

UNITED TECHNOLOGIES CORP /DE/
Form 10-Q
October 24, 2014
Table of Contents

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014
OR

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

For the transition period from _____ to _____
Commission file number 1-812

UNITED TECHNOLOGIES CORPORATION

DELAWARE

06-0570975

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes . No .

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes . No .

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

Large accelerated filer Accelerated filer

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

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

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

Table of Contents

UNITED TECHNOLOGIES CORPORATION
AND SUBSIDIARIES
CONTENTS OF QUARTERLY REPORT ON FORM 10-Q
Quarter Ended September 30, 2014

	Page
<u>PART I – FINANCIAL INFORMATION</u>	<u>3</u>
<u>Item 1. Financial Statements:</u>	<u>3</u>
<u>Condensed Consolidated Statement of Operations for the quarters ended September 30, 2014 and 2013</u>	<u>3</u>
<u>Condensed Consolidated Statement of Operations for the nine months ended September 30, 2014 and 2013</u>	<u>4</u>
<u>Condensed Consolidated Statement of Comprehensive Income for the quarters and nine months ended September 30, 2014 and 2013</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheet at September 30, 2014 and December 31, 2013</u>	<u>6</u>
<u>Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2014 and 2013</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>26</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>44</u>
<u>Item 4. Controls and Procedures</u>	<u>45</u>
<u>PART II – OTHER INFORMATION</u>	<u>47</u>
<u>Item 1. Legal Proceedings</u>	<u>47</u>
<u>Item 1A. Risk Factors</u>	<u>48</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>48</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>48</u>
<u>Item 5. Other Information</u>	<u>48</u>
<u>Item 6. Exhibits</u>	<u>49</u>
<u>SIGNATURES</u>	<u>50</u>
<u>EXHIBIT INDEX</u>	<u>51</u>

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

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

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

Table of Contents

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

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

Table of Contents

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

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

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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

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

Table of Contents

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

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

See accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

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

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

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

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

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

(Dollars in millions)

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

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

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

Table of Contents

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

(Dollars in millions)	September 30, 2014		December 31, 2013	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized:				
Service portfolios	\$2,183	\$(1,334	) \$2,234	\$(1,295)
Patents and trademarks	376	(192	) 380	(181)
IAE collaboration	2,738	(15	) 2,273	—
Customer relationships and other	12,260	(2,556	) 12,049	(2,199