended September 30, 2013, we had cash outflows of approximately \$132 million related to the 2013 actions. We

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expect to incur additional restructuring costs of \$43 million to complete these actions. We expect recurring pre-tax savings to increase over the two-year period subsequent to initiating these actions to approximately \$300 million annually.

2012 Actions. During the nine months ended September 30, 2013 and 2012, we recorded net pre-tax restructuring costs totaling \$44 million and \$310 million, respectively, for restructuring actions initiated in 2012. The 2012 actions relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of field operations. We incurred net pre-tax restructuring costs for the nine months ended September 30, 2013 and 2012 as follows:

(Dollars in millions)	Nine Months Ended September 30,	
	2013	2012
Otis	\$4	\$92
UTC Climate, Controls & Security	14	73
Pratt & Whitney	1	52
UTC Aerospace Systems	18	41
Sikorsky	7	11
Eliminations and other	—	14
Restructuring costs recorded within continuing operations	44	283
Restructuring costs recorded within discontinued operations	—	27
Total	\$44	\$310

The following table summarizes the charges for the nine months ended September 30, 2013 and 2012 associated with the 2012 restructuring actions:

(Dollars in millions)	Nine Months Ended September 30,	
	2013	2012
Cost of sales	\$40	\$166
Selling, general and administrative	3	117
Other income, net	1	—
Restructuring costs recorded within continuing operations	44	283
Restructuring costs recorded within discontinued operations	—	27
Total	\$44	\$310

The following table summarizes the charges for the nine months ended September 30, 2013 and 2012 associated with the 2012 restructuring actions by cost type:

(Dollars in millions)	Nine Months Ended September 30,	
	2013	2012
Severance	\$14	\$237
Asset write-downs	1	14
Facility exit, lease termination and other costs	29	32
Restructuring costs recorded within continuing operations	44	283
Restructuring costs recorded within discontinued operations	—	27
Total	\$44	\$310

We expect the 2012 actions to result in net workforce reductions of approximately 7,300 hourly and salaried employees, the exiting of approximately 3.6 million net square feet of facilities and the disposal of assets associated with the exited facilities. As of September 30, 2013, we completed net workforce reductions of approximately 6,100 employees and exited approximately 1.6 million net square feet of facilities. We are targeting the majority of the remaining workforce and facility related cost reduction actions for completion during 2013 and 2014. Approximately 80% of the total pre-tax charge will require cash payments, which we expect to fund with cash generated from operations. During the nine months ended September 30, 2013, we had cash outflows of approximately \$220 million related to the 2012 actions. We expect to incur additional restructuring costs of \$40 million to complete these actions.

We expect recurring pre-tax savings to increase over the two-year period subsequent to initiating these actions to approximately \$550 million annually.

Additional 2013 Actions. We expect to initiate additional restructuring actions during the remainder of 2013. Including trailing costs related to previously initiated actions, we now expect full year 2013 restructuring costs from continuing operations of approximately \$500 million, including the \$343 million of charges incurred during the first nine months of 2013. The expected adverse impact on full year earnings in 2013 from anticipated restructuring costs is expected to be offset by the beneficial



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impact from net non-recurring items. Except for those actions described above, no specific plans for significant other actions have been finalized at this time.

## Segment Review

Segments are generally based on the management structure of the businesses and the grouping of similar operating companies, where each management organization has general operating autonomy over diversified products and services. Subsequent to the completion of our acquisition of Goodrich on July 26, 2012, we combined the Goodrich businesses with the legacy Hamilton Sundstrand businesses to form the UTC Aerospace Systems segment.

Adjustments to reconcile segment reporting to the consolidated results for the quarters and nine months ended September 30, 2013 and 2012 are included in "Eliminations and other" below, which also includes certain smaller subsidiaries. We attempt to quantify material cited factors within our discussion of the results of each segment whenever those factors are determinable. However, in some instances, the factors we cite within our segment discussion are based upon input measures or qualitative information that does not lend itself to quantification when discussed in the context of the financial results measured on an output basis and are not, therefore, quantified in the below discussions.

## Commercial Businesses

Our commercial businesses generally serve customers in the worldwide commercial and residential property industries, although UTC Climate, Controls & Security also serves customers in the commercial and transport refrigeration industries. Sales in the commercial businesses are influenced by a number of external factors, including fluctuations in residential and commercial construction activity, regulatory changes, interest rates, labor costs, foreign currency exchange rates, customer attrition, raw material and energy costs, credit markets and other global and political factors. UTC Climate, Controls & Security's financial performance can also be influenced by production and utilization of transport equipment, and, in the case of its residential business, weather conditions. To ensure adequate supply of products in the distribution channel, UTC Climate, Controls & Security customarily offers its customers incentives to purchase products. The principal incentive program provides reimbursements to distributors for offering promotional pricing on UTC Climate, Controls & Security products. We account for incentive payments made as a reduction to sales.

Global commercial heating, ventilation, and air conditioning (HVAC) orders increased 10% in the third quarter with growth in Asia and Europe. North American residential HVAC orders increased 7% in the third quarter of 2013, due largely to an improving housing market. Transicold orders increased approximately 70% in the third quarter of 2013 due to order growth in the container business as the shipping container market has recovered.

Within the Otis segment, new equipment orders increased 4% in the third quarter of 2013 with growth in China (15%) and the Americas (13%). New equipment orders declined in Europe (6%) with growth in Russia and Germany more than offset by a decline in the United Kingdom due to the absence of a major contract award in the third quarter of 2012. Otis continues to face pricing pressures, primarily in the European service business and in the new equipment business in China.

Summary performance for each of the commercial businesses for the quarters ended September 30, 2013 and 2012 was as follows:

(Dollars in millions)	Otis			UTC Climate, Controls & Security			
	2013	2012	Change	2013	2012	Change	
Net Sales	\$3,188	\$3,054	4	% \$4,237	\$4,259	(1	)%
Cost of Sales	2,114	2,034	4	% 2,981	3,035	(2	)%
	1,074	1,020	5	% 1,256	1,224	3	%
Operating Expenses and Other	393	369	7	% 560	592	(5	)%
Operating Profits	\$681	\$651	5	% \$696	\$632	10	%
Operating Profit Margins	21.4	% 21.3	%	16.4	% 14.8	%	

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Summary performance for each of the commercial businesses for the nine months ended September 30, 2013 and 2012 was as follows:

(Dollars in millions)	Otis			UTC Climate, Controls & Security			
	2013	2012	Change	2013	2012	Change	
Net Sales	\$9,140	\$8,851	3	% \$12,617	\$12,943	(3	)%
Cost of Sales	6,088	5,848	4	% 8,941	9,302	(4	)%
	3,052	3,003	2	% 3,676	3,641	1	%
Operating Expenses and Other	1,146	1,135	1	% 1,708	1,676	2	%
Operating Profits	\$1,906	\$1,868	2	% \$1,968	\$1,965	—	
Operating Profit Margins	20.9	% 21.1	%	15.6	% 15.2	%	

Otis –

Quarter Ended September 30, 2013 Compared with Quarter Ended September 30, 2012

	Factors contributing to total % Change					
	Organic / Operational	FX Translation	Acquisitions / Divestitures, net	Restructuring Costs	Other	
Net Sales	4	% —	—	—	—	
Cost of Sales	4	% —	1	% (1	)% —	
Operating Profits	1	% 1	% —	4	% (1	)%

The organic sales increase in the quarter (4%) is due to higher new equipment sales (3%) primarily in China, the U.S., Russia and Brazil partially offset by a decline in South Korea. Higher service sales (1%) in the U.S. and Asia were partially offset by declines in Southern Europe.

The operational profit increase in the quarter (1%) was driven by higher service contribution (3%) primarily due to higher repair and modernization volume and improved margins, partially offset by higher overhead expenses (2%) due to continued investments in emerging markets. The benefits of higher new equipment volume and lower commodity costs (combined 3%) were partially offset by costs associated with the factory transformation in North America.

Nine Months Ended September 30, 2013 Compared with Nine Months Ended September 30, 2012

	Factors contributing to total % Change					
	Organic / Operational	FX Translation	Acquisitions / Divestitures, net	Restructuring Costs	Other	
Net Sales	3	% —	—	—	—	
Cost of Sales	5	% —	—	(1	)% —	
Operating Profits	(1	)%	—	2	% 1	%

The organic sales increase in the first nine months (3%) is due to higher new equipment sales (3%) primarily in China, the U.S. and Russia partially offset by declines in South Korea and Hong Kong. Service sales increases in the U.S., Asia and Brazil (combined 1%) were partially offset by declines in Southern Europe.

The operational profit decrease in the first nine months (1%) is due to lower service contribution (1%) principally due to continued pricing pressures, most notably in Europe. New equipment contribution increased (1%) due to higher new equipment volume and the impact of lower commodity costs, partially offset by costs associated with the factory transformation in North America. Overhead expenses increased (1%) due to continued investments in emerging markets.

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## UTC Climate, Controls &amp; Security –

Quarter Ended September 30, 2013 Compared with Quarter Ended September 30, 2012

	Factors contributing to total % Change					
	Organic / Operational	FX Translation	Acquisitions / Divestitures, net	Restructuring Costs	Other	
Net Sales	2	% —	(3	)%	—	
Cost of Sales	—	1	% (3	)%	—	
Operating Profits	12	% —	(1	)%	(1	)%

Organic sales increased (2%) reflecting growth in the transport refrigeration business (2%) and in the Americas (1%) driven by U.S. residential HVAC, partially offset by weakness in Europe and Australia (combined 1%). The decrease in "Acquisitions and divestitures, net" (3%) reflects the year over year impact of divestitures completed in the preceding twelve months associated with UTC Climate, Controls & Security's ongoing portfolio transformation.

The 12% operational profit increase was driven largely by the benefits of restructuring actions and cost productivity (combined 6%), positive volume, mix, and pricing (combined 4%) and lower commodities costs (2%).

Nine Months Ended September 30, 2013 Compared with Nine Months Ended September 30, 2012

	Factors contributing to total % Change					
	Organic / Operational	FX Translation	Acquisitions / Divestitures, net	Restructuring Costs	Other	
Net Sales	—	—	(3	)%	—	
Cost of Sales	(1	)%	—	(3	)%	—
Operating Profits	8	% —	—	2	% (10	)%

Organic sales were flat reflecting growth in the Americas (1%), driven by the U.S. residential HVAC, which was offset by lower volumes in Europe (1%) resulting from weak markets in the region. The decrease in "Acquisitions and divestitures, net" (3%) reflects the year over year impact of divestitures completed in the preceding twelve months associated with UTC Climate, Controls & Security's ongoing portfolio transformation.

The 8% operational profit increase was driven largely by the benefits of restructuring actions and cost productivity (combined 5%), favorable commodity costs (2%) and net positive volume, mix and price (combined 1%). The decrease in "Other" primarily reflects the net year-over-year impact of transactions associated with ongoing portfolio transformation activities. This includes an approximate \$38 million net gain in the first quarter of 2013 from the sale of a business in Hong Kong. Prior year portfolio transformation included approximately \$215 million of gains primarily from the sale of a majority interest in a manufacturing and distribution joint venture in Thailand, and an approximately \$142 million gain from the sale of a controlling interest in the Canadian distribution business. These gains were partially offset by approximately \$103 million of impairment charges for assets which had been classified as held for sale and by a \$32 million loss on the disposition of the U.S. fire and security branch operations.

## Aerospace Businesses

Effective July 1, 2012, we transferred the auxiliary power unit business (APU) of the UTC Aerospace Systems business segment to the Pratt & Whitney business segment. The APU business designs and manufactures a variety of products for commercial and military aircraft. Annual sales for the APU business are approximately \$600 million. The reclassification has been made prospectively; prior year segment results have not been restated for the transfer of the business.

The aerospace businesses serve both commercial and government aerospace customers. In addition, Pratt & Whitney also serves customers in the industrial markets. Revenue passenger miles (RPMs), U.S. Government military and space spending, and the general economic health of airline carriers are all barometers for our aerospace businesses. Performance in the general aviation sector is closely tied to the overall health of the economy and is positively correlated to corporate profits.

The commercial airline industry has remained generally strong for the last three years. Airline traffic, as measured by RPMs, has grown 5.1% through the first eight months of 2013. Airlines generally remain profitable and are forecasted to earn \$11.7 billion in 2013. Nevertheless, high fuel prices continue to challenge the airlines to consider the need for more fuel efficient aircraft. Pratt & Whitney continues to invest in engineering and development of five separate

geared turbofan

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platforms to meet demand for new engines which are fuel efficient and have reduced noise levels and exhaust emissions. Commercial aerospace spares orders at Pratt & Whitney's large commercial engine business increased 17% in the third quarter of 2013 as compared to the same period of 2012. Defense spending has declined during 2013, and we expect U.S. Government deficit reduction measures to continue to adversely affect our military aerospace businesses into 2014.

We record changes in contract estimates using the cumulative catch-up method in accordance with the Revenue Recognition Topic of the FASB Accounting Standards Codification. The net increase in operating profit as a result of significant changes in aerospace contract estimates was \$89 million and \$158 million in the quarter and nine months ended September 30, 2013, respectively.

Summary performance for each of the aerospace businesses for the quarters ended September 30, 2013 and 2012 was as follows:

(Dollars in millions)	Pratt & Whitney			UTC Aerospace Systems			Sikorsky		
	2013	2012	Change	2013	2012	Change	2013	2012	Change
Net Sales	\$3,386	\$3,574	(5 )%	\$3,312	\$2,670	24 %	\$1,541	\$1,649	(7 )%
Cost of Sales	2,513	2,767	(9 )%	2,348	1,970	19 %	1,258	1,346	(7 )%
	873	807	8 %	964	700	38 %	283	303	(7 )%
Operating Expenses and Other	434	398	9 %	463	429	8 %	124	100	24 %
Operating Profits	\$439	\$409	7 %	\$501	\$271	85 %	\$159	\$203	(22 )%
Operating Profit Margins	13.0 %	11.4 %		15.1 %	10.1 %		10.3 %	12.3 %	

Summary performance for each of the aerospace businesses for the nine months ended September 30, 2013 and 2012 was as follows:

(Dollars in millions)	Pratt & Whitney			UTC Aerospace Systems			Sikorsky		
	2013	2012	Change	2013	2012	Change	2013	2012	Change
Net Sales	\$10,412	\$10,073	3 %	\$9,896	\$5,160	92 %	\$4,356	\$4,615	(6 )%
Cost of Sales	7,947	7,599	5 %	7,042	3,745	88 %	3,571	3,725	(4 )%
	2,465	2,474	—	2,854	1,415	102 %	785	890	(12 )%
Operating Expenses and Other	1,053	1,249	(16 )%	1,353	735	84 %	380	338	12 %
Operating Profits	\$1,412	\$1,225	15 %	\$1,501	\$680	121 %	\$405	\$552	(27 )%
Operating Profit Margins	13.6 %	12.2 %		15.2 %	13.2 %		9.3 %	12.0 %	

## Pratt &amp; Whitney –

Quarter Ended September 30, 2013 Compared with Quarter Ended September 30, 2012

	Factors contributing to total % Change				
	Organic / Operational	FX Translation*	Acquisitions / Divestitures, net	Restructuring Costs	Other
Net Sales	—	—	(5 )%	—	—
Cost of Sales	(4 )%	—	(5 )%	—	—
Operating Profits	21 %	1 %	(6 )%	(5 )%	(4 )%

Organic sales remain unchanged for the quarter as higher sales volume within the commercial (4%) and Pratt & Whitney Canada (P&WC) (1%) businesses were offset by lower military OEM sales volume (5%) due in part to the completion of the F119 program at the end of 2012. The decrease in "Acquisitions and divestitures, net" (5%) reflects the divestiture of Pratt & Whitney Power Systems.

The operational profit increase (21%) is due to the change in sales mix noted above (16%), favorable military contract performance (8%), higher income from licensing agreements (5%), profits from industrial turbines and related development contracts (4%), favorable mix within the Aeropower business (3%), and benefits from restructuring actions. This was partially offset by the absence of a gain as a result of the effective settlement of a pre-existing contractual dispute in connection with the acquisition of Goodrich in 2012 (11%) and additional pension expense during the quarter (4%). The decrease in "Acquisitions and divestitures, net" (6%) reflects the divestiture of Pratt & Whitney Power Systems. "Other" reflects a gain on the sale of intellectual property (3%), offset by a fair value adjustment to a joint venture investment (6%).

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Nine Months Ended September 30, 2013 Compared with Nine Months Ended September 30, 2012

	Factors contributing to total % Change				
	Organic / Operational	FX Translation*	Acquisitions / Divestitures, net	Restructuring Costs	Other
Net Sales	(2 )%	(1 )%	6 %	—	—
Cost of Sales	(2 )%	—	7 %	—	—
Operating Profits	7 %	(2 )%	5 %	(5 )%	10 %

As discussed further in the “Business Overview” and “Results of Operations” sections of Management’s Discussion and Analysis of Financial Condition and Results of Operations, for Pratt & Whitney only, the transactional impact of foreign exchange hedging at P&WC has been netted against the translational foreign exchange impact for

\*presentation purposes in the above tables. For all other segments, these foreign exchange transactional impacts are included within the organic/operational caption in their respective tables. Due to its potential significance to Pratt & Whitney’s overall operating results, we believe it is useful to segregate the foreign exchange transactional impact in order to clearly identify the underlying financial performance.

The organic sales decrease (2%) was primarily driven by lower military OEM sales (5%), partially offset by higher military spares and development program sales (combined 2%). Sales increased (6%) as a result of the consolidation of IAE and the transfer of the AeroPower business to Pratt & Whitney from UTC Aerospace Systems, partially offset by the divestiture of Pratt & Whitney Power Systems.

The operational profit increase (7%) was driven by lower research and development spending (4%), favorable commercial aftermarket mix (3%), income from licensing agreements (1%), and profits from industrial turbines and related development contracts (5%), partially offset by the change in military sales mix noted above (2%), and the absence of a gain as a result of the effective settlement of a pre-existing contractual dispute in connection with the acquisition of Goodrich in 2012 (4%). Restructuring savings were largely offset by higher pension costs. The increase in “Acquisitions and divestitures, net” (5%) reflects the consolidations of IAE and the transfer of the AeroPower business to Pratt & Whitney from UTC Aerospace Systems, partially offset by the divestiture of Pratt & Whitney Power Systems. “Other” reflects a gain on the sale of Pratt & Whitney Power Systems (16%) and a gain on the sale of intellectual property (1%), offset by a fair value adjustment of a joint venture investment (2%), and the absence of gains on the sale of intellectual property (1%), on the sale of an equity interest in a venture (2%), and on the acquisition of a controlling interest in IAE (2%) in 2012.

UTC Aerospace Systems –

Quarter Ended September 30, 2013 Compared with Quarter Ended September 30, 2012

	Factors contributing to total % Change				
	Organic / Operational	FX Translation	Acquisitions / Divestitures, net	Restructuring Costs	Other
Net Sales	2 %	—	22 %	—	—
Cost of Sales	(3 )%	—	22 %	—	—
Operating Profits	59 %	—	22 %	4 %	—

The organic sales growth (2%) primarily reflects an increase in commercial aerospace OEM sales volume (3%) and higher commercial and military aftermarket volumes (1%), partially offset by lower military OEM volumes (1%). Operational cost-of-sales declined (3%) due to the absence of inventory step-up amortization (8%) related to the Goodrich acquisition in 2012, partially offset by the sales volume increases.

The operational profit increase (59%) primarily reflects the absence of amortization of inventory fair-value adjustments (55%) related to the Goodrich acquisition, lower selling, general and administrative expenses (8%) including the impact synergies from the integration of Goodrich, and lower research and development costs (7%), partially offset by lower profits on OEM sales (13%) for military related products. “Acquisitions and Divestitures, net” is principally a result of the acquisition of Goodrich.





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Nine Months Ended September 30, 2013 Compared with Nine Months Ended September 30, 2012

	Factors contributing to total % Change				
	Organic / Operational	FX Translation	Acquisitions / Divestitures, net	Restructuring Costs	Other
Net Sales	2	% —	90	% —	—
Cost of Sales	—	—	88	% —	—
Operating Profits	21	% —	102	% (3	)% 1

The organic sales growth (2%) primarily reflects an increase in commercial aerospace OEM sales volume (4%) partially offset by lower military OEM volumes (1%). Operational cost-of-sales was flat versus the prior year due to the absence of inventory step-up amortization (4%) related to the Goodrich acquisition in 2012, partially offset by volume increases.

The operational profit increase (21%) primarily reflects the absence of amortization of inventory fair-value adjustments (22%), lower selling, general and administrative expenses (5%) primarily from synergies on the integration of Goodrich, lower research and development costs (4%), and higher licensing income (2%), partially offset by lower profits on OEM sales (12%) primarily attributable to adverse mix for military related products. “Acquisitions and Divestitures, net” is principally a result of the acquisition of Goodrich.

Sikorsky –

Quarter Ended September 30, 2013 Compared with Quarter Ended September 30, 2012

	Factors contributing to total % Change				
	Organic / Operational	FX Translation	Acquisitions / Divestitures, net	Restructuring Costs	Other
Net Sales	(7	)% —	—	—	—
Cost of Sales	(7	)% —	—	—	—
Operating Profits	(22	)% —	—	—	—

The organic sales decrease (7%) reflects decreased international military sales (5%), lower volume on customer funded development programs (2%), decreased U.S. Government sales (6%) primarily due to lower Naval Hawk deliveries, and decreased aftermarket sales (4%) due primarily to lower military spares activity. These decreases were partially offset by increased commercial aircraft sales (10%) due to higher S-92 sales and S-76D aircraft volume. The operational profit decrease (22%) reflects lower profitability from U.S. Government contracts (22%) due to lower aircraft volume, increased selling, general and administrative expenses (8%) due largely to higher pension and export compliance costs, and higher research and development costs (5%), and lower profits from customer funded development programs (7%). These decreases were partially offset by increased profitability from commercial operations (10%) due to increased S-92 aircraft sales and completions volume and increased profitability in international military (9%) due to favorable product mix.

Nine Months Ended September 30, 2013 Compared with Nine Months Ended September 30, 2012

	Factors contributing to total % Change				
	Organic / Operational	FX Translation	Acquisitions / Divestitures, net	Restructuring Costs	Other
Net Sales	(6	)% —	—	—	—
Cost of Sales	(4	)% —	—	—	—
Operating Profits	(25	)% —	—	(2	)% —

The organic sales decrease (6%) reflects decreased international military sales (5%), decreased U.S. Government sales (3%) due to lower volume and unfavorable Multi-year 8 pricing provisions, lower volume on customer funded development programs (1%) and decreased aftermarket sales (6%) due to lower military spares activity. These decreases were partially offset by increased commercial aircraft sales (9%) due to increased S-92 aircraft sales volume and completion services and higher S-76D aircraft volume.

The operational profit decrease (25%) reflects lower profitability from the U.S. Government (23%) due to lower aircraft volume and Multi-year 8 pricing and reset provisions, lower profitability in aftermarket (7%) due to lower

military spares

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volume and increased selling, general and administrative expenses (8%) due largely to increased pension and export compliance costs. These decreases were partially offset by increased profitability from commercial operations (13%) due to increased S-92 aircraft sales and completions volume.

Eliminations and other –

(Dollars in millions)	Net Sales		Operating Profits		
	Quarter Ended September 30,		Quarter Ended September 30,		
	2013	2012	2013	2012	
Eliminations and other	\$(202	) \$(164	) \$7	\$(22	)
General corporate expenses	—	—	(117	) (103	)
(Dollars in millions)	Net Sales		Operating Profits		
	Nine Months Ended September		Nine Months Ended September		
	30,	30,	30,	30,	
	2013	2012	2013	2012	
Eliminations and other	\$(554	) \$(377	) \$32	\$(54	)
General corporate expenses	—	—	(345	) (303	)

Eliminations and other reflects the elimination of sales, other income and operating profit transacted between segments, as well as the operating results of certain smaller businesses. The year-over-year change in sales for the quarter and nine months ended September 30, 2013, as compared with the same periods of 2012, reflects an increase in the amount of inter-segment sales eliminations, due in part to the acquisition of Goodrich. The year-over-year change in operating profit for the third quarter of 2013, as compared with the same period of 2012, primarily reflects lower acquisitions and divestiture costs of \$34 million. Similarly, the year-over-year change in operating profit for the nine months ended September 30, 2013, as compared with the same period of 2012, reflects lower acquisitions and divestiture costs of \$70 million.

## LIQUIDITY AND FINANCIAL CONDITION

(Dollars in millions)	September 30,	December 31,	September 30,	
	2013	2012	2012	
Cash and cash equivalents	\$4,621	\$4,819	\$6,242	
Total debt	21,188	23,221	28,700	
Net debt (total debt less cash and cash equivalents)	16,567	18,402	22,458	
Total equity	29,919	27,069	26,091	
Total capitalization (debt plus equity)	51,107	50,290	54,791	
Net capitalization (debt plus equity less cash and cash equivalents)	46,486	45,471	48,549	
Debt to total capitalization	41	% 46	% 52	%
Net debt to net capitalization	36	% 40	% 46	%

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing and financing activities. Our principal source of liquidity is operating cash flows of continuing operations, which, after netting out capital expenditures, we target to equal or exceed net income attributable to common shareowners from continuing operations. For the full year of 2013, we expect operating cash flows of continuing operations less capital expenditures to be essentially equal to net income attributable to common shareowners from continuing operations. In addition to operating cash flows, other significant factors that affect our overall management of liquidity include: capital expenditures, customer financing requirements, investments in businesses, dividends, common stock repurchases, pension funding, access to the commercial paper markets, adequacy of available bank lines of credit, and the ability to attract long-term capital at satisfactory terms.

Improvement in the global economy remains uneven. In the U.S., economic indicators have generally been strengthening, but U.S. Government spending, the recent political impasse in the U.S. and the impact of sequestration have increased market uncertainties. There continues to be fiscal uncertainty in Europe, while emerging markets have

shown more moderate levels of growth. In light of these circumstances, we continue to assess our current business and closely monitor the impact of global

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economic conditions on our customers and suppliers. We have determined that these circumstances have not had a significant impact on our financial position, results of operations or liquidity during the first nine months of 2013. Our domestic pension funds experienced a positive return on assets of 6.02% during the first nine months of 2013. Approximately 88% of these domestic pension plans' funds are invested in readily-liquid investments, including equity, fixed income, asset-backed receivables and structured products. The balance of these domestic pension plans' funds (12%) is invested in less-liquid but market-valued investments, including real estate and private equity. Across our global pension plans, the continued recognition of prior pension losses and the impact of a lower discount rate, partially offset by additional funding, the sunset of the final average earning (FAE) provision for the legacy Goodrich salaried employees' plan, and the positive returns experienced during 2012, are expected to result in increased pension expense in 2013 of approximately \$225 million as compared to 2012.

Our strong debt ratings and financial position have historically enabled us to issue long-term debt at favorable market rates, including our issuance of \$9.8 billion of long-term debt in June 2012. Our ability to obtain debt financing at comparable risk-based interest rates is partly a function of our existing debt-to-total-capitalization level as well as our current credit standing.

The purchase price of Goodrich of \$127.50 per share in cash equated to a total enterprise value of \$18.3 billion, including \$1.9 billion in net debt assumed. To finance the cash consideration for the Goodrich acquisition and pay related fees, expenses and other amounts due and payable as a result of the acquisition, we utilized the net proceeds of approximately \$9.6 billion from the \$9.8 billion of long-term notes issued on June 1, 2012, the net proceeds of approximately \$1.1 billion from the equity units issued on June 18, 2012, \$3.2 billion from the issuance of commercial paper during July 2012 and \$2.0 billion of proceeds borrowed on July 26, 2012 pursuant to our April 24, 2012 term loan credit agreement. We prepaid all of the \$2.0 billion borrowed pursuant to this term loan credit agreement in November and December 2012. For the remainder of the cash consideration, we utilized approximately \$0.5 billion of cash and cash equivalents generated from operating activities.

On May 7, 2013, we commenced cash tender offers for two series of outstanding notes issued by Goodrich and the 2015 UTC 1.200% Senior Notes. These offers expired on June 4, 2013. Approximately \$874.2 million in aggregate principal amount of these outstanding notes were tendered pursuant to these tender offers, including notes validly tendered prior to an early tender date in May 2013 and thereby eligible for an early tender premium. Total payments under these tender offers were approximately \$935 million including principal, premium and interest. On June 24, 2013 we redeemed all remaining outstanding 2015 UTC 1.200% Senior Notes, representing \$327 million in aggregate principal, under our redemption notice issued on May 24, 2013.

On August 23, 2013, we redeemed all remaining outstanding 2019 Goodrich 6.125% notes, representing \$202 million in aggregate principal, under our redemption notice issued on July 24, 2013. On September 27, 2013, we redeemed all remaining outstanding 2021 Goodrich 3.600% notes, representing \$294 million in aggregate principal, under our redemption notice issued on August 28, 2013.

We expect full year 2013 debt repayments to be approximately \$2.5 billion. We expect full year 2014 debt repayments to be approximately \$1 billion.

On December 6, 2012, we commenced cash tender offers for six series of outstanding notes originally issued by Goodrich. These offers expired on January 7, 2013. Approximately \$635 million in aggregate principal amount of the outstanding Goodrich notes were tendered pursuant to these tender offers prior to an early tender date in December 2012 and, as a result, were eligible for an early tender premium. Additionally, approximately \$2 million in aggregate principal amount of the outstanding Goodrich notes not eligible for an early tender premium were tendered prior to the January 7, 2013 expiration date. Total payments under these tender offers were approximately \$790 million including principal, premium and interest.

In 2012, the Board approved plans for the divestiture of a number of non-core businesses. On December 13, 2012, we completed the sale of the legacy Hamilton Sundstrand Industrial businesses to a private limited liability company formed by affiliates of BC Partners and affiliates of The Carlyle Group for \$3.4 billion. On February 12, 2013 we completed the disposition of our UTC Power unit to ClearEdge Power. In connection with regulatory approval of the Goodrich acquisition, we completed the sale of the Goodrich pumps and engine controls business to Triumph Group, Inc. and the sale of the Goodrich electric power systems business to Safran S.A. for combined proceeds of

approximately \$600 million. We completed these transactions on March 18, 2013 and March 26, 2013, respectively. On May 17, 2013, we completed the sale of our Pratt & Whitney Power Systems business to MHI and entered into a long-term engineering and manufacturing agreement with MHI. Cash received in connection with the sale was \$432 million, excluding contingent consideration valued at approximately \$200 million. On June 14, 2013, we completed the sale of Rocketdyne to GenCorp Inc. Cash generated from these divestitures was used to repay debt incurred to finance the Goodrich acquisition.

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Tax payments related to discontinued operations were approximately \$604 million for the nine months ended September 30, 2013, inclusive of approximately \$91 million of tax benefit realized during the quarter ended September 30, 2013 reflecting the cash tax impact of transactions previously reported in discontinued operations. We do not expect remaining net tax payments related to these discontinued operations to be significant.

To manage the cash flow and liquidity impact of the Goodrich acquisition, we suspended share repurchases during 2012. In 2013, we resumed share repurchase activity and repurchased approximately \$1 billion of our common stock in the nine months ended September 30, 2013. We expect 2013 full year share repurchases to be approximately \$1.2 billion.

At September 30, 2013, we had revolving credit agreements with various banks permitting aggregate borrowings of up to \$4 billion pursuant to a \$2 billion revolving credit agreement and a \$2 billion multicurrency revolving credit agreement, both of which expire in November 2016. As of September 30, 2013, there were no borrowings under either of these revolving credit agreements. The undrawn portions of our revolving credit agreements are also available to serve as backup facilities for the issuance of commercial paper. As of September 30, 2013, our maximum commercial paper borrowing authority as set by our Board of Directors was \$4 billion. We use our commercial paper borrowings for general corporate purposes, including the funding of potential acquisitions and repurchases of our common stock. We continue to have access to the commercial paper markets and our existing credit facilities, and continue to expect strong generation of operating cash flows. While the impact of market volatility cannot be predicted, we believe we have sufficient operating flexibility, cash reserves and funding sources to maintain adequate amounts of liquidity and to meet our future operating cash needs.

Given our extensive international operations, most of our cash is denominated in foreign currencies. We manage our worldwide cash requirements by reviewing available funds among the many subsidiaries through which we conduct our business and the cost effectiveness with which those funds can be accessed. The repatriation of cash balances from certain of our subsidiaries could have adverse tax consequences or be subject to capital controls; however, those balances are generally available without legal restrictions to fund ordinary business operations. With few exceptions, U.S. income taxes have not been provided on undistributed earnings of international subsidiaries. Our intention is to reinvest these earnings permanently or to repatriate the earnings only when it is tax effective to do so.

On occasion, we are required to maintain cash deposits with certain banks with respect to contractual obligations related to acquisitions or divestitures or other legal obligations. As of September 30, 2013 and December 31, 2012, the amount of such restricted cash was approximately \$40 million and \$35 million, respectively, and is primarily included in current assets.

We believe our future operating cash flows will be sufficient to meet our future operating cash needs. Further, despite our higher debt levels incurred to finance the Goodrich acquisition in 2012, our ability to obtain debt or equity financing, as well as the availability under committed credit lines, provides additional potential sources of liquidity should they be required or appropriate.

## Cash Flow - Operating Activities of Continuing Operations

(Dollars in millions)	Nine Months Ended September 30,	
	2013	2012
Net cash flows provided by operating activities of continuing operations	\$4,891	\$4,651

Cash generated from operating activities of continuing operations in the first nine months of 2013 was \$240 million higher than the same period in 2012, driven primarily by higher income from continuing operations of \$360 million and non-cash depreciation and amortization charges of \$288 million. During the first nine months of 2013, the net increase in working capital resulted in a cash outflow of \$464 million, an increase of \$315 million over the first nine months of 2012. The 2013 cash outflows for working capital were primarily driven by increases in inventory to support deliveries and other contractual commitments at Pratt & Whitney and Sikorsky, contracts in progress at Otis and UTC Climate, Controls & Security, as well as increases in accounts receivable at Pratt & Whitney attributable to volume, partially offset by increases in accounts payable and accrued liabilities primarily at Pratt & Whitney, Otis and Sikorsky and lower levels of accounts receivable at UTC Climate, Controls & Security primarily attributable to seasonality.

The funded status of our defined benefit pension plans is dependent upon many factors, including returns on invested assets and the level of market interest rates. We can contribute cash or company stock to our plans at our discretion, subject to applicable regulations. Total cash contributions to our global defined benefit pension plans during the first nine months of 2013 and 2012 were \$72 million and \$233 million, respectively. We expect to make total cash contributions of approximately \$200 million to our global defined benefit pension plans in 2013. Our domestic pension plans are approximately 93% funded on a

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projected benefit obligation basis as of September 30, 2013 and we are not required to make additional contributions through the end of 2013. Contributions to our global defined benefit pension plans in 2013 are expected to meet or exceed the current funding requirements.

## Cash Flow - Investing Activities of Continuing Operations

	Nine Months Ended September 30,	
(Dollars in millions)	2013	2012
Net cash flows used in investing activities of continuing operations	\$(599	) \$(17,995

Cash flows used in investing activities of continuing operations for the nine months ended September 30, 2013 primarily reflect the net proceeds of approximately \$1.5 billion from business dispositions, offset by capital expenditures of approximately \$1.0 billion and payments related to our collaboration intangible assets and contractual rights to provide product on new aircraft platforms of approximately \$740 million. Business dispositions include the sale of the legacy Goodrich pumps and engine controls business to Triumph Group, Inc. on March 18, 2013, the sale of the legacy Goodrich electric power systems business to Safran S.A. on March 26, 2013, and the sale of Pratt & Whitney Power Systems to MHI on May 17, 2013.

In October 2011, Pratt & Whitney and Rolls-Royce announced their intention to form a new partnership to develop an engine to power future mid-size aircraft. In September 2013, following further discussion and because of the current regulatory environment, the parties have agreed not to proceed with the partnership. During the nine months ended September 30, 2013, we increased our collaboration intangible assets by approximately \$550 million, including net payments of \$335 million made under our 2012 agreement to acquire Rolls-Royce's collaboration interest in IAE and the September 2013 agreement not to proceed with the partnership with Rolls-Royce. Capital expenditures for the nine months ended September 30, 2013 primarily relate to investments in new programs at Pratt & Whitney, and continuing Goodrich integration activities at UTC Aerospace Systems.

Investments in businesses in the first nine months of 2013 included a number of small acquisitions, primarily in our commercial businesses. We expect total cash investments for acquisitions in 2013 to be approximately \$250 million, including acquisitions completed during the first nine months of 2013. However, actual acquisition spending may vary depending upon the timing, availability and appropriate value of acquisition opportunities.

Customer financing activities were a net use of cash of \$121 million for the first nine months of 2013 and a net source of cash of \$1 million for the first nine months of 2012. While we expect that 2013 customer financing activity will be a net use of funds, actual funding is subject to usage under existing customer financing commitments during the remainder of the year. We may also arrange for third-party investors to assume a portion of our commitments. We had commercial aerospace financing and other contractual commitments of approximately \$11.7 billion at September 30, 2013, including approximately \$6.4 billion of IAE commitments, related to commercial aircraft and certain contractual rights to provide product on new aircraft platforms, of which up to \$600 million may be required to be disbursed during the remainder of 2013. We had commercial aerospace financing and other contractual commitments of approximately \$10.9 billion at December 31, 2012.

## Cash Flow - Financing Activities of Continuing Operations

	Nine Months Ended September 30,	
(Dollars in millions)	2013	2012
Net cash flows (used in) provided by financing activities of continuing operations	\$(4,226	) \$13,986

The timing and levels of certain cash flow activities, such as acquisitions and repurchases of our stock, have resulted in the issuance of both long-term and short-term debt. In June 2012, we issued \$9.8 billion of long-term debt and \$1.1 billion of Equity Units, and in July 2012, we borrowed \$2.0 billion from our term loan credit agreement and issued \$3.2 billion of commercial paper primarily to partially finance our acquisition of Goodrich and pay related fees, expenses and other amounts due and payable by UTC as a result of the acquisition. Commercial paper borrowings and revolving credit facilities provide short-term liquidity to supplement operating cash flows and are used for general corporate purposes, including the funding of potential acquisitions and repurchases of our stock. We had approximately \$100 million of outstanding commercial paper at September 30, 2013.

At September 30, 2013, management had authority to repurchase approximately 53.1 million shares under the share repurchase program announced on February 4, 2013. Under this program, shares may be purchased on the open market, in privately negotiated transactions and under plans complying with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended. We may also reacquire shares outside of the program from time to time in connection with the surrender

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of shares to cover taxes on vesting of restricted stock. In connection with our acquisition of Goodrich, we suspended share repurchases during 2012. During the nine months ended September 30, 2013, we resumed repurchase activity and repurchased approximately 10.7 million shares of our common stock for approximately \$1 billion. Our share repurchase levels are influenced by various factors, including the level of other investing activities.

We paid dividends on Common Stock of \$0.535 per share in the first quarter of 2013 totaling \$465 million in the aggregate, \$0.535 per share in the second quarter of 2013 totaling \$465 million in the aggregate and \$0.535 per share in the third quarter of 2013 totaling \$465 million in the aggregate. On October 9, 2013, the Board of Directors declared a dividend of \$0.59 per share payable December 10, 2013 to shareowners of record at the close of business on November 15, 2013.

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

## Cash Flow - Discontinued Operations

(Dollars in millions)	Nine Months Ended September 30,	
	2013	2012
Net cash flows used in discontinued operations	\$(252	) \$(330

Cash flows used in discontinued operations primarily relate to the completed divestitures of the legacy Hamilton Sundstrand Industrial businesses in December 2012 and Rocketdyne on June 14, 2013. Tax payments related to discontinued operations were approximately \$603 million for the nine months ended September 30, 2013, inclusive of approximately \$91 million of cash tax benefit realized during the quarter ended September 30, 2013 reflecting the tax impact of transactions reported in discontinued operations. We do not expect remaining net tax payments related to these discontinued operations to be significant. Net cash flows used in discontinued operations for the nine months ended September 30, 2013 includes positive cash flows of approximately \$400 million related to the sale of Rocketdyne, and cash flows from the operating activities of Rocketdyne and of UTC Power, through its date of disposition of February 12, 2013, as well as payments made in settlement of liabilities, transaction costs, and interim funding of UTC Power and of Clipper, which was divested in 2012.

## Off-Balance Sheet Arrangements and Contractual Obligations

In our 2012 Annual Report, incorporated by reference in our 2012 Form 10-K, we disclosed our off-balance sheet arrangements and contractual obligations. As of September 30, 2013, there have been no material changes to these off-balance sheet arrangements and contractual obligations outside the ordinary course of business except as otherwise disclosed.

In finalizing the purchase accounting for the acquisition of Goodrich, we finalized the fair value measurement of our existing customer contractual obligations which resulted in an incremental \$200 million of obligations recognized during the second quarter of 2013. Based on the estimated net cash outflows of the OEM developmental programs plus a reasonable contracting profit margin required to transfer the contracts to market participants, we recorded total assumed liabilities of approximately \$2.2 billion. These liabilities will be liquidated in accordance with the underlying economic pattern of obligations, as reflected by the net cash outflows incurred on the OEM contracts. Total consumption of the contractual obligation through the next five years is expected to be as follows: \$70 million remaining in 2013, \$274 million in 2014, \$213 million in 2015, \$242 million in 2016, \$233 million in 2017 and \$894 million thereafter.

On June 14, 2013 we completed the sale of substantially all operations of Rocketdyne to GenCorp Inc. Following the sale, certain guarantees of Rocketdyne's performance under existing contracts remain in place, which resulted in an increase in our performance guarantees of approximately \$124 million, with no associated significant carrying amount of a liability as of September 30, 2013. There have been no other material changes to guarantees outstanding since December 31, 2012.



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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no significant change in our exposure to market risk during the nine months ended September 30, 2013. For discussion of our exposure to market risk, refer to Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” contained in our 2012 Form 10-K.

Item 4. Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, we carried out an evaluation under the supervision and with the participation of our management, including the Chairman & Chief Executive Officer (CEO), the Senior Vice President and Chief Financial Officer (CFO) and the Acting Controller and Assistant Controller, Financial Reporting (Controller), of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2013. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our CEO, our CFO and our Controller have concluded that, as of September 30, 2013, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our CEO, our CFO and our Controller, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting during the three months ended September 30, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Cautionary Note Concerning Factors That May Affect Future Results

This Form 10-Q contains statements which, to the extent they are not statements of historical or present fact, constitute “forward-looking statements” under the securities laws. From time to time, oral or written forward-looking statements may also be included in other materials released to the public. These forward-looking statements are intended to provide management’s current expectations or plans for our future operating and financial performance, based on assumptions currently believed to be valid. Forward-looking statements can be identified by the use of words such as “believe,” “expect,” “expectations,” “plans,” “strategy,” “prospects,” “estimate,” “project,” “target,” “anticipate,” “will,” “guidance,” “confident” and other words of similar meaning in connection with a discussion of future operating or financial performance. Forward-looking statements may include, among other things, statements relating to future sales, earnings, cash flow, results of operations, uses of cash and other measures of financial performance. All forward-looking statements involve risks, uncertainties and other factors that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. For those statements we claim the protection of the safe harbor for forward-looking statements contained in the U.S. Private Securities Litigation Reform Act of 1995. Such risks, uncertainties and other factors include, without limitation:

- the effect of economic conditions in the industries and markets in which we operate in the U.S. and globally and any changes therein, including financial market conditions, fluctuations in commodity prices, interest rates and foreign currency exchange rates, levels of end market demand in construction and in both the commercial and defense segments of the aerospace industry, levels of air travel, financial difficulties (including bankruptcy) of commercial airlines, the impact of weather conditions and natural disasters and the financial condition of our customers and suppliers;
- our ability to integrate the acquired Goodrich operations and to realize synergies and opportunities for growth and innovation;
- our ability to realize the intended benefits of recently announced organizational changes;
- future levels of indebtedness and capital spending and research and development spending;
- future availability of credit and factors that may affect such availability, including credit market conditions and our capital structure;
- delays and disruption in delivery of materials and services from suppliers;
- new business opportunities;
- cost reduction efforts and restructuring costs and savings and other consequences thereof;
- the scope, nature, impact or timing of acquisition, divestiture and joint venture activity, including integration of other acquired businesses into our existing businesses;
- the development, production, delivery, support, performance and anticipated benefits of advanced technologies and new products and services;
- the impact of customer driven cost and product efficiency initiatives;
- the anticipated benefits of diversification and balance of operations across product lines, regions and industries;
- the impact of the negotiation of collective bargaining agreements and labor disputes;
- the outcome of legal proceedings and other contingencies;
- future repurchases of our common stock;
- pension plan assumptions and future contributions; and
- the effect of changes in tax, environmental and other laws and regulations or political conditions in the U.S. and other countries in which we operate.

In addition, this Form 10-Q includes important information as to risks, uncertainties and other factors that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. See the “Notes to Condensed Consolidated Financial Statements” under the heading “Contingent Liabilities,” the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the headings “Business Overview,” “Critical Accounting Estimates,” “Results of Operations,” and “Liquidity and Financial Condition,” and the section titled “Risk Factors” in this Form 10-Q and in our 2012 Form 10-K. Our Form 10-K also includes important information as to these factors in the “Business” section under the headings “General,” “Description of Business by Segment” and “Other Matters Relating to Our Business as a Whole,” and in the “Legal Proceedings” section. Additional

important information as to these factors is included

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in our 2012 Annual Report in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the headings “Environmental Matters” and “Restructuring Costs.” The forward-looking statements speak only as of the date of this Form 10-Q or, in the case of any document incorporated by reference, the date of that document. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law. Additional information as to factors that may cause actual results to differ materially from those expressed or implied in the forward-looking statements is disclosed from time to time in our other filings with the SEC.

## PART II – OTHER INFORMATION

## Item 1. Legal Proceedings

## F100 Engine Litigation

As previously disclosed, the United States government sued us in 1999 in the United States District Court for the Southern District of Ohio, claiming that Pratt & Whitney violated the civil False Claims Act and common law. The claims relate to the “Fighter Engine Competition” between Pratt & Whitney's F100 engine and General Electric's F110 engine. The government alleged that it overpaid for F100 engines under contracts awarded by the U.S. Air Force in fiscal years 1985 through 1990 because Pratt & Whitney inflated its estimated costs for some purchased parts and withheld data that would have revealed the overstatements. At trial, which ended in April, 2005, the government claimed Pratt & Whitney's liability to be approximately \$624 million. On August 1, 2008, the trial court held that the Air Force had not suffered any actual damages because Pratt & Whitney had made significant price concessions after the alleged overstatements were made. However, the trial court judge found that Pratt & Whitney violated the False Claims Act due to inaccurate statements contained in its 1983 initial engine pricing proposal. In the absence of actual damages, the trial court awarded the government the maximum civil penalty of approximately \$7 million, or \$10,000 for each of the 709 invoices Pratt & Whitney submitted in 1989 and later under the contracts. In September 2008, both the government and UTC appealed the decision to the United States Court of Appeals for the Sixth Circuit. On November 18, 2010, the Sixth Circuit affirmed Pratt & Whitney's liability under the False Claims Act, but remanded the case to the trial court for further proceedings on the issues of False Claims Act damages and common law liability and damages.

On June 18, 2012, the trial court found that Pratt & Whitney had breached obligations imposed by common law based on the same conduct with respect to which the court previously found liability under the False Claims Act. Under the common law claims, the U.S. Air Force is entitled to seek damages for events occurring before March 3, 1989, which are not recoverable under the False Claims Act.

On June 17, 2013, the trial court awarded the government approximately \$473 million in damages and penalties, plus prejudgment interest in an amount to be determined. On July 1, 2013, the trial court, after determining the amount of prejudgment interest, entered judgment in favor of the government in the amount of approximately \$664 million. The trial court also awarded postjudgment interest on the full amount of the judgment to accrue from July 2, 2013, at the federal variable interest rate determined pursuant to 28 U.S.C. § 1961. The judgment included four different components of damages: (1) common law damages of approximately \$109 million; (2) prejudgment interest on common law damages of approximately \$191 million; (3) False Claims Act treble damages of approximately \$357 million; and (4) penalties of approximately \$7 million. The penalty component of the judgment previously was affirmed by the United States Court of Appeals in 2010.

We strongly disagree with the trial court's analysis and conclusions. We filed an appeal from the judgment to the United States Court of Appeals for the Sixth Circuit on August 26, 2013. Based on our analysis, we continue to believe that there is no basis for any common law liability for the inaccurate statements. We also believe that the government suffered no actual damages as a result of the inaccurate statements made in 1983 and, therefore, there is no basis in fact or law for the award of common law damages, prejudgment interest or False Claims Act treble damages. If, contrary to our expectations, all or any portion of the judgment should ultimately be affirmed, we estimate a range of possible loss from approximately \$24 million to \$657 million in excess of amounts previously accrued, plus postjudgment interest. The outcome of this matter could result in a material adverse effect on our results of operations in the period in which a liability would be recognized and cash flows for the period in which damages would be paid.



Shareholder Derivative Litigation

On October 31, 2012, a shareholder filed a stockholder derivative action in the Delaware Court of Chancery against all of

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UTC's current directors. The complaint centers on the June 28, 2012 guilty plea of P&WC to violations of the U.S. Arms Export Control Act and International Traffic in Arms Regulations, and making false statements in connection with its illegal export to China of U.S.-origin military software used in the development of a Chinese military attack helicopter, the Z-10. The complaint alleges, among other things, that UTC's directors breached their fiduciary duties owed to UTC and its shareholders and committed "corporate waste" by failing to oversee adequately UTC's export control compliance. The complaint also alleges that UTC's directors "failed to ensure" that there were adequate internal controls to assure compliance. The complaint seeks declaratory and injunctive relief against UTC, including an order removing and replacing the directors, and asserts a claim for unspecified money damages against only the directors. On June 18, 2013, the Chancery Court issued an order granting the directors' motion to dismiss the case, with prejudice. The shareholder has appealed this decision. We do not believe the resolution of this matter will have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

**Department of Defense Cost Accounting Standards Claim**

As previously disclosed, in December 2008, the Department of Defense (DOD) issued a contract claim against Sikorsky to recover overpayments the DOD alleges that it made to Sikorsky since January 2003 in connection with cost accounting changes approved by the DOD and implemented by Sikorsky in 1999 and 2006. These changes relate to the calculation of material overhead rates in government contracts. The DOD claimed that Sikorsky's liability was approximately \$96 million (including interest through September 30, 2013). We believed this claim was without merit and Sikorsky filed an appeal in December 2009 with the U.S. Court of Federal Claims. Trial in the matter concluded in January 2013 and on March 22, 2013, the U.S. Court of Federal Claims issued a written decision in favor of Sikorsky determining that the DOD had failed to prove its claims because Sikorsky's calculation of material overhead complied with the cost accounting standards. DOD has appealed this decision. We do not believe the ultimate resolution of this matter will have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

Except as otherwise noted above, there have been no material developments in legal proceedings. For a description of previously reported legal proceedings refer to Part I, Item 3, "Legal Proceedings," of our 2012 Form 10-K.

**Item 1A. Risk Factors**

Our business, financial condition, operating results and cash flows can be impacted by the factors set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results.

**Our Global Growth Is Subject to a Number of Economic Risks.**

Over the past few years, market and economic conditions in the U.S. and globally have been highly challenging with tighter credit conditions and slower economic growth. The U.S. economy has experienced a recession and faces continued concerns about the systemic impacts of adverse economic conditions such as the growing U.S. deficit, high energy costs, geopolitical issues, the availability and cost of credit, and an unstable real estate market. In 2012, the global economy improved as compared to 2011 and continued to show signs of a gradual recovery from the significant downturn of 2008 and 2009 when the global economy experienced widespread recessionary conditions, record levels of unemployment, significant distress of financial institutions, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. However, despite positive economic indicators seen since the beginning of 2011, uncertainty continues to exist as to the overall rate and stability of the recovery. Despite a recent slowdown in growth rates in China and other emerging economies, global gross domestic product growth continues to be led by emerging markets. In the developed economies, particularly in Europe, economic conditions continue to stagnate. Further disruptions in Europe or in other economies could affect our sales or liquidity.

While improvement in the global economy remains uneven, in the U.S., economic conditions have continued to rebound on improving consumer sentiment, lower unemployment rates, an improving housing market and increasing commercial construction. However, U.S. Government deficit reduction measures, the recent U.S. Government shut-down, the Congressional fight over the debt ceiling and the impact of sequestration have increased market uncertainties and adversely affected our military businesses. There continues to be fiscal uncertainty in Europe while emerging markets have shown continued but modest strength. There can be no assurance that any of the recent

economic improvements will be broad-based and sustainable, or that they will enhance conditions in markets relevant to us. Further, there can be no assurance that we will not experience further adverse effects that may be material to our cash flows, competitive position, financial condition, results of operations, or our ability to access capital. While these economic developments have not impaired our ability to access credit markets and finance our operations to date, there can be no assurance that there will not be a further deterioration in financial

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markets and confidence in major economies. These economic developments affect businesses such as ours in a number of ways. The tightening of credit in financial markets adversely affects the ability of our customers and suppliers to obtain financing for significant purchases and operations and could result in a decrease in or cancellation of orders for our products and services as well as impact the ability of our customers to make payments. Similarly, this tightening of credit may adversely affect our supplier base and increase the potential for one or more of our suppliers to experience financial distress or bankruptcy. Our global business is also adversely affected by decreases in the general level of economic activity, such as decreases in business and consumer spending, air travel, construction activity, the financial strength of airlines and business jet operators, and government procurement. Strengthening of the rate of exchange for the U.S. Dollar against certain major currencies such as the Euro, the Canadian Dollar and other currencies could also adversely affect our results, as the majority of our sales are non-U.S. based.

**Our Financial Performance Is Dependent on the Conditions of the Construction and Aerospace Industries.**

The results of our commercial and industrial businesses, which generated approximately 51 percent of our consolidated sales in 2012, are influenced by a number of external factors including fluctuations in residential and commercial construction activity, regulatory changes, interest rates, labor costs, foreign currency exchange rates, customer attrition, raw material and energy costs, the tightening of global credit markets, and other global and political factors. For example, a slowdown in building and remodeling activity can adversely affect the financial performance of Otis and UTC Climate, Controls & Security. In addition, the financial performance of UTC Climate, Controls & Security can also be influenced by production and utilization of transport equipment and, particularly in its residential business, weather conditions.

The results of our commercial and military aerospace businesses, which generated approximately 49 percent of our consolidated sales in 2012, are directly tied to the economic conditions in the commercial aviation and defense industries, which are cyclical in nature. Although the operating environment currently faced by commercial airlines has shown signs of gradual improvement since 2011, uncertainty continues to exist. As a result, financial difficulties, including bankruptcy, of one or more of the major commercial airlines could result in significant cancellations of orders, reductions in our aerospace sales and losses under existing contracts. In addition, capital spending and demand for aircraft engines, aerospace products and component aftermarket parts and service by commercial airlines, aircraft operators and aircraft manufacturers are influenced by a wide variety of factors, including current and predicted traffic levels, load factors, aircraft fuel pricing, labor issues, worldwide airline profits, airline consolidation, competition, the retirement of older aircraft, regulatory changes, terrorism and related safety concerns, general economic conditions, corporate profitability, and backlog levels, all of which could reduce the aftermarket sales and margins of our aerospace businesses. Other factors, including future terrorist actions, pandemic health issues or major natural disasters, could also dramatically reduce the demand for air travel, which could negatively impact the aftermarket sales and margins of our aerospace businesses. Additionally, because a substantial portion of the backlog for commercial aerospace customers is scheduled for delivery beyond 2013, changes in economic conditions may cause customers to request that firm orders be rescheduled or canceled. At times, our aerospace businesses also enter into firm fixed-price development contracts, which may require us to bear cost overruns related to unforeseen technical and design challenges that arise during the development stage of the program. In addition, our aerospace businesses face intense competition from domestic and foreign manufacturers of new equipment and spare parts. The defense industry is also affected by a changing global political environment, continued pressure on U.S. and global defense spending and U.S. foreign policy and the level of activity in military flight operations. U.S. Government deficit reduction measures, the recent U.S. Government shut-down, the Congressional fight over the debt ceiling and the impact of sequestration have increased market uncertainty and adversely affected our military businesses. Should these factors continue and overall U.S. Government defense spending decline, it could result in significant reductions to revenue, cash flow, profit and backlog for our military businesses. Spare parts sales and aftermarket service trends are affected by similar factors, including usage, pricing, technological improvements, regulatory changes and the retirement of older aircraft. Furthermore, because of the lengthy research and development cycle involved in bringing products in these business segments to market, we cannot predict the economic conditions that will exist when any new product is complete. A reduction in capital spending in the commercial aviation or defense industries could have a significant effect on the demand for our products, which could have a material adverse effect on our competitive

position, results of operations, cash flows or financial condition.

**Our Business May Be Affected by Government Contracting Risks.**

U.S. Government contracts are subject to termination by the government, either for the convenience of the government or for default as a result of our failure to perform under the applicable contract. If terminated by the government as a result of our default, we could be liable for additional costs the government incurs in acquiring undelivered goods or services from another source and any other damages it suffers. We are now, and believe that in light of the current U.S. Government contracting environment we will continue to be, the subject of one or more U.S. Government investigations relating to certain of our U.S. Government contracts. If we or one of our business units were charged with wrongdoing as a result of any U.S. Government

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investigation (including violation of certain environmental or export laws, as further described below), the U.S. Government could suspend us from bidding on or receiving awards of new U.S. Government contracts pending the completion of legal proceedings. If convicted or found liable, the U.S. Government could subject us to fines, penalties, repayments and treble and other damages, and/or bar us from bidding on or receiving new awards of U.S. Government contracts. The U.S. Government could void any contracts found to be tainted by fraud. The U.S. Government also reserves the right to debar a contractor from receiving new government contracts for fraudulent, criminal or other seriously improper conduct. Debarment generally does not exceed three years. We are also sensitive to U.S. military budgets, which may be impacted by numerous economic and political factors and which may fluctuate based on the policies of the current administration or Congress. In addition, the specific government programs in which we participate or in which we may seek to participate in the future, compete with other programs for consideration during the budget formulation and appropriation processes. One or more of the programs that we currently support could be phased-out or terminated. Reductions in these existing programs, unless offset by other programs and opportunities, could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

**Our International Operations Subject Us to Economic Risk As Our Results of Operations May Be Adversely Affected by Changes in Foreign Currency Fluctuations, Economic Conditions and Changes in Local Government Regulation.** We conduct our business on a global basis, with approximately 60 percent of our 2012 consolidated sales derived from international operations, including U.S. export sales. Changes in local and regional economic conditions, including fluctuations in exchange rates, may affect product demand and reported profits in our non-U.S. operations (primarily the commercial businesses), where transactions are generally denominated in local currencies. In addition, currency fluctuations may affect the prices we pay suppliers for materials used in our products. As a result, our operating margins may also be negatively impacted by worldwide currency fluctuations that result in higher costs for certain cross border transactions. Our financial statements are denominated in U.S. Dollars. Accordingly, fluctuations in exchange rates may also give rise to translation gains or losses when financial statements of non-U.S. operating units are translated into U.S. Dollars. Given that the majority of our sales are non-U.S. based, a strengthening of the U.S. Dollar against other major foreign currencies could adversely affect our results of operations.

The majority of sales in the aerospace businesses are transacted in U.S. Dollars, consistent with established industry practice, while the majority of costs at locations outside the U.S. are incurred in the applicable local currency (principally the Euro, the Canadian Dollar, and the Polish Zloty). For operating units with U.S. Dollar sales and local currency costs, there is foreign currency exposure that could impact our results of operations depending on market changes in the exchange rate of the U.S. Dollar against the applicable foreign currencies. To manage certain exposures, we employ long-term hedging strategies associated with U.S. Dollar sales. See Note 1 and Note 14 to the Consolidated Financial Statements in our 2012 Annual Report and Note 9 to the Condensed Consolidated Financial Statements in this Form 10-Q for further discussion of our hedging strategies.

Our international sales and operations are subject to risks associated with changes in local government laws, regulations and policies, including those related to tariffs and trade barriers, investments, taxation, exchange controls, capital controls, employment regulations, and repatriation of earnings. Our international sales and operations are also sensitive to changes in foreign national priorities, including government budgets, as well as to political and economic instability. International transactions may involve increased financial and legal risks due to differing legal systems and customs in foreign countries. For example, as a condition of sale or award of a contract, some international customers require us to agree to offset arrangements, which may include in-country purchases, manufacturing and financial support arrangements. The contract may provide for penalties in the event we fail to perform in accordance with the offset requirements.

In addition, as part of our globalization strategy, we have invested in certain countries, including Argentina, Brazil, China, India, Mexico, Russia, South Africa and countries in the Middle East, that carry high levels of currency, political, compliance and economic risk. We expect that sales to emerging markets will continue to account for a significant portion of our sales as our business evolves and as these and other developing nations and regions around the world increase their demand for our products. Emerging market operations can present many risks, including cultural differences (such as employment and business practices), volatility in gross domestic product, economic and

government instability, and the imposition of exchange controls and capital controls. While these factors and their impact are difficult to predict, any one or more of them could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

We Use a Variety of Raw Materials, Supplier-Provided Parts, Components, Sub-Systems and Third Party Contract Manufacturing Services in Our Businesses, and Significant Shortages, Supplier Capacity Constraints, Supplier Production Disruptions or Price Increases Could Increase Our Operating Costs and Adversely Impact the Competitive Positions of Our Products.

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Our reliance on suppliers, third party contract manufacturing and commodity markets to secure raw materials, parts, components and sub-systems used in our products exposes us to volatility in the prices and availability of these materials. In many instances, we depend upon a single source of supply, manufacturing or assembly or participate in commodity markets that may be subject to allocations of limited supplies by suppliers. A disruption in deliveries from our suppliers or third party contract manufacturers, supplier capacity constraints, supplier and third party contract manufacturer production disruptions, closing or bankruptcy of our suppliers, price increases, or decreased availability of raw materials or commodities, could have a material adverse effect on our ability to meet our commitments to customers or increase our operating costs. We believe that our supply management and production practices are based on an appropriate balancing of the foreseeable risks and the costs of alternative practices. Nonetheless, price increases, supplier capacity constraints, supplier production disruptions or the unavailability of some raw materials may have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

**We Engage in Acquisitions and Divestitures, and May Encounter Difficulties Integrating Acquired Businesses with, or Disposing of Divested Businesses From, Our Current Operations; Therefore, We May Not Realize the Anticipated Benefits of these Acquisitions and Divestitures.**

We seek to grow through strategic acquisitions in addition to internal growth. In the past several years, we have made various acquisitions and have entered into joint venture arrangements intended to complement and expand our businesses, and expect to do so in the future. For example, on June 29, 2012, Pratt & Whitney acquired Rolls-Royce's ownership and collaboration interests in IAE, and on July 26, 2012, we completed our acquisition of Goodrich. Our due diligence reviews may not identify all of the material issues necessary to accurately estimate the cost and potential loss contingencies of a particular transaction, including potential exposure to regulatory sanctions resulting from an acquisition target's previous activities. We may incur unanticipated costs or expenses, including post-closing asset impairment charges, expenses associated with eliminating duplicate facilities, litigation, and other liabilities. We also may encounter difficulties in integrating acquisitions with our operations, applying our internal controls processes to these acquisitions, or in managing strategic investments. Additionally, we may not realize the degree or timing of benefits we anticipate when we first enter into a transaction. Any of the foregoing could adversely affect our business and results of operations. In addition, accounting requirements relating to business combinations, including the requirement to expense certain acquisition costs as incurred, may cause us to incur greater earnings volatility and generally lower earnings during periods in which we acquire new businesses. Furthermore, we make strategic divestitures from time to time. For example, we completed the disposition of UTC Power to ClearEdge Power in February 2013, the disposition of the legacy Hamilton Sundstrand Industrial businesses to affiliates of BC Partners and The Carlyle Group in December 2012, and the disposition of Clipper to a private equity acquirer in August 2012. Additionally, in June 2013 we completed the sale of substantially all operations of our Pratt & Whitney Rocketdyne business to GenCorp Inc., and in May 2013 we completed the sale of our Pratt & Whitney Power Systems unit to Mitsubishi Heavy Industries. Our divestitures may result in continued financial involvement in the divested businesses, such as through guarantees or other financial arrangements, following the transaction. Under these arrangements, nonperformance by those divested businesses could result in obligations imposed on us and could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition. The success of future acquisitions and divestitures will depend on the satisfaction of conditions precedent to, and consummation of, the pending transactions, the timing of consummation of these pending transactions, and the ability of the parties to secure any required regulatory approvals in a timely manner.

**The Acquired Goodrich Business May Underperform Relative to Our Expectations; The Transaction May Cause Our Financial Results to Differ From Our Expectations or the Expectations of the Investment Community; We May Not Be Able to Achieve Anticipated Cost Savings or Other Anticipated Synergies.**

The success of the Goodrich acquisition will continue to depend, in part, on our ability to realize the anticipated synergies, cost savings and growth opportunities from the integration of Goodrich with our existing businesses. The integration process is complex, costly and time-consuming. The potential difficulties of integrating the operations of Goodrich and realizing our expectations for the acquisition include, among others:

- failure to implement our business plan for the combined business;
- unanticipated issues in integrating manufacturing, logistics, information, communications and other systems;



- unanticipated changes in applicable laws and regulations;
- operating risks inherent in the Goodrich business and our business;
- retaining key customers, suppliers and employees;

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retaining and obtaining required regulatory approvals, licenses and permits;  
unanticipated changes in the combined business due to divestitures imposed by antitrust regulators; and  
the impact on our internal controls and compliance with the regulatory requirements under the Sarbanes-Oxley Act of 2002.

Our Debt Has Increased As a Result of the Goodrich Acquisition and Will Increase If We Incur Additional Debt in the Future and Do Not Retire Existing Debt.

We have outstanding debt and other financial obligations and significant unused borrowing capacity. We have incurred substantial additional debt as a result of the Goodrich acquisition. As of September 30, 2013, we had approximately \$21.2 billion of total debt on a consolidated basis. Our debt level and related debt service obligations could have negative consequences, including, among others:

requiring us to dedicate significant cash flow from operations to the payment of principal and interest on our debt, which would reduce the funds we have available for other purposes, such as acquisitions and reinvestment in our businesses;

reducing our flexibility in planning for or reacting to changes in our business and market conditions; and  
exposing us to interest rate risk since a portion of our debt obligations are at variable rates.

We may incur significantly more debt in the future. If we add new debt and do not retire existing debt, the risks described above could increase.

Our global and domestic revolving credit facilities impose restrictions on us, including certain restrictions on our ability to incur liens on our assets. Our revolving credit facilities are available for general corporate purposes. There are currently no amounts outstanding under these credit facilities. Our long-term debt obligations include covenants that may adversely affect our ability to incur certain secured indebtedness or engage in certain types of sale and leaseback transactions. Our ability to comply with these restrictions and covenants may be affected by events beyond our control. If we breach any of these restrictions or covenants and do not obtain a waiver from the lenders, then, subject to applicable cure periods, our outstanding indebtedness could be declared immediately due and payable. We Design, Manufacture and Service Products that Incorporate Advanced Technologies; The Introduction of New Products and Technologies Involves Risks and We May Not Realize the Degree or Timing of Benefits Initially Anticipated.

We seek to achieve growth through the design, development, production, sale and support of innovative products that incorporate advanced technologies. The product, program and service needs of our customers change and evolve regularly, and we invest substantial amounts in research and development efforts to pursue advancements in a wide range of technologies, products and services. Our ability to realize the anticipated benefits of these advancements depends on a variety of factors, including meeting development, production, certification and regulatory approval schedules; execution of internal and external performance plans; availability of supplier- and internally-produced parts and materials; performance of suppliers and subcontractors; hiring and training of qualified personnel; achieving cost and production efficiencies; identification of emerging technological trends in our target end-markets; validation of innovative technologies; the level of customer interest in new technologies and products; and customer acceptance of our products and products that incorporate technologies we develop. For example, certain of our aerospace products are incorporated into larger systems and end products manufactured by our customers. These systems and end products may incorporate additional technologies manufactured by third parties and involve additional risks and uncertainties. As a result, the performance and market acceptance of these larger systems and end products could affect the level of customer interest and acceptance of our own products in the marketplace.

Any development efforts divert resources from other potential investments in our businesses, and these efforts may not lead to the development of new technologies or products on a timely basis or meet the needs of our customers as fully as competitive offerings. In addition, the markets for our products or products that incorporate our technologies may not develop or grow as we anticipate. We or our customers, suppliers or subcontractors may encounter difficulties in developing and producing new products and services, and may not realize the degree or timing of benefits initially anticipated or may otherwise suffer significant adverse financial consequences. Due to the design complexity of our products, we may in the future experience delays in completing the development and introduction of new products. Any delays could result in increased development costs or deflect resources from other projects. In

particular, we cannot predict with certainty whether, when and in what quantities our aerospace businesses will produce and sell aircraft engines, helicopters, aircraft systems and components and other products currently in development or pending required certifications. Our contracts are typically awarded on a competitive basis. Our bids are based upon, among other items, the cost to provide the products and services. To generate an

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acceptable return on our investment in these contracts, we must be able to accurately estimate our costs to provide the services required by the contract and to be able to complete the contracts in a timely manner. If we fail to accurately estimate our costs or the time required to complete a contract, the profitability of our contracts may be materially and adversely affected. Some of our contracts provide for liquidated damages in the event that we are unable to perform and deliver in accordance with the contractual specifications and schedule. Furthermore, we cannot be sure that our competitors will not develop competing technologies which gain market acceptance in advance of or instead of our products. The possibility exists that our competitors might develop new technology or offerings that might cause our existing technology and offerings to become obsolete. Any of the foregoing could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

Exports of Certain of Our Products Are Subject to Various Export Control Regulations and May Require a License From the U.S. Department of State, the U.S. Department of Commerce or the U.S. Department of the Treasury.

As an exporter, we must comply with various laws and regulations relating to the export of products, services and technology from the U.S. and other countries having jurisdiction over our operations. In the U.S., these laws include, among others, the U.S. Export Administration Regulations (EAR) administered by the U.S. Department of Commerce, Bureau of Industry and Security, the International Traffic in Arms Regulations (ITAR) administered by the U.S. Department of State, Directorate of Defense Trade Controls (DDTC), and trade sanctions, regulations and embargoes administered by the U.S. Department of the Treasury, Office of Foreign Assets Control. Certain of our products have military or strategic applications and are on the munitions list of the ITAR, or represent so-called “dual use” items governed by the EAR. As a result, these products require individual validated licenses in order to be exported to certain jurisdictions. Any failures to comply with these laws and regulations could result in civil or criminal penalties, fines, investigations, adverse publicity and restrictions on our ability to export our products, and repeat failures could carry more significant penalties. As previously disclosed, on June 28, 2012, we entered into a consent agreement with the DDTC and a deferred prosecution agreement with the U.S. Department of Justice regarding separate but related export licensing compliance violations, both of which impose significant continuing obligations. In connection with the foregoing, we entered into an administrative agreement with the Department of the Army Suspension and Debarment Official, in which Army officials determined that we are presently responsible and that further action is not necessary pursuant to the Federal Acquisition Regulation and National Defense Appropriations Act. Any changes in export regulations may further restrict the export of our products. The length of time required by the licensing processes can vary, potentially delaying the shipment of products and the recognition of the corresponding revenue. Any restrictions on the export of our products or product lines could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

We Are Subject to Litigation, Tax, Environmental and Other Legal Compliance Risks.

We are subject to a variety of litigation, tax and other legal compliance risks. These risks include, among other things, possible liability relating to product liability matters, personal injuries, intellectual property rights, contract-related claims, government contracts, taxes, environmental matters and compliance with U.S. and foreign laws, competition laws and laws governing improper business practices. We or one of our business units could be charged with wrongdoing as a result of such matters. If convicted or found liable, we could be subject to significant fines, penalties, repayments, other damages (in certain cases, treble damages). As a global business, we are subject to complex laws and regulations in the U.S. and other countries in which we operate. Those laws and regulations may be interpreted in different ways. They may also change from time to time, as may related interpretations and other guidance. Changes in laws or regulations could result in higher expenses and payments, and uncertainty relating to laws or regulations may also affect how we conduct our operations and structure our investments and could limit our ability to enforce our rights. Changes in environmental and climate change laws or regulations, including laws relating to greenhouse gas emissions, could lead to new or additional investment in product designs and could increase environmental compliance expenditures. Changes in climate change concerns, or in the regulation of such concerns, including greenhouse gas emissions, could subject us to additional costs and restrictions, including increased energy and raw materials costs.

In the area of taxes, changes in tax laws and regulations, as well as changes in related interpretations and other tax guidance could materially impact our tax receivables and liabilities and our deferred tax assets and deferred tax

liabilities. Additionally, in the ordinary course of business we are subject to examinations by various authorities, including tax authorities. In addition to ongoing investigations, there could be additional investigations launched in the future by governmental authorities in various jurisdictions, and existing investigations could be expanded. The global and diverse nature of our operations means that these risks will continue to exist and additional legal proceedings and contingencies will arise from time to time. Our results may be affected by the outcome of legal proceedings and other contingencies that cannot be predicted with certainty.

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For non-income tax risks, we estimate material loss contingencies and establish reserves as required by generally accepted accounting principles based on our assessment of contingencies where liability is deemed probable and reasonably estimable in light of the facts and circumstances known to us at a particular point in time or there is a reasonable possibility that a loss or additional loss may have been incurred and determine if accruals and related disclosures are appropriate. Subsequent developments in legal proceedings may affect our assessment and estimates of the loss contingency recorded as a liability or as a reserve against assets in our financial statements and could result in a material adverse effect on our results of operations in the period in which a liability would be recognized or cash flows or financial position for the period in which damages would be paid. For a description of current legal proceedings, see Part I, Item 3 “Legal Proceedings,” in our Form 10-K, as updated from time to time in subsequent filings, including this Form 10-Q. For income tax risks, we recognize tax benefits based on our assessment that a tax benefit has a greater than 50 percent likelihood of being sustained upon ultimate settlement with the applicable taxing authority that has full knowledge of all relevant facts. For those income tax positions where we assess that there is not a greater than 50 percent likelihood that such tax benefits will be sustained, we do not recognize a tax benefit in our financial statements. Subsequent events may cause us to change our assessment of the likelihood of sustaining a previously-recognized benefit which could result in a material adverse effect on our financial condition or results of operations in the period in which any such event occurs or on our cash flows in the period in which the ultimate settlement with the applicable taxing authority occurs. See Note 6 to the Condensed Consolidated Financial Statements in this Form 10-Q for further discussion on income taxes.

In addition, the U.S. Foreign Corrupt Practices Act (FCPA) and similar worldwide anti-bribery laws in non-U.S. jurisdictions generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. The FCPA applies to companies, individual directors, officers, employees and agents. Under the FCPA, U.S. companies may be held liable for actions taken by strategic or local partners or representatives. The FCPA also imposes accounting standards and requirements on publicly traded U.S. corporations and their foreign affiliates, which are intended to prevent the diversion of corporate funds to the payment of bribes and other improper payments. Certain of our customer relationships outside of the U.S. are with governmental entities and are therefore subject to such anti-bribery laws. Our policies mandate compliance with these anti-bribery laws. Despite meaningful measures that we undertake to facilitate lawful conduct, which include training and internal control policies, these measures may not always prevent our employees or agents from violating the FCPA or similar laws. As a result, we could be subject to criminal and civil penalties, disgorgement, further changes or enhancements to our procedures, policies and controls, personnel changes or other remedial actions. Violations of these laws, or allegations of such violations, could disrupt our operations, involve significant management distraction and result in a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

**We May Be Unable to Realize Expected Benefits From Our Cost Reduction and Restructuring Efforts and Our Profitability May Be Hurt or Our Business Otherwise Might Be Adversely Affected.**

In order to operate more efficiently and control costs, we announce from time to time restructuring plans, which include workforce reductions as well as global facility consolidations and other cost reduction initiatives. These plans are intended to generate operating expense savings through direct and indirect overhead expense reductions as well as other savings. We may undertake further workforce reductions or restructuring actions in the future. These types of cost reduction and restructuring activities are complex. If we do not successfully manage our current restructuring activities, or any other restructuring activities that we may undertake in the future, expected efficiencies and benefits might be delayed or not realized, and our operations and business could be disrupted. Risks associated with these actions and other workforce management issues include delays in implementation of anticipated workforce reductions, additional unexpected costs, changes in restructuring plans that increase or decrease the number of employees affected, adverse effects on employee morale and the failure to meet operational targets due to the loss of employees, any of which may impair our ability to achieve anticipated cost reductions or may otherwise harm our business, which could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

Our Business and Financial Performance May Be Adversely Affected By Information Technology and Other Business Disruptions.

Our business may be impacted by disruptions, including information technology attacks or failures, threats to physical security, as well as damaging weather or other acts of nature, pandemics or other public health crises. Cybersecurity attacks, in particular, are evolving and include, but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in systems, unauthorized release of confidential or otherwise protected information and corruption of data (our own or that of third parties). We have experienced cybersecurity attacks and may continue to experience them going forward, potentially with more frequency. We believe that we have adopted appropriate measures to mitigate potential risks to our technology and our operations from these information technology-related and other

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potential disruptions. However, given the unpredictability of the timing, nature and scope of such disruptions, we could potentially be subject to production downtimes, operational delays, other detrimental impacts on our operations or ability to provide products and services to our customers, the compromising of confidential or otherwise protected information, misappropriation, destruction or corruption of data, security breaches, other manipulation or improper use of our systems or networks, financial losses from remedial actions, loss of business or potential liability, and/or damage to our reputation, any of which could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

**We Depend On Our Intellectual Property, and Have Access to Certain Intellectual Property and Information of Our Customers and Suppliers; Infringement or Failure to Protect Our Intellectual Property Could Adversely Affect Our Future Growth and Success.**

We rely on a combination of patents, trademarks, copyrights, trade secrets, nondisclosure agreements, information technology security systems and other measures to protect our proprietary intellectual property. We also rely on nondisclosure agreements, information technology security systems and other measures to protect certain customer and supplier information and intellectual property that we have in our possession or to which we have access. Our efforts to protect intellectual property and proprietary rights may not be sufficient. We cannot be sure that our pending patent applications will result in the issuance of patents to us, that patents issued to or licensed by us in the past or in the future will not be challenged or circumvented by competitors, or that these patents will be found to be valid or sufficiently broad to preclude our competitors from introducing technologies similar to those covered by our patents and patent applications. In addition, our ability to enforce and protect our intellectual property rights may be limited in certain countries outside the U.S., which could have a material negative impact on our sales volume and therefore could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition. We may also be subject to disruptions, losses and liability resulting from various cybersecurity attacks or information technology failures, as described above.

Any of these events or factors could diminish or cause us to lose the competitive advantages associated with our intellectual property, subject us to judgments, penalties and significant litigation costs or temporarily or permanently disrupt our sales and marketing of the affected products or services. Any of the foregoing could have a material adverse effect on our competitive position, results of operations, cash flows or financial condition.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

### Issuer Purchases of Equity Securities

The following table provides information about our purchases during the quarter ended September 30, 2013 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act.

	Total Number of Shares Purchased (000's)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (000's)	Maximum Number of Shares that may yet be Purchased Under the Program (000's)
2013				
July 1 - July 31	3,289	\$100.44	3,286	53,108
August 1 - August 31	—	—	—	53,108
September 1 - September 30	—	—	—	53,108
Total	3,289	\$100.44	3,286	

We repurchase shares under a program announced on February 4, 2013, which authorized the repurchase of up to 60 million shares of our common stock. Under this current program, shares may be purchased on the open market, in privately negotiated transactions and under plans complying with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended. We may also reacquire shares outside of the program from time to time in connection with the surrender of shares to cover taxes on vesting of restricted stock. Approximately 3,000 shares were reacquired in transactions outside the program during the quarter ended September 30, 2013.



Item 3. Defaults Upon Senior Securities

None.

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Item 6. Exhibits

Exhibit Number	Exhibit Description
10.11	United Technologies Corporation Executive Leadership Group Program, as amended and restated effective October 15, 2013.*
10.12	Schedule of Terms for Restricted Stock Unit Retention Awards relating to the United Technologies Corporation Executive Leadership Group Program (referred to above in Exhibit 10.11).*
10.13	Form of Award Agreement for Restricted Share Unit Retention Awards relating to the United Technologies Corporation Executive Leadership Group Program (referred to above in Exhibit 10.11).*
12	Statement re: computation of ratio of earnings to fixed charges.*
15	Letter re: unaudited interim financial information.*
31	Rule 13a-14(a)/15d-14(a) Certifications.*
32	Section 1350 Certifications.*
101.INS	XBRL Instance Document.* (File name: utx-20130930.xml)
101.SCH	XBRL Taxonomy Extension Schema Document.* (File name: utx-20130930.xsd)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.* (File name: utx-20130930_cal.xml)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.* (File name: utx-20130930_def.xml)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.* (File name: utx-20130930_lab.xml)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.* (File name: utx-20130930_pre.xml)

Notes to Exhibits List:

\*Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Comprehensive Income for the quarters and nine months ended September 30, 2013 and 2012, (ii) Condensed Consolidated Balance Sheet as of September 30, 2013 and December 31, 2012, (iii) Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2013 and 2012, and (iv) Notes to Condensed Consolidated Financial Statements.

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SIGNATURES

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

UNITED TECHNOLOGIES CORPORATION  
(Registrant)

Dated: October 25, 2013

by: /s/ GREGORY J. HAYES

Gregory J. Hayes

Senior Vice President and Chief Financial Officer

(on behalf of the Registrant and as the Registrant's Principal  
Financial Officer and Principal Accounting Officer)

Dated: October 25, 2013

by: /s/ JOHN E. STANTIAL

John E. Stantial

Acting Controller and Assistant Controller, Financial  
Reporting

(on behalf of the Registrant)

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