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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, 2011

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**

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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, 2011 there were 906,087,669 shares of Common Stock outstanding.

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AND SUBSIDIARIES**  
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**Quarter Ended September 30, 2011**

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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” or “UTC,” unless the context otherwise requires, mean United Technologies Corporation and its subsidiaries.

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

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

|  | <u>Quarter Ended September 30,</u> |                 |
|--|------------------------------------|-----------------|
|  | <u>2011</u>                        | <u>2010</u>     |
| <u>(Dollars in millions, except per share amounts; shares in millions)</u> |                                    |                 |
| <b>Net Sales:</b>  |                                    |                 |
| Product sales  | \$ 10,555                          | \$ 9,771        |
| Service sales  | 4,249                              | 3,849           |
|  | <u>14,804</u>                      | <u>13,620</u>   |
| <b>Costs and Expenses:</b>   |                                    |                 |
| Cost of products sold  | 7,935                              | 7,124           |
| Cost of services sold  | 2,821                              | 2,543           |
| Research and development   | 495                                | 433             |
| Selling, general and administrative  | 1,578                              | 1,478           |
|  | <u>12,829</u>                      | <u>11,578</u>   |
| Other income (expense), net  | 227                                | (114)           |
| Operating profit   | 2,202                              | 1,928           |
| Interest expense, net  | 138                                | 161             |
| Income before income taxes   | 2,064                              | 1,767           |
| Income tax expense   | 643                                | 468             |
| Net income   | 1,421                              | 1,299           |
| Less: Noncontrolling interest in subsidiaries' earnings                    | 97                                 | 101             |
| Net income attributable to common shareowners                              | <u>\$ 1,324</u>                    | <u>\$ 1,198</u> |
| <b>Earnings Per Share of Common Stock:</b>                                 |                                    |                 |
| Basic  | \$ 1.49                            | \$ 1.32         |
| Diluted  | \$ 1.47                            | \$ 1.30         |
| <b>Dividends Per Share of Common Stock</b>                                 |                                    |                 |
|  | \$ .480                            | \$ .425         |
| <b>Weighted average number of shares outstanding:</b>                      |                                    |                 |
| Basic shares   | 888.8                              | 905.6           |
| Diluted shares   | 901.9                              | 919.5           |

See accompanying Notes to Condensed Consolidated Financial Statements

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

| <u>(Dollars in millions, except per share amounts; shares in millions)</u> | <u>Nine Months Ended September 30,</u> |                 |
|--|--|-----------------|
|  | <u>2011</u>                            | <u>2010</u>     |
| <b>Net Sales:</b>  |  |                 |
| Product sales  | \$ 30,723                              | \$ 28,123       |
| Service sales  | 12,501                                 | 11,339          |
|  | <u>43,224</u>                          | <u>39,462</u>   |
| <b>Costs and Expenses:</b>   |  |                 |
| Cost of products sold  | 22,986                                 | 20,949          |
| Cost of services sold  | 8,316                                  | 7,465           |
| Research and development   | 1,506                                  | 1,289           |
| Selling, general and administrative  | 4,765                                  | 4,393           |
|  | <u>37,573</u>                          | <u>34,096</u>   |
| Other income (expense), net  | 550                                    | (33)            |
| Operating profit   | 6,201                                  | 5,333           |
| Interest expense, net  | 428                                    | 481             |
| Income before income taxes   | 5,773                                  | 4,852           |
| Income tax expense   | 1,821                                  | 1,394           |
| Net income   | 3,952                                  | 3,458           |
| Less: Noncontrolling interest in subsidiaries' earnings                    | 298                                    | 284             |
| Net income attributable to common shareowners                              | <u>\$ 3,654</u>                        | <u>\$ 3,174</u> |
| <b>Earnings Per Share of Common Stock:</b>                                 |  |                 |
| Basic  | \$ 4.09                                | \$ 3.49         |
| Diluted  | \$ 4.02                                | \$ 3.43         |
| <b>Dividends Per Share of Common Stock</b>                                 |  |                 |
|  | \$ 1.385                               | \$ 1.275        |
| <b>Weighted average number of shares outstanding:</b>                      |  |                 |
| Basic shares   | 893.7                                  | 909.9           |
| Diluted shares   | 909.1                                  | 924.8           |

See accompanying Notes to Condensed Consolidated Financial Statements

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

| <u>(Dollars in millions)</u>                          | <u>September<br/>30,<br/>2011</u> | <u>December<br/>31,<br/>2010</u> |
|---|-----------------------------------|----------------------------------|
| <b><u>Assets</u></b>                                  |                                   |                                  |
| Cash and cash equivalents                             | \$ 5,966                          | \$ 4,083                         |
| Accounts receivable, net                              | 9,503                             | 8,925                            |
| Inventories and contracts in progress, net            | 8,617                             | 7,766                            |
| Future income tax benefits, current                   | 1,551                             | 1,623                            |
| Other assets, current                                 | 787                               | 1,113                            |
| Total Current Assets                                  | <u>26,424</u>                     | <u>23,510</u>                    |
| Customer financing assets                             | 1,035                             | 1,118                            |
| Future income tax benefits                            | 1,744                             | 1,970                            |
| Fixed assets  | 16,042                            | 15,914                           |
| Less: Accumulated depreciation                        | <u>(9,905)</u>                    | <u>(9,634)</u>                   |
| Fixed assets, net                                     | <u>6,137</u>                      | <u>6,280</u>                     |
| Goodwill  | 17,980                            | 17,721                           |
| Intangible assets, net                                | 3,966                             | 4,060                            |
| Other assets  | 4,662                             | 3,834                            |
| Total Assets  | <u>\$ 61,948</u>                  | <u>\$ 58,493</u>                 |
| <b><u>Liabilities and Equity</u></b>                  |                                   |                                  |
| Short-term borrowings                                 | \$ 1,228                          | \$ 116                           |
| Accounts payable                                      | 5,597                             | 5,206                            |
| Accrued liabilities                                   | 12,604                            | 12,247                           |
| Long-term debt currently due                          | 635                               | 163                              |
| Total Current Liabilities                             | <u>20,064</u>                     | <u>17,732</u>                    |
| Long-term debt  | 9,501                             | 10,010                           |
| Future pension and postretirement benefit obligations | 3,409                             | 3,592                            |
| Other long-term liabilities                           | 5,059                             | 4,510                            |
| Total Liabilities                                     | <u>38,033</u>                     | <u>35,844</u>                    |
| Redeemable noncontrolling interest                    | 327                               | 317                              |
| Shareowners' Equity:                                  |                                   |                                  |
| Common Stock  | 13,330                            | 12,597                           |
| Treasury Stock  | (19,412)                          | (17,468)                         |
| Retained earnings                                     | 32,594                            | 30,191                           |
| Unearned ESOP shares                                  | (156)                             | (166)                            |
| Accumulated other comprehensive loss                  | <u>(3,766)</u>                    | <u>(3,769)</u>                   |
| Total Shareowners' Equity                             | 22,590                            | 21,385                           |
| Noncontrolling interest                               | 998                               | 947                              |
| Total Equity  | <u>23,588</u>                     | <u>22,332</u>                    |
| Total Liabilities and Equity                          | <u>\$ 61,948</u>                  | <u>\$ 58,493</u>                 |

See accompanying Notes to Condensed Consolidated Financial Statements

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

| <u>(Dollars in millions)</u>  | <u>Nine Months Ended</u><br><u>September 30,</u> |                 |
|---|--|-----------------|
|   | <u>2011</u>                                      | <u>2010</u>     |
| <b>Operating Activities:</b>  |  |                 |
| Net income attributable to common shareowners   | \$ 3,654   | \$ 3,174        |
| Noncontrolling interest in subsidiaries' earnings                                       | 298  | 284             |
| Net income  | 3,952  | 3,458           |
| Adjustments to reconcile net income to net cash flows provided by operating activities: |  |                 |
| Depreciation and amortization   | 1,023  | 1,008           |
| Deferred income tax provision (benefit)   | 333  | (123)           |
| Stock compensation cost   | 185  | 112             |
| Change in:  |  |                 |
| Accounts receivable   | (546)  | (169)           |
| Inventories and contracts in progress   | (912)  | (932)           |
| Other current assets  | 3  | (46)            |
| Accounts payable and accrued liabilities  | 762  | 1,178           |
| Global pension contributions*   | (247)  | (699)           |
| Other operating activities, net   | 25   | 443             |
| Net cash flows provided by operating activities   | <u>4,578</u>                                     | <u>4,230</u>    |
| <b>Investing Activities:</b>  |  |                 |
| Capital expenditures  | (605)  | (479)           |
| Investments in businesses   | (229)  | (2,551)         |
| Dispositions of businesses  | 384  | 200             |
| Decrease (increase) in customer financing assets, net                                   | 43   | (29)            |
| Other investing activities, net   | 109  | 173             |
| Net cash flows used in investing activities   | <u>(298)</u>                                     | <u>(2,686)</u>  |
| <b>Financing Activities:</b>  |  |                 |
| (Repayment) issuance of long-term debt, net   | (50)   | 610             |
| Increase in short-term borrowings, net  | 1,124  | 1,882           |
| Common Stock issued under employee stock plans  | 196  | 211             |
| Dividends paid on Common Stock  | (1,192)  | (1,114)         |
| Repurchase of Common Stock  | (2,175)  | (1,644)         |
| Other financing activities, net   | (313)  | (253)           |
| Net cash flows used in financing activities   | <u>(2,410)</u>                                   | <u>(308)</u>    |
| Effect of foreign exchange rate changes on cash and cash equivalents                    | 13   | 46              |
| Net increase in cash and cash equivalents   | <u>1,883</u>                                     | <u>1,282</u>    |
| Cash and cash equivalents, beginning of year  | 4,083  | 4,449           |
| Cash and cash equivalents, end of period  | <u>\$ 5,966</u>                                  | <u>\$ 5,731</u> |

\* Non-cash activities include contributions of UTC common stock of \$450 million and \$250 million to domestic defined benefit pension plans in the third quarter of 2011 and second quarter of 2010, respectively.

See accompanying Notes to Condensed Consolidated Financial Statements

UNITED TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

The Condensed Consolidated Financial Statements at September 30, 2011 and for the quarters and nine months ended September 30, 2011 and 2010 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. Certain reclassifications have been made to the prior period amounts to conform to the current year presentation. We previously reported "Other income, net," which included "Interest income," as a component of "Revenues." "Other income, net," excluding "Interest income," is now reflected separately, while "Interest income" is now netted with "Interest expense" for financial statement presentation. The results reported in these Condensed Consolidated Financial Statements should not necessarily be taken as indicative of results that may be expected for the entire year. The financial information included herein should be read in conjunction with the financial statements and notes in our Annual Report to Shareowners (2010 Annual Report) incorporated by reference to our Annual Report on Form 10-K for calendar year 2010 (2010 Form 10-K).

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

**Business Acquisitions and Dispositions.** During the first nine months of 2011, our investment in business acquisitions was \$229 million and consisted of a number of smaller acquisitions in both the aerospace and commercial businesses. As a result of Sikorsky's contribution of a business into a new venture in the United Arab Emirates, we recognized a gain of approximately \$73 million in the second quarter of 2011.

On September 21, 2011, we announced that we entered into an agreement to acquire Goodrich Corporation (Goodrich), a global supplier of systems and services to the aerospace and defense industry with 2010 sales of \$7 billion. Under the terms of the agreement, Goodrich shareholders will receive \$127.50 in cash for each share of Goodrich common stock they own at the time of the closing of the transaction. This equates to a total current enterprise value of \$18.4 billion, including \$1.9 billion in net debt to be assumed. Of the total \$16.5 billion required, we expect to finance the transaction through a combination of debt and equity issuances, with the equity component expected to approximate 25% of the total financing (other than the amount of net debt assumed). The transaction is subject to customary closing conditions, including regulatory and Goodrich shareholder approval. We expect that this acquisition will close in mid-2012. Goodrich products include aircraft nacelles and interior systems, actuation and landing systems, and electronic systems. Once the acquisition is complete, Goodrich and Hamilton Sundstrand will be combined to form a new segment named UTC Aerospace Systems. It is expected that the increased scale, financial strength and complementary products of the new combined business will strengthen our position in the aerospace and defense industry. Further, this acquisition will enhance our ability to support our customers with more integrated systems.

On October 12, 2011, Pratt & Whitney and Rolls-Royce announced a restructure of their participation in IAE International Aero Engines AG (IAE), which produces the V2500 engine for the A320 family of aircraft. Under the terms of the agreement, Rolls-Royce will sell its equity and program shares in IAE and license its V2500 intellectual property in IAE to Pratt & Whitney for \$1.5 billion and an agreed payment for each hour flown by the current installed fleet of V2500-powered aircraft during the fifteen year period following completion of the transaction. These licensing rights will be perpetual, worldwide, and permit Pratt & Whitney to sublicense, as necessary. The acquisition of the additional shares in IAE will give Pratt & Whitney a controlling interest with 66% ownership. Pratt & Whitney intends to offer a portion of its interests to the remaining IAE partners MTU Aero Engines AG (MTU) and Japanese Aero Engines Corporation (JAEC). Upon closing, we anticipate Pratt & Whitney will begin consolidating IAE. The acquisition of the collaboration rights and intellectual property licenses will be reflected as intangible assets and amortized in relation to the economic benefits received over the projected remaining life of the V2500 program.

Pratt & Whitney and Rolls-Royce also announced an agreement to form a new venture to develop engines to power future new mid-size aircraft (120 – 230 passenger aircraft). The two companies will establish a joint venture company, in which each will hold an equal share, to develop new engines for the next generation of mid-size aircraft. This new joint venture will focus on high-bypass ratio geared turbofan technology. In addition, the venture will collaborate on future studies for next generation propulsion systems. These announced transactions with Rolls-Royce are subject to various closing conditions, including regulatory approvals and are expected to close in mid-2012.

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**Goodwill.** Changes in our goodwill balances for the first nine months of 2011 were as follows:

| (Dollars in millions)  | Balance as of<br>January 1, 2011 | Goodwill resulting from<br>business combinations | Foreign currency<br>translation and other | Balance as of<br>September<br>30, 2011 |
|------------------------|----------------------------------|--|---|--|
| Otis                   | \$ 1,470                         | \$ 45  | \$ (5)                                    | \$ 1,510                               |
| Carrier                | 3,171                            | 35   | (51)                                      | 3,155                                  |
| UTC Fire & Security    | 6,646                            | 35   | (33)                                      | 6,648                                  |
| Pratt & Whitney        | 1,224                            | —  | 4   | 1,228                                  |
| Hamilton Sundstrand    | 4,491                            | (10)   | (5)                                       | 4,476                                  |
| Sikorsky               | 330                              | —  | (4)                                       | 326                                    |
| Total Segments         | 17,332                           | 105  | (94)                                      | 17,343                                 |
| Eliminations and other | 389                              | 258  | (10)                                      | 637                                    |
| Total                  | <u>\$ 17,721</u>                 | <u>\$ 363</u>                                    | <u>\$ (104)</u>                           | <u>\$ 17,980</u>                       |

For the nine months ended September 30, 2011, we recorded an additional \$258 million of goodwill, reflected within “Eliminations and other” in the above table, related to the finalization of purchase accounting associated with the December 2010 acquisition of Clipper Windpower Plc (Clipper).

We early adopted the Financial Accounting Standards Board’s (FASB) Accounting Standards Update (ASU) No 2011-08, “Testing Goodwill for Impairment,” in connection with the performance of our annual goodwill impairment test. Under ASU 2011-08, entities are provided with the option of first performing a qualitative assessment on none, some, or all of its reporting units to determine whether further quantitative impairment testing is necessary. An entity may also bypass the qualitative assessment for any reporting unit in any period and proceed directly to the quantitative impairment test. We completed our annual impairment testing in the third quarter of 2011 and determined that no significant adjustments to the carrying value of goodwill or indefinite lived intangible assets were necessary based on the results of the impairment tests.

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

| (Dollars in millions)                     | September 30, 2011 |                             | December 31, 2010 |                             |
|---|--------------------|-----------------------------|-------------------|-----------------------------|
|   | Gross Amount       | Accumulated<br>Amortization | Gross Amount      | Accumulated<br>Amortization |
| <b>Amortized:</b>                         |                    |                             |                   |                             |
| Service portfolios                        | \$ 2,042           | \$ (1,051)                  | \$ 1,950          | \$ (942)                    |
| Patents and trademarks                    | 468                | (179)                       | 441               | (153)                       |
| Other, principally customer relationships | 3,311              | (1,384)                     | 3,229             | (1,222)                     |
|   | <u>5,821</u>       | <u>(2,614)</u>              | <u>5,620</u>      | <u>(2,317)</u>              |
| <b>Unamortized:</b>                       |                    |                             |                   |                             |
| Trademarks and other                      | 759                |                             | 757               |                             |
| Total                                     | <u>\$ 6,580</u>    | <u>\$ (2,614)</u>           | <u>\$ 6,377</u>   | <u>\$ (2,317)</u>           |

Amortization of intangible assets for the quarter and nine months ended September 30, 2011 was \$102 million and \$304 million, respectively, compared with \$104 million and \$283 million for the same periods of 2010. Average amortization of these intangible assets for 2011 through 2015 is expected to approximate \$315 million per year.



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### Note 2: Earnings Per Share

| <u>(Dollars in millions, except per share amounts; shares in millions)</u> | <u>Quarter Ended September 30,</u> |             | <u>Nine Months Ended September 30,</u> |             |
|--|------------------------------------|-------------|--|-------------|
|  | <u>2011</u>                        | <u>2010</u> | <u>2011</u>                            | <u>2010</u> |
| Net income attributable to common shareowners                              | \$ 1,324                           | \$ 1,198    | \$ 3,654                               | \$ 3,174    |
| Basic weighted average number of shares outstanding                        | 888.8                              | 905.6       | 893.7                                  | 909.9       |
| Stock awards   | 13.1                               | 13.9        | 15.4                                   | 14.9        |
| Diluted weighted average number of shares outstanding                      | 901.9                              | 919.5       | 909.1                                  | 924.8       |
| <b>Earnings Per Share of Common Stock:</b>                                 |                                    |             |  |             |
| Basic  | \$ 1.49                            | \$ 1.32     | \$ 4.09                                | \$ 3.49     |
| Diluted  | \$ 1.47                            | \$ 1.30     | \$ 4.02                                | \$ 3.43     |

The computation of diluted earnings per share excludes the effect of the potential exercise of stock awards, including stock appreciation rights and stock options, when the average market price of the common stock is lower than the exercise price of the related stock awards during the period. These outstanding stock awards are not included in the computation of diluted earnings per share because the effect would be anti-dilutive. For the quarter ended September 30, 2011, there were 6.5 million anti-dilutive stock awards excluded from the computation. For the nine months ended September 30, 2011, there were no anti-dilutive stock awards excluded from the computation. The number of stock awards excluded from the computation was 12.7 million and 12.6 million for the quarter and nine months ended September 30, 2010, respectively.

### Note 3: Inventories and Contracts in Progress

| <u>(Dollars in millions)</u>                                     | <u>September 30, 2011</u> | <u>December 31, 2010</u> |
|--|---------------------------|--------------------------|
| Raw materials  | \$ 1,357                  | \$ 1,221                 |
| Work-in-process  | 3,696                     | 3,259                    |
| Finished goods   | 3,258                     | 3,026                    |
| Contracts in progress  | 7,058                     | 6,340                    |
|  | 15,369                    | 13,846                   |
| Less:  |                           |                          |
| Progress payments, secured by lien, on U.S. Government contracts | (463)                     | (275)                    |
| Billings on contracts in progress                                | (6,289)                   | (5,805)                  |
|  | \$ 8,617                  | \$ 7,766                 |

As of September 30, 2011 and December 31, 2010, the above inventory balances include capitalized contract development costs of \$843 million and \$804 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 inventory 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.

### Note 4: Borrowings and Lines of Credit

| <u>(Dollars in millions)</u> | <u>September 30, 2011</u> | <u>December 31, 2010</u> |
|------------------------------|---------------------------|--------------------------|
| Commercial paper             | \$ 1,080                  | \$ —                     |
| Other borrowings             | 148                       | 116                      |
| Total short-term borrowings  | \$ 1,228                  | \$ 116                   |

At September 30, 2011, we had committed credit agreements from banks permitting aggregate borrowings of up to \$3.0 billion under a \$1.6 billion revolving credit agreement and a \$1.4 billion multicurrency revolving credit agreement, both of which are available for general funding purposes, including acquisitions. As of September 30, 2011, there were no borrowings under either of these revolving credit agreements, which expire in November 2014 and December 2014, respectively. The undrawn portions under both of these agreements are also available to serve as backup facilities for the issuance of commercial paper. We generally use our

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commercial paper borrowings for general corporate purposes, including the funding of potential acquisitions and repurchases of our common stock.

As part of our pending acquisition of Goodrich, we executed a commitment letter, dated September 21, 2011, with various financial institutions that provides a 12-month commitment, subject to a 6-month extension for regulatory reasons, for a \$15 billion 364-day unsecured bridge loan facility.

Long-term debt consisted of the following:

| <u>(Dollars in millions)</u>           | <u>September 30, 2011</u> | <u>December 31, 2010</u> |
|--|---------------------------|--------------------------|
| 6.100% notes due 2012*                 | \$ 500                    | \$ 500                   |
| 4.875% notes due 2015*                 | 1,200                     | 1,200                    |
| 5.375% notes due 2017*                 | 1,000                     | 1,000                    |
| 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                    |
| 8.750% notes due 2021                  | 250                       | 250                      |
| 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                      |
| 6.125% notes due 2038*                 | 1,000                     | 1,000                    |
| 5.700% notes due 2040*                 | 1,000                     | 1,000                    |
| Project financing obligations          | 132                       | 141                      |
| Other (including capitalized leases)   | 132                       | 160                      |
| Total long-term debt                   | 10,136                    | 10,173                   |
| Less current portion                   | (635)                     | (163)                    |
| Long-term debt, net of current portion | <u>\$ 9,501</u>           | <u>\$ 10,010</u>         |

\* We may redeem some or all of these series of notes at any time at a redemption price in U.S. dollars equal to the greater of 100% of the principal amount outstanding of the applicable series of notes to be redeemed, or the sum of the present values of the remaining scheduled payments of principal and interest on the applicable series of notes to be redeemed. The discounts applied on such redemptions are based on a semiannual calculation at an adjusted treasury rate plus 10-50 basis points, depending on the particular series. The redemption price will also include interest accrued to the date of redemption on the principal balance of the notes being redeemed.

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 5: 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 1998.

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.

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It is reasonably possible that a net reduction within a range of \$145 million to \$310 million of unrecognized tax benefits may occur within the next twelve months 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 reduction may impact the Company's 2011 or 2012 income tax expense. Not included in the range is €197 million (approximately \$267 million) of tax benefits that we have claimed related to a 1998 German reorganization. These tax benefits are currently being reviewed by the German Tax Office in the course of an audit of tax years 1999 to 2000. 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.

Tax years 2004 and 2005 are currently before the Appeals Division of the Internal Revenue Service (IRS) for resolution discussions regarding certain proposed tax adjustments with which the Company does not agree. The Company expects that the Appeals Division's consideration will continue into 2012 and be completed within the next 12 months. Tax years 2006, 2007 and 2008 are under review by the Examination Division of the IRS, which review is expected to continue into 2012 and be completed within the next 12 months. Additionally, the Company has two refund claims pending for years prior to 2004. The Company expects that a final determination will be made with respect to these claims during the quarter ending December 31, 2011. These claims are included within the range of unrecognized tax benefits disclosed above, which excludes the impact of interest.

### Note 6: Employee Benefit Plans

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

| (Dollars in millions)      | Quarter Ended September 30, |        | Nine Months Ended September 30, |        |
|----------------------------|-----------------------------|--------|---------------------------------|--------|
|                            | 2011                        | 2010   | 2011                            | 2010   |
| Defined Benefit Plans      | \$ 627                      | \$ 438 | \$ 697                          | \$ 949 |
| Defined Contribution Plans | \$ 52                       | \$ 46  | \$ 165                          | \$ 142 |

In the first nine months of 2011, we made contributions of \$606 million to our domestic defined benefit pension plans, all of which was contributed in the third quarter of 2011. Included in the total domestic contributions was a \$450 million contribution of UTC common stock. In the first nine months of 2010, we made contributions of \$801 million to our domestic defined benefit pension plans, including \$350 million which was contributed in the third quarter of 2010. Included in the total domestic contributions made through the first nine months of 2010 was a \$250 million contribution of UTC common stock in the second quarter of 2010. 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<br>Quarter Ended<br>September 30, |       | Other Postretirement Benefits<br>Quarter Ended<br>September 30, |       |
|--------------------------------------|--|-------|---|-------|
|                                      | 2011   | 2010  | 2011  | 2010  |
| Service cost                         | \$ 111   | \$ 99 | \$ 1  | \$ 1  |
| Interest cost                        | 325  | 321   | 9   | 11    |
| Expected return on plan assets       | (458)  | (430) | —   | —     |
| Amortization                         | (2)  | (4)   | —   | (1)   |
| Recognized actuarial net loss (gain) | 116  | 71    | (2)   | —     |
| Net settlement and curtailment loss  | —  | —     | —   | —     |
| Total net periodic benefit cost      | \$ 92  | \$ 57 | \$ 8  | \$ 11 |

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| (Dollars in millions)                | Pension Benefits<br>Nine Months<br>Ended September 30, |               | Other Postretirement Benefits<br>Nine Months<br>Ended September 30, |              |
|--------------------------------------|--|---------------|---|--------------|
|                                      | 2011   | 2010          | 2011  | 2010         |
|                                      | Service cost   | \$ 333        | \$ 297  | \$ 3         |
| Interest cost                        | 975  | 963           | 29  | 34           |
| Expected return on plan assets       | (1,372)  | (1,289)       | —   | —            |
| Amortization                         | (8)  | (12)          | (2)   | (2)          |
| Recognized actuarial net loss (gain) | 347  | 213           | (6)   | (1)          |
| Net settlement and curtailment loss  | 13   | 17            | —   | —            |
| Total net periodic benefit cost      | <u>\$ 288</u>  | <u>\$ 189</u> | <u>\$ 24</u>  | <u>\$ 33</u> |

**Note 7: Restructuring Costs**

During the first nine months of 2011, we recorded net pre-tax restructuring costs in our business segments totaling \$188 million for new and ongoing restructuring actions as follows:

| (Dollars in millions)  |               |
|------------------------|---------------|
| Otis                   | \$ 47         |
| Carrier                | 37            |
| UTC Fire & Security    | 29            |
| Pratt & Whitney        | 48            |
| Hamilton Sundstrand    | 10            |
| Sikorsky               | 16            |
| Eliminations and other | 1             |
| Total                  | <u>\$ 188</u> |

The net costs included \$121 million recorded in cost of sales, \$65 million in selling, general and administrative expenses and \$2 million in other income, net. As described below, these costs primarily relate to actions initiated during 2011 and 2010.

**2011 Actions.** During the first nine months of 2011, 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 \$150 million, including \$88 million in cost of sales, \$60 million in selling, general and administrative expenses and \$2 million in other income, net.

We expect the actions initiated in the first nine months of 2011 to result in net workforce reductions of approximately 2,800 hourly and salaried employees, the exiting of approximately 540,000 net square feet of facilities and the disposal of assets associated with exited facilities. As of September 30, 2011, we have completed net workforce reductions of approximately 1,300 employees, and 10,000 net square feet of facilities have been exited. We are targeting the majority of the remaining workforce and all facility related cost reduction actions for completion during 2011 and 2012. 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 2011 restructuring actions:

| (Dollars in millions)                   | Severance    | Asset<br>Write-Downs | Facility Exit, Lease<br>Termination and<br>Other Costs | Total        |
|---|--------------|----------------------|--|--------------|
| Restructuring accruals at June 30, 2011 | \$ 39        | \$ —                 | \$ 1   | \$ 40        |
| Net pre-tax restructuring costs         | 71           | —                    | 10   | 81           |
| Utilization and foreign exchange        | (34)         | —                    | (7)  | (41)         |
| Balance at September 30, 2011           | <u>\$ 76</u> | <u>\$ —</u>          | <u>\$ 4</u>  | <u>\$ 80</u> |

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The following table summarizes expected, incurred and remaining costs for the 2011 restructuring actions by type:

| (Dollars in millions)                             | Severance    | Asset Write-Downs | Facility Exit, Lease Termination and Other Costs | Total        |
|---|--------------|-------------------|--|--------------|
| Expected costs                                    | \$ 176       | \$ 3              | \$ 59  | \$238        |
| Costs incurred - quarter ended March 31, 2011     | (11)         | —                 | —  | (11)         |
| Costs incurred - quarter ended June 30, 2011      | (54)         | (3)               | (1)  | (58)         |
| Costs incurred - quarter ended September 30, 2011 | (71)         | —                 | (10)   | (81)         |
| Balance at September 30, 2011                     | <u>\$ 40</u> | <u>\$ —</u>       | <u>\$ 48</u>                                     | <u>\$ 88</u> |

The following table summarizes expected, incurred and remaining costs for the 2011 restructuring actions by segment:

| (Dollars in millions)  | Expected Costs | Costs Incurred Quarter Ended March 31, 2011 | Costs Incurred Quarter Ended June 30, 2011 | Costs Incurred Quarter Ended September 30, 2011 | Remaining Costs at September 30, 2011 |
|------------------------|----------------|---|--|---|---------------------------------------|
| Otis                   | \$ 88          | \$ (3)                                      | \$ (4)                                     | \$ (41)   | \$ 40                                 |
| Carrier                | 27             | (3)   | (9)  | (8)   | 7                                     |
| UTC Fire & Security    | 27             | (2)   | (7)  | (12)  | 6                                     |
| Pratt & Whitney        | 48             | —   | (33)                                       | (3)   | 12                                    |
| Hamilton Sundstrand    | 8              | (2)   | (2)  | (4)   | —                                     |
| Sikorsky               | 39             | (1)   | (2)  | (13)  | 23                                    |
| Eliminations and other | 1              | —   | (1)  | —   | —                                     |
| Total                  | <u>\$ 238</u>  | <u>\$ (11)</u>                              | <u>\$ (58)</u>                             | <u>\$ (81)</u>                                  | <u>\$ 88</u>                          |

**2010 Actions.** During the first nine months of 2011, we recorded net pre-tax restructuring costs totaling \$40 million for restructuring actions initiated in 2010, including \$27 million in cost of sales and \$13 million in selling, general and administrative expenses. The 2010 actions relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of field operations.

As of September 30, 2011, we have completed net workforce reductions of approximately 4,000 employees of an expected 5,000 employees, and have exited approximately 800,000 net square feet of facilities of an expected 3.9 million net square feet. We are targeting the majority of the remaining workforce and facility related cost reduction actions for completion during 2011 and 2012.

The following table summarizes the accrual balances and utilization by cost type for the 2010 restructuring actions:

| (Dollars in millions)                   | Severance    | Asset Write-Downs | Facility Exit, Lease Termination and Other Costs | Total        |
|---|--------------|-------------------|--|--------------|
| Restructuring accruals at June 30, 2011 | \$ 98        | \$ —              | \$ 12  | \$110        |
| Net pre-tax restructuring costs         | (1)          | 2                 | 8  | 9            |
| Utilization and foreign exchange        | (30)         | (2)               | (8)  | (40)         |
| Balance at September 30, 2011           | <u>\$ 67</u> | <u>\$ —</u>       | <u>\$ 12</u>                                     | <u>\$ 79</u> |

The following table summarizes expected, incurred and remaining costs for the 2010 restructuring actions by type:

| (Dollars in millions)                             | Severance    | Asset Write-Downs | Facility Exit, Lease Termination and Other Costs | Total        |
|---|--------------|-------------------|--|--------------|
| Expected costs                                    | \$ 326       | \$ 25             | \$ 106   | \$ 457       |
| Costs incurred through December 31, 2010          | (301)        | (19)              | (51)   | (371)        |
| Costs incurred - quarter ended March 31, 2011     | (5)          | (4)               | (6)  | (15)         |
| Costs incurred - quarter ended June 30, 2011      | (5)          | —                 | (11)   | (16)         |
| Costs incurred - quarter ended September 30, 2011 | 1            | (2)               | (8)  | (9)          |
| Remaining costs at September 30, 2011             | <u>\$ 16</u> | <u>\$ —</u>       | <u>\$ 30</u>                                     | <u>\$ 46</u> |

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The following table summarizes expected, incurred and remaining costs for the 2010 restructuring actions by segment:

| (Dollars in millions)  | Expected<br>Costs | Costs Incurred<br>through<br>December 31, 2010 | Costs Incurred<br>Quarter Ended<br>March 31, 2011 | Costs Incurred<br>Quarter Ended<br>June 30, 2011 | Costs Incurred<br>Quarter Ended<br>September 30, 2011 | Remaining<br>Costs at<br>September 30, 2011 |
|------------------------|-------------------|--|---|--|---|---|
| Otis                   | \$ 88             | \$ (87)  | \$ (1)  | \$ —   | \$ —  | \$ —  |
| Carrier                | 107               | (74)   | (11)  | (6)  | (1)   | 15  |
| UTC Fire & Security    | 92                | (64)   | (2)   | (5)  | (6)   | 15  |
| Pratt & Whitney        | 93                | (84)   | (1)   | (4)  | (1)   | 3   |
| Hamilton Sundstrand    | 41                | (29)   | —   | (1)  | (1)   | 10  |
| Sikorsky               | 18                | (15)   | —   | —  | —   | 3   |
| Eliminations and other | 18                | (18)   | —   | —  | —   | —   |
| Total                  | <u>\$ 457</u>     | <u>\$ (371)</u>                                | <u>\$ (15)</u>                                    | <u>\$ (16)</u>                                   | <u>\$ (9)</u>   | <u>\$ 46</u>                                |

**2009 Actions.** As of September 30, 2011, we have approximately \$56 million of accrual balances remaining related to 2009 actions.

### Note 8: 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 Accounting Standards Codification (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 \$10.1 billion and \$8.5 billion at September 30, 2011 and December 31, 2010, respectively.

**Commodity Forward Contracts.** We enter into commodity forward contracts to reduce the risk of fluctuations in the price we pay for certain commodities (e.g., nickel) which are used directly in the production of our products, or are components of the products we procure to use in the production of our products. These hedges are economic hedges and the changes in fair value of these contracts are recorded currently in earnings in the period in which they occur. The fair value and outstanding notional amount of contracts hedging commodity exposures were insignificant at September 30, 2011 and December 31, 2010, respectively.

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The following table summarizes the fair value of derivative instruments as of September 30, 2011 and December 31, 2010:

| <u>(Dollars in millions)</u>                              | <u>Balance Sheet Asset Location</u>     | <u>September 30, 2011</u> | <u>December 31, 2010</u> |
|---|---|---------------------------|--------------------------|
| <b>Derivatives designated as hedging instruments:</b>     |   |                           |                          |
| Foreign Exchange Contracts                                | Other assets, current                   | \$ 38                     | \$ 73                    |
| Foreign Exchange Contracts                                | Other assets                            | 1                         | 24                       |
|   |   | <u>39</u>                 | <u>97</u>                |
| <b>Derivatives not designated as hedging instruments:</b> |   |                           |                          |
| Foreign Exchange Contracts                                | Other assets, current                   | 58                        | 31                       |
| Foreign Exchange Contracts                                | Other assets                            | 4                         | 5                        |
|   |   | <u>62</u>                 | <u>36</u>                |
| <b>Total Asset Derivative Contracts</b>                   |   | <u>\$ 101</u>             | <u>\$ 133</u>            |
|   | <u>Balance Sheet Liability Location</u> |                           |                          |
| <b>Derivatives designated as hedging instruments:</b>     |   |                           |                          |
| Foreign Exchange Contracts                                | Accrued liabilities                     | \$ 62                     | \$ 16                    |
| Foreign Exchange Contracts                                | Other long-term liabilities             | 46                        | 1                        |
|   |   | <u>108</u>                | <u>17</u>                |
| <b>Derivatives not designated as hedging instruments:</b> |   |                           |                          |
| Foreign Exchange Contracts                                | Accrued liabilities                     | 74                        | 33                       |
| Foreign Exchange Contracts                                | Other long-term liabilities             | 1                         | 3                        |
|   |   | <u>75</u>                 | <u>36</u>                |
| <b>Total Liability Derivative Contracts</b>               |   | <u>\$ 183</u>             | <u>\$ 53</u>             |

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

| <u>(Dollars in millions)</u>   | <u>Quarter Ended September 30,</u> |              | <u>Nine Months Ended September 30,</u> |              |
|--|------------------------------------|--------------|--|--------------|
|  | <u>2011</u>                        | <u>2010</u>  | <u>2011</u>                            | <u>2010</u>  |
| (Loss) gain recorded in Accumulated other comprehensive loss                                       | <u>\$ (125)</u>                    | <u>\$ 63</u> | <u>\$ (25)</u>                         | <u>\$ 44</u> |
| Gain reclassified from Accumulated other comprehensive loss into Product sales (effective portion) | <u>\$ 17</u>                       | <u>\$ 35</u> | <u>\$ 93</u>                           | <u>\$ 76</u> |

Assuming current market conditions continue, a \$1 million pre-tax loss is expected to be reclassified from Accumulated other comprehensive loss into Product sales to reflect the fixed prices obtained from foreign exchange hedging within the next 12 months. At September 30, 2011, all derivative contracts accounted for as cash flow hedges will mature by September 2013.

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

| <u>(Dollars in millions)</u>                          | <u>Quarter Ended September 30,</u> |               | <u>Nine Months Ended September 30,</u> |               |
|---|------------------------------------|---------------|--|---------------|
|   | <u>2011</u>                        | <u>2010</u>   | <u>2011</u>                            | <u>2010</u>   |
| (Loss) gain recognized in Other income (expense), net | <u>\$ (51)</u>                     | <u>\$ 107</u> | <u>\$ (23)</u>                         | <u>\$ 131</u> |

**Fair Value Disclosure.** The Fair Value Measurements and Disclosures Topic of the FASB ASC defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. The Topic indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability, and also defines fair value based upon an exit price model.

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**Valuation Hierarchy.** The Fair Value Measurements and Disclosure Topic of the FASB ASC establishes a valuation hierarchy for disclosure of the inputs to the valuations used to measure fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement. The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2011 and December 31, 2010:

| <u>(Dollars in millions)</u>  | Total Carrying<br>Value at<br>September 30, 2011 | Quoted price in<br>active markets<br>(Level 1) | Significant other<br>observable inputs<br>(Level 2) | Unobservable<br>inputs<br>(Level 3) |
|-------------------------------|--|--|---|-------------------------------------|
| Available-for-sale securities | \$ 808   | \$ 808   | \$ —  | \$ —                                |
| Derivative assets             | 101  | —  | 101   | —                                   |
| Derivative liabilities        | 183  | —  | 183   | —                                   |

| <u>(Dollars in millions)</u>  | Total Carrying<br>Value at<br>December 31, 2010 | Quoted price in<br>active markets<br>(Level 1) | Significant other<br>observable inputs<br>(Level 2) | Unobservable<br>inputs<br>(Level 3) |
|-------------------------------|---|--|---|-------------------------------------|
| Available-for-sale securities | \$ 829  | \$ 829   | \$ —  | \$ —                                |
| Derivative assets             | 133   | —  | 133   | —                                   |
| Derivative liabilities        | 53  | —  | 53  | —                                   |

**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 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, 2011, there were no significant transfers in and out of Level 1 and Level 2.

As of September 30, 2011, 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 at September 30, 2011 and December 31, 2010:

| <u>(Dollars in millions)</u>                  | September 30, 2011 |               | December 31, 2010  |               |
|---|--------------------|---------------|--------------------|---------------|
|   | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount | Fair<br>Value |
| Long-term receivables                         | \$ 276             | \$ 265        | \$ 300             | \$ 276        |
| Customer financing notes receivable           | 335                | 326           | 376                | 346           |
| Long-term debt (excluding capitalized leases) | (10,079)           | (12,045)      | (10,117)           | (11,500)      |

The above fair values were computed based on comparable transactions, quoted market prices, discounted future cash flows or an estimate of the amount to be received or paid to terminate or settle the agreement, as applicable. Differences between carrying amounts and fair value are attributable to interest and/or credit rate changes subsequent to when the transaction occurred. The fair values of Cash and cash equivalents, Accounts receivable, net, Short-term borrowings, and Accounts payable approximate the carrying amounts due to the short-term maturities of these instruments.

We had outstanding commercial aerospace financing and other contractual commitments totaling approximately \$2.2 billion and \$2.0 billion at September 30, 2011 and December 31, 2010, respectively. 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 commitment itself is not readily determinable and is not considered significant.



**Note 9: Credit Quality of Long-Term Receivables**

In July 2010, the FASB issued ASU No. 2010-20, "Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This ASU is intended to enhance a financial statement user's ability to evaluate the entity's credit risk exposures and adequacy of its allowance for credit losses by requiring additional disclosure about the nature of credit risk inherent in the portfolio of receivables, factors and methodologies used in estimating the allowance for credit losses and activity that occurs during a period for both financing receivables and allowance for credit losses. The scope of this ASU is limited to financing receivables, as defined by the ASU, and excludes short-term trade accounts receivable and receivables measured at fair value or lower of cost or fair value. We adopted the disclosures under this ASU for the reporting period ended December 31, 2010, with the exception of disclosures about activity that occurs during a reporting period, which became effective for interim and annual periods beginning on or after December 15, 2010. We adopted the interim disclosures required under this ASU during the quarter ended March 31, 2011.

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.

Our classes within aerospace long-term receivables are comprised of long-term trade accounts receivable and notes and leases receivable. 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, 2011 and December 31, 2010:

| <u>(Dollars in millions)</u>        | <u>September 30, 2011</u> | <u>December 31, 2010</u> |
|-------------------------------------|---------------------------|--------------------------|
| Long-term trade accounts receivable | \$ 225                    | \$ 198                   |
| Notes and leases receivable         | 373                       | 416                      |
| Total long-term receivables         | <u>\$ 598</u>             | <u>\$ 614</u>            |

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 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 nonaccrual 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, 2011 and December 31, 2010, we do not have any significant balances that are considered to be delinquent, on non-accrual status, past due 90 days or more, or considered to be impaired.

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The following table provides the balance of aerospace long-term receivables at September 30, 2011, and summarizes the associated changes in the reserve for estimated credit losses and exposure for the nine months ended September 30, 2011:

| <u>(Dollars in millions)</u>  |              |
|---|--------------|
| Beginning balance of the reserve for credit losses and exposure                                     | \$ 42        |
| Provision   | 1            |
| Charge-offs   | —            |
| Recoveries  | (9)          |
| Other   | (2)          |
| Ending balance of the reserve for credit losses and exposure: individually evaluated for impairment | <u>\$ 32</u> |
| Ending balance of long-term receivables: individually evaluated for impairment                      | <u>\$598</u> |

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, 2011 and December 31, 2010:

| <u>(Dollars in millions)</u>                         | <u>September 30, 2011</u>                  |                                    | <u>December 31, 2010</u>                   |                                    |
|--|--|------------------------------------|--|------------------------------------|
|  | <u>Long-term trade accounts receivable</u> | <u>Notes and leases receivable</u> | <u>Long-term trade accounts receivable</u> | <u>Notes and leases receivable</u> |
| A - (low risk, collateralized/uncollateralized)      | \$ 224                                     | \$ —                               | \$ 193                                     | \$ —                               |
| B - (moderate risk, collateralized/uncollateralized) | 1  | 299                                | 5  | 336                                |
| C - (high risk, collateralized/uncollateralized)     | —  | 74                                 | —  | 80                                 |
| D - (in default, uncollateralized)                   | —  | —                                  | —  | —                                  |
| Total  | <u>\$ 225</u>                              | <u>\$ 373</u>                      | <u>\$ 198</u>                              | <u>\$ 416</u>                      |

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**Note 10: Shareowners' Equity and Noncontrolling Interest**

A summary of the changes in shareowners' equity and noncontrolling interest (excluding redeemable noncontrolling interest) comprising total equity for the quarters and nine months ended September 30, 2011 and 2010 is provided below:

| (Dollars in millions)   | Quarter Ended September 30, |                         |              |                     |                         |              |
|---|-----------------------------|-------------------------|--------------|---------------------|-------------------------|--------------|
|   | 2011                        |                         |              | 2010                |                         |              |
|   | Shareowners' Equity         | Noncontrolling Interest | Total Equity | Shareowners' Equity | Noncontrolling Interest | Total Equity |
| Equity, beginning of period   | \$ 22,723                   | \$ 1,016                | \$23,739     | \$ 19,933           | \$ 982                  | \$20,915     |
| Comprehensive income for the period:  |                             |                         |              |                     |                         |              |
| Net income  | 1,324                       | 97                      | 1,421        | 1,198               | 101                     | 1,299        |
| Other comprehensive (loss) income:  |                             |                         |              |                     |                         |              |
| Foreign currency translation, net   | (732)                       | (25)                    | (757)        | 808                 | 45                      | 853          |
| (Decreases) increases in unrealized gains from available-for-sale securities, net | (111)                       |                         | (111)        | 25                  |                         | 25           |
| Cash flow hedging (losses) gains  | (106)                       |                         | (106)        | 25                  |                         | 25           |
| Change in pension and post-retirement benefit plans, net                          | 79                          |                         | 79           | 23                  |                         | 23           |
| Total other comprehensive (loss) income   | (870)                       | (25)                    | (895)        | 881                 | 45                      | 926          |
| Total comprehensive income for the period   | 454                         | 72                      | 526          | 2,079               | 146                     | 2,225        |
| Common Stock issued under employee plans  | 119                         |                         | 119          | 113                 |                         | 113          |
| Common Stock repurchased  | (675)                       |                         | (675)        | (490)               |                         | (490)        |
| Common Stock contributed to pension plans   | 450                         |                         | 450          | —                   |                         | —            |
| Dividends on Common Stock   | (411)                       |                         | (411)        | (370)               |                         | (370)        |
| Dividends on ESOP Common Stock  | (16)                        |                         | (16)         | (16)                |                         | (16)         |
| Dividends attributable to noncontrolling interest                                 |                             | (82)                    | (82)         |                     | (86)                    | (86)         |
| Purchase of subsidiary shares from noncontrolling interest                        | (51)                        | (17)                    | (68)         | —                   | (8)                     | (8)          |
| Sale of subsidiary shares in noncontrolling interest                              | —                           | 2                       | 2            | —                   | 9                       | 9            |
| Acquisition of noncontrolling interest  |                             | 8                       | 8            |                     | —                       | —            |
| Disposition of noncontrolling interest  |                             | (1)                     | (1)          |                     | (18)                    | (18)         |
| Redeemable noncontrolling interest in subsidiaries' earnings                      |                             | (4)                     | (4)          |                     | (6)                     | (6)          |
| Redeemable noncontrolling interest in total other comprehensive (loss) income     |                             | 4                       | 4            |                     | (20)                    | (20)         |
| Change in redemption value of put options   | (3)                         |                         | (3)          | 5                   |                         | 5            |
| Equity, end of period   | \$ 22,590                   | \$ 998                  | \$23,588     | \$ 21,254           | \$ 999                  | \$22,253     |

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| (Dollars in millions)   | Nine Months Ended September 30, |                         |              |                     |                         |              |
|---|---------------------------------|-------------------------|--------------|---------------------|-------------------------|--------------|
|   | 2011                            |                         |              | 2010                |                         |              |
|   | Shareowners' Equity             | Noncontrolling Interest | Total Equity | Shareowners' Equity | Noncontrolling Interest | Total Equity |
| Equity, beginning of period   | \$ 21,385                       | \$ 947                  | \$22,332     | \$ 20,066           | \$ 933                  | \$20,999     |
| Comprehensive income for the period:  |                                 |                         |              |                     |                         |              |
| Net income  | 3,654                           | 298                     | 3,952        | 3,174               | 284                     | 3,458        |
| Other comprehensive income (loss):  |                                 |                         |              |                     |                         |              |
| Foreign currency translation, net   | (63)                            | 13                      | (50)         | 11                  | (3)                     | 8            |
| (Decreases) increases in unrealized gains from available-for-sale securities, net | (40)                            |                         | (40)         | 33                  |                         | 33           |
| Cash flow hedging losses  | (87)                            |                         | (87)         | (18)                |                         | (18)         |
| Change in pension and post-retirement benefit plans, net                          | 193                             |                         | 193          | 104                 |                         | 104          |
| Total other comprehensive income (loss)   | 3                               | 13                      | 16           | 130                 | (3)                     | 127          |
| Total comprehensive income for the period   | 3,657                           | 311                     | 3,968        | 3,304               | 281                     | 3,585        |
| Common Stock issued under employee plans  | 566                             |                         | 566          | 439                 |                         | 439          |
| Common Stock repurchased  | (2,175)                         |                         | (2,175)      | (1,650)             |                         | (1,650)      |
| Common Stock contributed to pension plans   | 450                             |                         | 450          | 250                 |                         | 250          |
| Dividends on Common Stock   | (1,192)                         |                         | (1,192)      | (1,114)             |                         | (1,114)      |
| Dividends on ESOP Common Stock  | (47)                            |                         | (47)         | (47)                |                         | (47)         |
| Dividends attributable to noncontrolling interest                                 |                                 | (248)                   | (248)        |                     | (233)                   | (233)        |
| Purchase of subsidiary shares from noncontrolling interest                        | (51)                            | (17)                    | (68)         | (2)                 | (12)                    | (14)         |
| Sale of subsidiary shares in noncontrolling interest                              | 3                               | 10                      | 13           | —                   | 36                      | 36           |
| Acquisition of noncontrolling interest  |                                 | 13                      | 13           |                     | 29                      | 29           |
| Disposition of noncontrolling interest  |                                 | (1)                     | (1)          |                     | (18)                    | (18)         |
| Redeemable noncontrolling interest in subsidiaries' earnings                      |                                 | (15)                    | (15)         |                     | (22)                    | (22)         |
| Redeemable noncontrolling interest in total other comprehensive (loss) income     |                                 | (2)                     | (2)          |                     | 5                       | 5            |
| Change in redemption value of put options   | (6)                             |                         | (6)          | 8                   |                         | 8            |
| Equity, end of period   | \$ 22,590                       | \$ 998                  | \$23,588     | \$ 21,254           | \$ 999                  | \$22,253     |

Consistent with the requirements under the Business Combinations Topic of the FASB ASC and the accounting for redeemable equity instruments, 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.

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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, 2011 and 2010 is provided below:

| (Dollars in millions)                                      | Quarter Ended September 30, |               | Nine Months Ended September 30, |               |
|--|-----------------------------|---------------|---------------------------------|---------------|
|  | 2011                        | 2010          | 2011                            | 2010          |
| Redeemable noncontrolling interest, beginning of period    | \$ 348                      | \$ 311        | \$ 317                          | \$ 389        |
| Net income   | 4                           | 6             | 15                              | 22            |
| Foreign currency translation, net                          | (4)                         | 20            | 2                               | (5)           |
| Dividends attributable to noncontrolling interest          | —                           | (3)           | (11)                            | (16)          |
| Purchase of subsidiary shares from noncontrolling interest | (2)                         | —             | (2)                             | (65)          |
| Change in redemption value of put options                  | 3                           | (5)           | 6                               | (8)           |
| Other changes in redeemable noncontrolling interest        | (22)                        | (11)          | —                               | 1             |
| Redeemable noncontrolling interest, end of period          | <u>\$ 327</u>               | <u>\$ 318</u> | <u>\$ 327</u>                   | <u>\$ 318</u> |

Consistent with the requirements under the Business Combinations Topic of the FASB ASC and the accounting for noncontrolling interests in consolidated financial statements, 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, 2011 and 2010 is provided below:

| (Dollars in millions)   | Quarter Ended September 30, |                 | Nine Months Ended September 30, |                 |
|---|-----------------------------|-----------------|---------------------------------|-----------------|
|   | 2011                        | 2010            | 2011                            | 2010            |
| Net income attributable to common shareowners   | \$ 1,324                    | \$ 1,198        | \$ 3,654                        | \$ 3,174        |
| Transfers to noncontrolling interests:  |                             |                 |                                 |                 |
| Increase in common stock for sale of subsidiary shares  | —                           | —               | 3                               | —               |
| Decrease in common stock for purchase of subsidiary shares  | (51)                        | —               | (51)                            | (2)             |
| Change from net income attributable to common shareowners and transfers to noncontrolling interests | <u>\$ 1,273</u>             | <u>\$ 1,198</u> | <u>\$ 3,606</u>                 | <u>\$ 3,172</u> |

### Note 11: Guarantees

We extend a variety of financial, market value and product performance guarantees to third parties. There have been no material changes to guarantees outstanding since December 31, 2010.

The changes in the carrying amount of service and product warranties and product performance guarantees for the nine months ended September 30, 2011 and 2010 are as follows:

| (Dollars in millions)                        | 2011            | 2010            |
|--|-----------------|-----------------|
| Balance as of January 1                      | \$ 1,136        | \$ 1,072        |
| Warranties and performance guarantees issued | 370             | 310             |
| Settlements made                             | (333)           | (271)           |
| Other  | 315             | (6)             |
| Balance as of September 30                   | <u>\$ 1,488</u> | <u>\$ 1,105</u> |

The increase reflected in "Other" in the above table primarily reflects the impact of finalizing purchase accounting on the recent acquisition of Clipper.

### Note 12: Collaborative Arrangements

In view of the risks and costs associated with developing new engines, Pratt & Whitney has entered into certain collaboration arrangements in which costs, sales and risks are shared. Sales generated from engine programs, spare parts, and aftermarket business under collaboration arrangements are recorded as earned in our financial statements. Amounts attributable to our collaborative partners for their share of sales are recorded as an expense in our financial statements based upon the terms and nature of the arrangement. Costs associated with engine programs under collaborative arrangements are expensed as incurred. Under these

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arrangements, collaborators contribute their program share of engine parts, incur their own production costs and make certain payments to Pratt & Whitney for shared or joint program costs. The reimbursement of the collaborators' share of program costs is recorded as a reduction of the related expense item at that time. As of September 30, 2011, the collaborators' interests in all commercial engine programs ranged from 12% to 48%. Pratt & Whitney directs those programs and is the principal participant in all existing collaborative arrangements. There are no individually significant collaborative arrangements, and none of the individual partners' shares exceed 31% of an individual program.

On October 12, 2011, Pratt & Whitney and Rolls-Royce announced a restructure of their participation in IAE and an agreement to form a new venture to develop engines to power future mid-size aircraft. See Note 1 to the Condensed Consolidated Financial Statements for further discussion.

### **Note 13: Contingent Liabilities**

Summarized below are the matters previously described in Note 17 of the Notes to the Consolidated Financial Statements in our 2010 Annual Report, incorporated by reference in our 2010 Form 10-K, updated as applicable.

**Environmental.** Our operations are subject to environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over our foreign 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.

**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 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 Department of Justice (DOJ) sued us in 1999 in the U.S. District Court for the Southern District of Ohio, claiming that Pratt & Whitney violated the civil False Claims Act and common law. This lawsuit relates to the "Fighter Engine Competition" between Pratt & Whitney's F100 engine and General Electric's F110 engine. The DOJ alleges that the government 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 of this matter, completed in December 2004, the government claimed Pratt & Whitney's liability to be \$624 million. On August 1, 2008, the trial court judge held that the Air Force had not suffered any actual damages because Pratt & Whitney had made significant price concessions. However, the trial court judge found that Pratt & Whitney violated the False Claims Act due to inaccurate statements contained in the 1983 offer. In the absence of actual damages, the trial court judge awarded the DOJ the maximum civil penalty of \$7.09 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 DOJ and UTC appealed the decision to the Sixth Circuit Court of Appeals. In November 2010, the Sixth Circuit affirmed Pratt & Whitney's liability under the False Claims Act and remanded the case to the U.S. District Court for further proceedings on the question of damages. Should the government ultimately prevail, the outcome of this matter could result in a material effect on our results of operations in the period in which a liability would be recognized or 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 it has incurred 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

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government contracts. The DOD claims that Sikorsky's liability is approximately \$90 million (including interest through September 2011). We believe this claim is without merit and Sikorsky filed an appeal in December 2009 with the U.S. Court of Federal Claims, which is pending.

**Other.** As previously disclosed, on August 27, 2010, Rolls-Royce plc (Rolls-Royce) sued Pratt & Whitney in the U.S. District Court for the Eastern District of Virginia, alleging that fan blades on certain engines manufactured by Pratt & Whitney infringe a U.S. patent held by Rolls-Royce. Rolls-Royce sought damages plus interest, an injunction, attorney's fees, and a finding of willful infringement. On May 20, 2011, the Court granted Pratt & Whitney's motion for summary judgment of non-infringement and denied Rolls-Royce's cross motion in which it alleged Pratt & Whitney had infringed the patent. Further, as previously disclosed, in November 2010, Pratt & Whitney filed complaints against Rolls-Royce in the High Court of Justice, Chancery Division, Patent Court (HCJ) in the United Kingdom (UK), with the U.S. International Trade Commission (ITC), and against Rolls-Royce and its parent, Rolls-Royce Group plc (Rolls-Royce Group) in the U.S. District Court for the District of Connecticut. The HCJ action alleged that certain turbomachinery blades, engines and components manufactured by Rolls-Royce infringe a UK patent held by Pratt & Whitney and sought damages plus interest and all other relief to which Pratt & Whitney is entitled, including attorney's fees, expenses, and a permanent order preventing further infringements. The ITC complaint sought a permanent exclusion order barring the importation into the U.S. of infringing turbomachinery blades, engines and engine components manufactured by Rolls-Royce and Rolls-Royce Group, and requested a permanent cease-and-desist order against Rolls-Royce and Rolls-Royce Group preventing further importing, marketing, advertising, demonstrating, testing, distributing, licensing, offering for sale, or use of such infringing turbomachinery blades, engines and engine components. In the Connecticut District Court action, Pratt & Whitney alleged similar infringement claims based on a U.S. patent held by Pratt & Whitney and sought an injunction, damages, interest, attorney's fees and other relief. On July 14, 2011, the parties entered into an amicable, confidential settlement agreement to dismiss all of the foregoing matters, resulting in no adverse impact to UTC.

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.

We have accrued for environmental investigatory, remediation, operating and maintenance costs, performance guarantees and other litigation and claims based on our estimate of the probable outcome of these matters. While it is possible that the outcome of these matters may differ from the recorded liability, we believe that resolution of these matters will not have a material impact on our competitive position, results of operations, cash flows or financial condition.

We also have other commitments and contingent liabilities related to legal proceedings, self-insurance programs and matters arising out of the normal course of business. 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.

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. 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.

Except as otherwise noted above, we do not believe that resolution of any of 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 and litigation 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.

### **Note 14: Segment Financial Data**

Our operations are classified into six principal segments: Otis, Carrier, UTC Fire & Security, Pratt & Whitney, Hamilton Sundstrand 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 28, 2011, we announced a new organizational structure that will allow us to better serve customers through greater integration across product lines. This new structure will combine Carrier and UTC Fire & Security into a new segment called UTC Climate, Controls & Security Systems. Carrier and UTC Fire & Security will continue to report financial and operational results separately through the remainder of 2011. In the first quarter of 2012, Carrier and UTC Fire & Security will begin reporting as one segment. Also, as part of the new organizational structure, Pratt & Whitney and Hamilton Sundstrand will be part of a new aerospace organization, named UTC Propulsion and Aerospace Systems, but will continue to report their financial and operational results as separate segments. We will continue to report all financial and operational results under the six principal segments noted above for the remainder of 2011, consistent with how business operations are currently reviewed for decision making purposes, resource allocation and performance assessment.

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Results for the quarters and nine months ended September 30, 2011 and 2010 are as follows:

| Quarter Ended September 30,<br>(Dollars in millions)     | Net Sales       |                 | Operating Profits |                | Operating Profit Margins |              |
|--|-----------------|-----------------|-------------------|----------------|--------------------------|--------------|
|  | 2011            | 2010            | 2011              | 2010           | 2011                     | 2010         |
| Otis   | \$ 3,262        | \$ 2,908        | \$ 731            | \$ 678         | 22.4%                    | 23.3%        |
| Carrier  | 3,175           | 2,936           | 422               | 380            | 13.3%                    | 12.9%        |
| UTC Fire & Security                                      | 1,746           | 1,657           | 194               | 187            | 11.1%                    | 11.3%        |
| Pratt & Whitney  | 3,251           | 3,230           | 535               | 547            | 16.5%                    | 16.9%        |
| Hamilton Sundstrand                                      | 1,531           | 1,420           | 282               | 255            | 18.4%                    | 18.0%        |
| Sikorsky   | 1,877           | 1,547           | 215               | 163            | 11.5%                    | 10.5%        |
| Total segments   | 14,842          | 13,698          | 2,379             | 2,210          | 16.0%                    | 16.1%        |
| Eliminations and other                                   | (38)            | (78)            | (75)              | (199)          |                          |              |
| General corporate expenses                               | —               | —               | (102)             | (83)           |                          |              |
| Consolidated   | <u>\$14,804</u> | <u>\$13,620</u> | <u>\$2,202</u>    | <u>\$1,928</u> | <u>14.9%</u>             | <u>14.2%</u> |
|  |                 |                 |                   |                |                          |              |
| Nine Months Ended September 30,<br>(Dollars in millions) | Net Sales       |                 | Operating Profits |                | Operating Profit Margins |              |
|  | 2011            | 2010            | 2011              | 2010           | 2011                     | 2010         |
| Otis   | \$ 9,226        | \$ 8,472        | \$2,104           | \$1,915        | 22.8%                    | 22.6%        |
| Carrier  | 9,334           | 8,496           | 1,190             | 852            | 12.7%                    | 10.0%        |
| UTC Fire & Security                                      | 5,120           | 4,687           | 562               | 478            | 11.0%                    | 10.2%        |
| Pratt & Whitney  | 9,798           | 9,350           | 1,460             | 1,505          | 14.9%                    | 16.1%        |
| Hamilton Sundstrand                                      | 4,503           | 4,125           | 793               | 680            | 17.6%                    | 16.5%        |
| Sikorsky   | 5,245           | 4,597           | 633               | 477            | 12.1%                    | 10.4%        |
| Total segments   | 43,226          | 39,727          | 6,742             | 5,907          | 15.6%                    | 14.9%        |
| Eliminations and other                                   | (2)             | (265)           | (246)             | (321)          |                          |              |
| General corporate expenses                               | —               | —               | (295)             | (253)          |                          |              |
| Consolidated   | <u>\$43,224</u> | <u>\$39,462</u> | <u>\$6,201</u>    | <u>\$5,333</u> | <u>14.3%</u>             | <u>13.5%</u> |

See Note 7 to the Condensed Consolidated Financial Statements for a discussion of restructuring costs included in segment operating results.

### Note 15: Accounting Pronouncements

In May 2011, the FASB issued ASU No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This ASU clarifies the concepts related to highest and best use and valuation premise, blockage factors and other premiums and discounts, the fair value measurement of financial instruments held in a portfolio and of those instruments classified as a component of shareowners' equity. The guidance includes enhanced disclosure requirements about recurring Level 3 fair value measurements, the use of nonfinancial assets, and the level in the fair value hierarchy of assets and liabilities not recorded at fair value. The provisions of this ASU are effective prospectively for interim and annual periods beginning on or after December 15, 2011. Early application is prohibited. This ASU is not expected to have an impact on our financial statements or disclosures as there are presently no recurring Level 3 fair value measurements.

In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income." This ASU intends to enhance comparability and transparency of other comprehensive income components. The guidance provides an option to present total comprehensive income, the components of net income and the components of other comprehensive income in a single continuous statement or two separate but consecutive statements. This ASU eliminates the option to present other comprehensive income components as part of the statement of changes in shareowners' equity. The provisions of this ASU will be applied retrospectively for interim and annual periods beginning after December 15, 2011. Early application is permitted. We will adopt the provisions of this ASU in the first quarter 2012.

In September 2011, the FASB issued ASU No. 2011-09, "Disclosures about an Employer's Participation in a Multiemployer Plan." This ASU requires all nongovernmental entities that participate in multiemployer plans to provide additional qualitative and quantitative disclosures about financial obligations, risks and commitments, as well as the level of participation in multiemployer



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plans. The amendments in this ASU require employers to disclose detailed information about significant multiemployer plans, including contributions made to the plans, financial health and funded status of the plans, and expiration of collective-bargaining agreements that require contributions to the plans. To the extent available, additional disclosures are also pertinent to the foreign multiemployer plans. The provisions of this ASU will be applied retrospectively for annual periods ending after December 15, 2011. Early application is permitted. We are currently evaluating the impact of this new 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, 2011 and 2010, 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 24, 2011, 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 (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 (the “Corporation”) as of September 30, 2011, and the related condensed consolidated statement of operations for the three-month and nine-month periods ended September 30, 2011 and 2010 and the condensed consolidated statement of cash flows for the nine-month periods ended September 30, 2011 and 2010. 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, 2010, and the related consolidated statements of operations, of cash flows and of changes in equity for the year then ended (not presented herein), and in our report dated February 10, 2011 (which included an explanatory paragraph with respect to the Corporation’s change in the manner of accounting for business combinations and noncontrolling interests), 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, 2010, 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 24, 2011

**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 six principal business segments: Otis, Carrier, UTC Fire & Security, Pratt & Whitney, Hamilton Sundstrand and Sikorsky. Otis, Carrier and UTC Fire & Security are collectively referred to as the "commercial businesses," while Pratt & Whitney, Hamilton Sundstrand and Sikorsky are collectively referred to as the "aerospace businesses." On September 28, 2011, we announced a new organizational structure that will allow us to better serve customers through greater integration across product lines. This new structure will combine Carrier and UTC Fire & Security into a new segment called UTC Climate, Controls & Security Systems. Carrier and UTC Fire & Security will continue to report financial and operational results separately through the remainder of 2011. In the first quarter of 2012, Carrier and UTC Fire & Security will begin reporting as one segment. Also, as part of the new organizational structure, Pratt & Whitney and Hamilton Sundstrand will be part of a new aerospace organization, named UTC Propulsion and Aerospace Systems, but will continue to report their financial and operational results as separate segments. We will continue to report all financial and operational results under the six principal segments noted above for the remainder of 2011, consistent with how business operations are currently reviewed for decision making purposes, resource allocation and performance assessment. Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. We previously reported "Other income, net," which included "Interest income," as a component of "Revenues." "Other income, net," excluding "Interest income," is now reflected separately, while "Interest income" is now netted with "Interest expense" for financial statement presentation. The current status of significant factors impacting our business environment in 2011 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 2010 Annual Report, which is incorporated by reference in our 2010 Form 10-K.

**General**

With worldwide operations, our businesses 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 businesses include both commercial and aerospace operations, original equipment manufacturing (OEM) and extensive related aftermarket parts and services businesses, as well as the combination of shorter cycles at Carrier and in our commercial aerospace aftermarket businesses, and longer cycles at Otis and at 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.

Although the global economy improved as compared with 2010, signs of recovery experienced earlier in 2011 have lost momentum, reflecting concerns about the deepening sovereign debt crisis in Europe and the political climate in Washington, D.C. As a result of persistent high unemployment in the United States (U.S.) and Europe, a weak U.S. housing sector, deficit reduction plans in the U.S., and the European sovereign debt and banking crisis, growth outlook for the developed economies was lowered. Although economies in China, India and Brazil are showing signs of slowing down, they are still delivering growth rates well above those of the developed economies and order rates for our businesses in emerging markets remain very strong. With a slower growth outlook, we are taking preemptive steps to position the business to grow earnings next year by further reducing operating costs even as we continue to invest in product launches and growth markets. As a result, we are increasing our 2011 full year restructuring cost estimate from \$200 million to more than \$300 million.

Notwithstanding these slowing economic conditions, we continue to see sales and order rate growth consistent with our full year expectations for most of our businesses. Consolidated net sales increased 9% in the third quarter of 2011, as compared to the same period of 2010. This reflects organic sales growth (6%) and the benefit from foreign currency translation (4%), partially offset by the impact from net dispositions (1%), as further discussed below within "Results of Continuing Operations." Consolidated operating profit increased 14% in the third quarter of 2011, as compared with the same period of 2010. This year-over-year improvement reflects an increase in operational profit (2%), driven by higher volumes. Within this 2% operational profit growth, higher research and development, net commodity, and warranty related costs (combined 6%) partially offset the benefit from higher volumes. The benefit from favorable foreign exchange (3%) and non-recurring items (13%) was partially offset by higher year-over-year restructuring costs (1%) and the net year-over-year impact from business divestiture activity (3%).

**Commercial Businesses**

Our commercial businesses generally serve customers in the worldwide commercial and residential property industries, although Carrier 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

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and other global and political factors. Carrier'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 Carrier products in the distribution channel, Carrier customarily offers its customers incentives to purchase products. The principal incentive program provides reimbursements to distributors for offering promotional pricing on Carrier products. We account for incentive payments made as a reduction to sales.

Within the Otis segment, sales increased 12% in the third quarter of 2011, compared with the same period of 2010, including the favorable impact of foreign currency translation (7%). Organic sales growth of 4% reflects an increase in new equipment sales and continued growth in contractual maintenance and repair volume. New equipment orders in the third quarter of 2011 increased 19% (including 7% attributable to foreign exchange) compared with the same period of 2010, driven principally by order growth in China, Russia, India, Brazil and Saudi Arabia. Pricing remained under pressure in most markets.

Organic sales growth of 9% in the third quarter of 2011 at Carrier was driven largely by continued strength in their transport refrigeration business and growth in emerging markets. As expected, the organic growth rate in the transport refrigeration business has moderated in the third quarter of 2011, compared with the first half of 2011 which benefited from higher container replacement demand. Further, new equipment orders for commercial HVAC grew 11% (including favorable foreign exchange of 4%), in the third quarter of 2011, compared with the same period of 2010, driven by emerging markets and a push for more energy efficient products, and U.S. residential HVAC orders grew 6%, however customers are opting for lower featured, lower efficiency products.

UTC Fire & Security experienced 2% organic sales growth in the third quarter of 2011, led by growth within the products businesses, while the service and install businesses declined due to continuing softness in the U.K. and Americas businesses. Third quarter organic order rates at UTC Fire & Security were flat year-over-year, although backlog continues to be strong and is up approximately 15% organically both year-over-year and from the beginning of the year.

### Aerospace Businesses

The aerospace businesses serve both commercial and government aerospace customers. In addition, elements of Pratt & Whitney and Hamilton Sundstrand also serve 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 rebounded in 2010 and remained generally strong through the first nine months of 2011. Airline capacity discipline and steady airline traffic levels are expected to result in another profitable year for most airlines. Additionally, large airframe manufacturers have announced increases in their build rates driven by emerging market demand and replacement of older, less fuel efficient fleets. Commercial aerospace spares orders at Pratt & Whitney's large commercial engine business increased 3%, building on a 35% increase in the third quarter of 2010 due to a rebound from the weak economic conditions experienced in 2009. Hamilton Sundstrand commercial aerospace spares orders grew 24% in the third quarter of 2011, as compared with the same period of 2010, driven by orders received in support of the Boeing 787 entry into service. These increases in order rates have led to an increase in commercial aerospace aftermarket volume at both Pratt & Whitney and Hamilton Sundstrand. Accordingly, consolidated commercial aerospace aftermarket sales, including Sikorsky, increased 11% in the third quarter of 2011, as compared with the same period of 2010.

Total sales at Sikorsky increased 21% in the third quarter of 2011, as compared to the same period of 2010, driven by higher international military aircraft shipments and aftermarket support activity. Sikorsky continued to benefit from U.S. government spending, although deficit reduction measures by the U.S. government are expected to pressure the U.S. Department of Defense budget in coming years, resulting in a decline in U.S. Department of Defense spending. Notwithstanding these expected pressures, Sikorsky's military backlog remains very strong. Sikorsky also continues to pursue significant international aircraft campaigns.

### Acquisition and Disposition 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.

During the first nine months of 2011, our investment in business acquisitions was \$229 million, and consisted primarily of a number of smaller acquisitions in both our commercial and aerospace businesses. We recorded the excess of the purchase price over the estimated fair value of the assets acquired as an increase in goodwill. As a result of acquisition activity in the first nine months of 2011, goodwill increased \$363 million, primarily related to the finalization of purchase accounting associated with the December 2010 acquisition of Clipper Windpower Plc (Clipper).

On September 21, 2011, we announced that we entered into an agreement to acquire Goodrich Corporation (Goodrich), a global supplier of systems and services to the aerospace and defense industry with 2010 sales of \$7 billion. Under the terms of the

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agreement, Goodrich shareholders will receive \$127.50 in cash for each share of Goodrich common stock they own at the time of the closing of the transaction. This equates to a total current enterprise value of \$18.4 billion, including \$1.9 billion in net debt to be assumed. Of the total \$16.5 billion required, we expect to finance the transaction through a combination of debt and equity issuances, with the equity component expected to approximate 25% of the total financing (other than the amount of net debt assumed). The transaction is subject to customary closing conditions, including regulatory and Goodrich shareholder approval. We expect that this acquisition will close in mid-2012. Goodrich products include aircraft nacelles and interior systems, actuation and landing systems, and electronic systems. Once the acquisition is complete, Goodrich and Hamilton Sundstrand will be combined to form a new segment named UTC Aerospace Systems. It is expected that the increased scale, financial strength and complementary products of the new combined business will strengthen our position in the aerospace and defense industry. Further, this acquisition will enhance our ability to support our customers with more integrated systems.

On October 12, 2011, Pratt & Whitney and Rolls-Royce announced a restructure of their participation in IAE International Aero Engines AG (IAE), which produces the V2500 engine for the A320 family of aircraft. Under the terms of the agreement, Rolls-Royce will sell its equity and program shares in IAE and license its V2500 intellectual property in IAE to Pratt & Whitney for \$1.5 billion and an agreed payment for each hour flown by the current installed fleet of V2500-powered aircraft during the fifteen year period following completion of the transaction. These licensing rights will be perpetual, worldwide, and permit Pratt & Whitney to sublicense, as necessary. The acquisition of the additional shares in IAE will give Pratt & Whitney a controlling interest with 66% ownership. Pratt & Whitney intends to offer a portion of its interests to the remaining IAE partners MTU Aero Engines AG (MTU) and Japanese Aero Engines Corporation (JAEC). Upon closing, we anticipate Pratt & Whitney will begin consolidating IAE. The acquisition of the collaboration rights and intellectual property licenses will be reflected as intangible assets and amortized in relation to the economic benefits received over the projected remaining life of the V2500 program.

Pratt & Whitney and Rolls-Royce also announced an agreement to form a new venture to develop engines to power future new mid-size aircraft (120 – 230 passenger aircraft). The two companies will establish a joint venture company, in which each will hold an equal share, to develop new engines for the next generation of mid-size aircraft. This new joint venture will focus on high-bypass ratio geared turbofan technology. In addition, the venture will collaborate on future studies for next generation propulsion systems. These announced transactions with Rolls-Royce are subject to various closing conditions, including regulatory approvals and are expected to close in mid-2012.

We now expect to invest less than \$500 million in acquisitions in 2011, including those investments completed during the first nine months of 2011, although this will depend upon the timing, availability and the appropriate value of potential 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 2011. See Part II, Item 1A, “Risk Factors” in this Form 10-Q for further discussion.

### **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 2010 Annual Report, incorporated by reference in our 2010 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 first nine months of 2011.

## RESULTS OF CONTINUING OPERATIONS

### Net Sales

| (Dollars in millions)            | <u>Quarter Ended September 30,</u> |           | <u>Nine Months Ended September 30,</u> |           |
|----------------------------------|------------------------------------|-----------|--|-----------|
|                                  | 2011                               | 2010      | 2011                                   | 2010      |
| Net Sales                        | \$ 14,804                          | \$ 13,620 | \$ 43,224                              | \$ 39,462 |
| Percentage change year-over-year | 8.7%                               | 3.3%      | 9.5%                                   | 2.6%      |

The 9% increase in net sales for the third quarter of 2011, as compared with the same period of 2010, reflects organic sales growth (6%) and the beneficial impact of foreign currency translation (4%), partially offset by the impact of net dispositions (1%). During the third quarter of 2011, all six business segments experienced organic sales growth, led by Sikorsky (21%) and Carrier (9%). The organic growth at Sikorsky was driven by higher international military aircraft shipments and aftermarket support, while Carrier's organic growth was driven primarily by continued strength in the transport refrigeration business and growth in emerging markets, although the growth rate in the transport refrigeration markets has moderated. Growth at Otis was driven by a net overall increase in new equipment sales, primarily in China and Russia, while service sales increased from continued growth in contractual maintenance and repair volume. Organic sales at UTC Fire & Security reflected growth in the products business, partially offset by a decline in the service and install business as a result of continuing softness in the U.K. and Americas businesses. At Pratt & Whitney, sales from higher aftermarket and increased large commercial engine deliveries were partially offset, as expected, by fewer military engine deliveries, and net unfavorable foreign currency at Pratt & Whitney Canada (P&WC). Hamilton Sundstrand's sales growth continues to be led by the aerospace aftermarket and industrials businesses as commercial aerospace spares sales were up more than 30% as compared to the same period of 2010.

The 10% increase in net sales for the first nine months of 2011, as compared with the same period of 2010, reflects organic sales growth (7%) and the beneficial impact of foreign currency translation (3%). Similar to the third quarter of 2011, all six business segments experienced organic sales growth for the first nine months of 2011, led by Sikorsky (13%) and Carrier (12%). The organic growth at Carrier was driven primarily by the transport refrigeration markets, while Sikorsky's organic growth reflects higher sales driven by increased international development aircraft and higher aftermarket volumes. Higher commercial aerospace aftermarket sales volumes led the organic growth at both Pratt & Whitney and Hamilton Sundstrand in the first nine months of 2011.

### Cost of Products and Services Sold

| (Dollars in millions)                    | <u>Quarter Ended September 30,</u> |          | <u>Nine Months Ended September 30,</u> |           |
|--|------------------------------------|----------|--|-----------|
|  | 2011                               | 2010     | 2011                                   | 2010      |
| Cost of products sold                    | \$ 7,935                           | \$ 7,124 | \$ 22,986                              | \$ 20,949 |
| Percentage of product sales              | 75.2%                              | 72.9%    | 74.8%                                  | 74.5%     |
| Cost of services sold                    | \$ 2,821                           | \$ 2,543 | \$ 8,316                               | \$ 7,465  |
| Percentage of service sales              | 66.4%                              | 66.1%    | 66.5%                                  | 65.8%     |
| Total cost of products and services sold | \$ 10,756                          | \$ 9,667 | \$ 31,302                              | \$ 28,414 |
| Percentage change year-over-year         | 11.3%                              | (1.7)%   | 10.2%                                  | (0.5)%    |

The factors contributing to the total percentage change year-over-year for the quarter and nine months ended September 30, 2011 in total cost of products and services sold are as follows:

|                                    | <u>Quarter Ended<br/>September<br/>30, 2011</u> | <u>Nine Months<br/>Ended<br/>September 30, 2011</u> |
|------------------------------------|---|---|
| Organic volume                     | 8 %   | 8 %   |
| Foreign currency translation       | 4 %   | 3 %   |
| Acquisitions and divestitures, net | (1)%  | —   |
| Other                              | —   | (1)%  |
| Total % Change                     | <u>11 %</u>                                     | <u>10 %</u>   |

For the third quarter of 2011, total cost of products and services sold grew 8% organically reflecting the impact from organic sales growth (6%), higher gross commodity costs (1%), the impact from increased sales of lower margin product, and higher warranty

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and related operational costs. The year-over-year increase in cost of products sold, as a percentage of product sales, reflects the impact from increased sales of lower margin product, higher commodity costs, and warranty and related operational costs.

For the first nine months of 2011 total cost of products and services sold grew 8% organically reflecting the impact from organic sales growth (7%) and higher gross commodity costs (1%). The year-over-year increase in cost of services sold, as a percentage of service sales, was primarily attributable to the timing of long-term aerospace service contracts.

### **Gross Margin**

| <b>(Dollars in millions)</b> | <b>Quarter Ended September 30,</b> |             | <b>Nine Months Ended September 30,</b> |             |
|------------------------------|------------------------------------|-------------|--|-------------|
|                              | <b>2011</b>                        | <b>2010</b> | <b>2011</b>                            | <b>2010</b> |
| Gross margin                 | \$ 4,048                           | \$ 3,953    | \$ 11,922                              | \$ 11,048   |
| Percentage of net sales      | 27.3%                              | 29.0%       | 27.6%                                  | 28.0%       |

The 170 basis point decrease in gross margin as a percentage of sales for the third quarter of 2011, as compared to the same period of 2010, reflects the adverse impact of increased sales of lower margin products. The decrease also reflects the adverse impact of higher net commodity costs (approximately 30 basis points) and increased warranty related charges (approximately 15 basis points) at Hamilton Sundstrand. These adverse impacts were partially offset by the continued focus on cost reduction and savings from previously initiated restructuring actions.

The 40 basis point decrease in gross margin as a percentage of sales for the first nine months of 2011, as compared to the same period of 2010, reflects the adverse impact of higher net commodity costs (approximately 30 basis points) and the adverse impact of increased sales of lower margin products. This decrease was partially offset by the absence of approximately \$86 million of asset impairment charges recorded in the second quarter of 2010 at Carrier and Hamilton Sundstrand.

### **Research and Development**

| <b>(Dollars in millions)</b> | <b>Quarter Ended September 30,</b> |             | <b>Nine Months Ended September 30,</b> |             |
|------------------------------|------------------------------------|-------------|--|-------------|
|                              | <b>2011</b>                        | <b>2010</b> | <b>2011</b>                            | <b>2010</b> |
| Company-funded               | \$ 495                             | \$ 433      | \$ 1,506                               | \$ 1,289    |
| Percentage of net sales      | 3.3%                               | 3.2%        | 3.5%                                   | 3.3%        |
| Customer-funded              | \$ 490                             | \$ 450      | \$ 1,339                               | \$ 1,427    |
| Percentage of net sales      | 3.3%                               | 3.3%        | 3.1%                                   | 3.6%        |

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 in both the quarter ended and the first nine months of 2011, as compared to the same periods of 2010, primarily reflects an increase at Pratt & Whitney to further advance the development of multiple geared turbo fan platforms, partially offset by a net decline at Hamilton Sundstrand led by lower expenditures on the Boeing 787 program. The amount of company-funded research and development for the full year 2011 is expected to increase at least \$275 million, as compared with 2010, as we ramp up multiple next generation aerospace platforms.

The increase in customer-funded research and development in the third quarter of 2011 reflects increases at both Pratt & Whitney and Hamilton Sundstrand primarily as a result of an increase in commercial aerospace programs. The decrease in the first nine months of 2011, compared to the same periods of 2010, was primarily driven by a decrease at Pratt & Whitney related to a reduction in development spending on the Joint Strike Fighter engine program.

**Selling, General and Administrative**

| <u>(Dollars in millions)</u>                 | <u>Quarter Ended September 30,</u> |             | <u>Nine Months Ended September 30,</u> |             |
|--|------------------------------------|-------------|--|-------------|
|  | <u>2011</u>                        | <u>2010</u> | <u>2011</u>                            | <u>2010</u> |
| Selling, general and administrative expenses | \$ 1,578                           | \$ 1,478    | \$ 4,765                               | \$ 4,393    |
| Percentage of net sales                      | 10.7%                              | 10.9%       | 11.0%                                  | 11.1%       |

The increase in selling, general and administrative expenses in the third quarter of 2011, as compared to the same period of 2010, was due primarily to the impact of adverse foreign exchange translation, higher pension related costs, and acquisitions completed over the preceding twelve months, including the acquisition of Clipper in December 2010. As a percentage of sales, the 20 basis point year-over-year decrease primarily reflects the beneficial impact from increased sales, Carrier's ongoing portfolio transformation and other cost reduction activities.

The increase in selling, general and administrative expenses in the first nine months of 2011, as compared to the same period of 2010, was due primarily to the impact of acquisitions completed over the preceding twelve months, including the acquisition of the GE Security business in March 2010 and the acquisition of Clipper in December 2010, adverse foreign exchange translation, and higher pension related costs, partially offset by lower year-over-year restructuring costs. As a percentage of sales, the 10 basis point year-over-year decrease primarily reflects the beneficial impact from increased sales, Carrier's ongoing portfolio transformation and the impact of lower year-over-year restructuring costs, partially offset by the impact from recent acquisitions.

**Other Income (Expense), Net**

| <u>(Dollars in millions)</u> | <u>Quarter Ended September 30,</u> |             | <u>Nine Months Ended September 30,</u> |             |
|------------------------------|------------------------------------|-------------|--|-------------|
|                              | <u>2011</u>                        | <u>2010</u> | <u>2011</u>                            | <u>2010</u> |
| Other income (expense), net  | \$ 227                             | \$ (114)    | \$ 550                                 | \$ (33)     |

Other income (expense), net includes the operational impact of 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 change in other income (expense), net in the third quarter of 2011, as compared with the same period of 2010, largely reflects the absence of an approximately \$159 million other-than-temporary impairment charge on our investment in Clipper and an approximately \$60 million increase in joint venture income, led by Carrier, including the absence of an approximately \$30 million valuation charge at Carrier reflected within equity income related to an unconsolidated foreign venture recorded in the third quarter of 2010. Also contributing to the year-over-year change is an approximately \$41 million gain recognized at Pratt & Whitney from the sale of an investment, gains from the sale of real estate at Otis, the impact from the favorable resolution of litigation matters, and the absence of charges related to the early redemption of long-term debt in the third quarter of 2010. These increases were partially offset by approximately \$35 million of acquisition costs and associated financing commitment fees recorded in the third quarter of 2011 related to the pending acquisition of Goodrich and an approximately \$20 million other-than-temporary impairment charge on an equity investment at UTC Fire & Security.

Similarly, the year-over-year change in other income (expense), net in the first nine months of 2011, as compared with the same period of 2010, reflects the impact of the items noted above in the third quarter as well as transactions from prior quarters, including a gain of approximately \$73 million recognized in the second quarter of 2011 at Sikorsky from the contribution of a business into a new venture in the United Arab Emirates, and gains in the first quarter of 2011 at Pratt & Whitney and UTC Fire & Security (combined \$30 million). The gain at Pratt & Whitney resulted from the sale of an equity interest in a venture and the gain at UTC Fire & Security related to the disposition of the U.K. Guarding business. The year-over-year change also includes an approximately \$125 million increase in joint venture income, led by Carrier, including the absence of an approximately \$30 million valuation charge at Carrier recorded in the third quarter of 2010 as noted above, approximately \$25 million from the favorable resolution of litigation at UTC Fire & Security, and the absence of charges related to the early redemption of long-term debt in the third quarter of 2010.



### Interest Expense, Net

| <u>(Dollars in millions)</u>  | <u>Quarter Ended September 30,</u> |               | <u>Nine Months Ended September 30,</u> |               |
|-------------------------------|------------------------------------|---------------|--|---------------|
|                               | <u>2011</u>                        | <u>2010</u>   | <u>2011</u>                            | <u>2010</u>   |
| Interest expense              | \$ 166                             | \$ 182        | \$ 497                                 | \$ 560        |
| Interest income               | (28)                               | (21)          | (69)                                   | (79)          |
| Interest expense, net         | <u>\$ 138</u>                      | <u>\$ 161</u> | <u>\$ 428</u>                          | <u>\$ 481</u> |
| Average interest expense rate | 5.4%                               | 5.4%          | 5.5%                                   | 5.6%          |

The decrease in interest expense, net in both the third quarter and first nine months of 2011, as compared with the same periods of 2010, was led by the impact from lower average long-term debt balances and lower average interest expense rates year-over-year. Interest expense also reflects the low cost associated with our commercial paper borrowings. The decline in interest income in the first nine months of 2011, as compared with the same periods of 2010, reflects the absence of a favorable pre-tax interest adjustment of approximately \$24 million associated with the resolution of an uncertain tax item in the second quarter of 2010, partially offset by higher interest income on short-term investments.

### Income Taxes

|                    | <u>Quarter Ended September 30,</u> |             | <u>Nine Months Ended September 30,</u> |             |
|--------------------|------------------------------------|-------------|--|-------------|
|                    | <u>2011</u>                        | <u>2010</u> | <u>2011</u>                            | <u>2010</u> |
| Effective tax rate | 31.1%                              | 26.5%       | 31.5%                                  | 28.7%       |

The increase in the effective tax rate for the quarter ended September 30, 2011, as compared to the same period of 2010, primarily reflects the impact of 2010 U.S. tax legislation changes. This increase is partially offset by the favorable tax impact of \$17 million related to a U.K. tax rate reduction enacted in July 2011. The effective tax rate for quarter ended September 30, 2010 reflects a \$102 million tax benefit associated with the repatriation of high-taxed dividends. This benefit was partially offset by the non-deductibility of impairment charges, primarily driven by a \$159 million other-than-temporary impairment charge on our Clipper investment.

The effective tax rate for the nine months ended September 30, 2011 increased as compared to the same period of 2010, primarily as a result of the third quarter tax changes noted above. The effective tax rate for the nine months ended September 30, 2010 reflects the adverse impact from the health care legislation related to the Medicare Part D program in the first quarter of 2010, the tax effects of asset impairment charges in the second quarter of 2010 and the impact from items disclosed above that were recorded in the quarter ended September 30, 2010.

We expect our effective income tax rate for the quarter ended December 31, 2011 to be approximately 28%, before the refund claims referenced in Note 5 to the Condensed Consolidated Financial Statements or any other non-recurring pre-tax items. As a result, we expect our full year annual effective income tax rate in 2011 to be approximately 30.5%.

### Net Income and Earnings Per Share

| <u>(Dollars in millions, except per share amounts)</u>  | <u>Quarter Ended September 30,</u> |                 | <u>Nine Months Ended September 30,</u> |                 |
|---|------------------------------------|-----------------|--|-----------------|
|   | <u>2011</u>                        | <u>2010</u>     | <u>2011</u>                            | <u>2010</u>     |
| Net income  | \$ 1,421                           | \$ 1,299        | \$ 3,952                               | \$ 3,458        |
| Less: Noncontrolling interest in subsidiaries' earnings | 97                                 | 101             | 298                                    | 284             |
| Net income attributable to common shareowners           | <u>\$ 1,324</u>                    | <u>\$ 1,198</u> | <u>\$ 3,654</u>                        | <u>\$ 3,174</u> |
| Diluted earnings per share                              | \$ 1.47                            | \$ 1.30         | \$ 4.02                                | \$ 3.43         |

Diluted earnings per share for the third quarter of 2011 includes \$.06 per share of restructuring charges, partially offset by \$.04 per share benefit from net non-recurring items. The results for the third quarter of 2010 included a net charge for restructuring and non-recurring items of \$.09 per share. For the first nine months of 2011, diluted earnings per share includes a charge for restructuring and net non-recurring items of \$.05 per share compared with a \$.26 per share net charge for the same period of 2010.

The impact of foreign currency generated a benefit of \$.04 and \$.11 per diluted share on our operational performance in the third quarter and first nine months of 2011, respectively. This year-over-year impact also includes the net adverse foreign currency

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translation impact at P&WC. At P&WC, the weakness of the U.S. dollar in the third quarter of 2011 generated an adverse foreign currency translation impact as the majority of P&WC's sales are denominated in U.S. dollars, while a significant portion of its costs are incurred in local currencies. To help mitigate the volatility of foreign currency exchange rates on our operating results, we maintain foreign currency hedging programs, the majority of which are entered into by P&WC. As a result of hedging programs currently in place, P&WC's 2011 full year operating results are expected to include a net adverse impact of foreign currency translation and hedging of approximately \$75 million, of which approximately \$35 million has impacted our operating results in the first nine months of 2011. For additional discussion of hedging, refer to Note 8 to the Condensed Consolidated Financial Statements.

### Restructuring Costs

During the first nine months of 2011, we recorded net pre-tax restructuring costs totaling \$188 million for new and ongoing restructuring actions as follows:

| <u>(Dollars in millions)</u> |              |
|------------------------------|--------------|
| Otis                         | \$ 47        |
| Carrier                      | 37           |
| UTC Fire & Security          | 29           |
| Pratt & Whitney              | 48           |
| Hamilton Sundstrand          | 10           |
| Sikorsky                     | 16           |
| Eliminations and other       | 1            |
| Total                        | <u>\$188</u> |

The net costs included \$121 million recorded in cost of sales, \$65 million in selling, general and administrative expenses and \$2 million in other income, net. As described below, these costs primarily relate to actions initiated during 2011 and 2010.

**2011 Actions.** During the first nine months of 2011, 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 \$150 million as follows: Otis \$48 million, Carrier \$20 million, UTC Fire & Security \$21 million, Pratt & Whitney \$36 million, Hamilton Sundstrand \$8 million, Sikorsky \$16 million, and Eliminations and other \$1 million. The charges included \$88 million in cost of sales, \$60 million in selling, general and administrative expenses and \$2 million in other income, net. These costs include \$136 million for severance and related employee termination costs, \$3 million for asset write-downs and \$11 million for facility exit, lease termination costs and other related costs.

We expect the 2011 actions that were initiated in the first nine months to result in net workforce reductions of approximately 2,800 hourly and salaried employees, the exiting of approximately 540,000 net square feet and the disposal of assets associated with exited facilities. As of September 30, 2011, we have completed net workforce reductions of approximately 1,300 employees and 10,000 net square feet have been exited. We are targeting the majority of the remaining workforce and all facility related cost reduction actions for completion during 2011 and 2012. Approximately 85% of the total pre-tax charge will require cash payments, which we will fund with cash generated from operations. During the first nine months of 2011, we had cash outflows of approximately \$44 million related to the 2011 actions. We expect to incur additional restructuring costs of \$88 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 \$175 million annually.

**2010 Actions.** During the first nine months of 2011, we recorded net pre-tax restructuring costs totaling \$40 million for restructuring actions initiated in 2010. The 2010 actions relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of field operations. We recorded the charges for the first nine months of 2011 as follows: Otis \$1 million, Carrier \$18 million, UTC Fire & Security \$13 million, Pratt & Whitney \$6 million, and Hamilton Sundstrand \$2 million. The charges included \$27 million in cost of sales and \$13 million in selling, general and administrative expenses. Those costs included \$9 million for severance and related employee termination costs, \$6 million for asset write-downs and \$25 million for facility exit, lease termination costs and other related costs.

We expect the 2010 actions to result in net workforce reductions of approximately 5,000 hourly and salaried employees, the exiting of approximately 3.9 million net square feet of facilities and the disposal of assets associated with the exited facilities. As of September 30, 2011, we completed net workforce reductions of approximately 4,000 employees and exited approximately 800,000 net square feet of facilities. We are targeting the majority of the remaining workforce and facility related cost reduction actions for completion during 2011 and 2012. Approximately 80% of the total pre-tax charge will require cash payments, which we will fund with cash generated from operations. During the first nine months of 2011, we had cash outflows of approximately \$175 million

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related to the 2010 actions. We expect to incur additional restructuring costs of \$46 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 \$350 million annually.

**Additional 2011 Actions.** We expect to initiate additional restructuring actions during the remainder of 2011. Including trailing costs related to previously initiated actions, we now expect full year 2011 restructuring costs to exceed \$300 million, including the \$188 million of charges incurred during the first nine months of 2011. The expected adverse impact on full year earnings in 2011 from anticipated restructuring costs is expected to be offset by the beneficial 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. On September 28, 2011, we announced a new organizational structure that will allow us to better serve customers through greater integration across product lines. This new structure will combine Carrier and UTC Fire & Security into a new segment called UTC Climate, Controls & Security Systems. Carrier and UTC Fire & Security will continue to report financial and operational results separately through the remainder of 2011. In the first quarter of 2012, Carrier and UTC Fire & Security will begin reporting as one segment. Also, as part of the new organizational structure, Pratt & Whitney and Hamilton Sundstrand will be part of a new aerospace organization, named UTC Propulsion and Aerospace Systems, but will continue to report their financial and operational results as separate segments. We will continue to report all financial and operational results under the six principal segments noted above for the remainder of 2011, consistent with how business operations are currently reviewed for decision making purposes, resource allocation and performance assessment. Adjustments to reconcile segment reporting to the consolidated results for the quarters and nine months ended September 30, 2011 and 2010 are included in "Eliminations and other" below, which also includes certain smaller subsidiaries.

Results for the quarters ended September 30, 2011 and 2010 are as follows:

| <u>(Dollars in millions)</u> | <u>Net Sales</u> |                 | <u>Operating Profits</u> |                | <u>Operating Profit Margins</u> |              |
|------------------------------|------------------|-----------------|--------------------------|----------------|---------------------------------|--------------|
|                              | <u>2011</u>      | <u>2010</u>     | <u>2011</u>              | <u>2010</u>    | <u>2011</u>                     | <u>2010</u>  |
| Otis                         | \$ 3,262         | \$ 2,908        | \$ 731                   | \$ 678         | 22.4%                           | 23.3%        |
| Carrier                      | 3,175            | 2,936           | 422                      | 380            | 13.3%                           | 12.9%        |
| UTC Fire & Security          | 1,746            | 1,657           | 194                      | 187            | 11.1%                           | 11.3%        |
| Pratt & Whitney              | 3,251            | 3,230           | 535                      | 547            | 16.5%                           | 16.9%        |
| Hamilton Sundstrand          | 1,531            | 1,420           | 282                      | 255            | 18.4%                           | 18.0%        |
| Sikorsky                     | 1,877            | 1,547           | 215                      | 163            | 11.5%                           | 10.5%        |
| Total segments               | 14,842           | 13,698          | 2,379                    | 2,210          | 16.0%                           | 16.1%        |
| Eliminations and other       | (38)             | (78)            | (75)                     | (199)          |                                 |              |
| General corporate expenses   | —                | —               | (102)                    | (83)           |                                 |              |
| Consolidated                 | <u>\$14,804</u>  | <u>\$13,620</u> | <u>\$2,202</u>           | <u>\$1,928</u> | <u>14.9%</u>                    | <u>14.2%</u> |

Third quarter 2011 and 2010 restructuring costs included in consolidated operating profit totaled \$85 million and \$58 million, respectively, as follows:

| <u>(Dollars in millions)</u> | <u>Quarter Ended September 30,</u> |              |
|------------------------------|------------------------------------|--------------|
|                              | <u>2011</u>                        | <u>2010</u>  |
| Otis                         | \$ 41                              | \$ 12        |
| Carrier                      | 8                                  | (1)          |
| UTC Fire & Security          | 13                                 | 24           |
| Pratt & Whitney              | 6                                  | 13           |
| Hamilton Sundstrand          | 4                                  | 2            |
| Sikorsky                     | 13                                 | 7            |
| Eliminations and other       | —                                  | 1            |
| Total                        | <u>\$ 85</u>                       | <u>\$ 58</u> |

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Results for the nine months ended September 30, 2011 and 2010 are as follows:

| (Dollars in millions)      | Net Sales       |                 | Operating Profits |                | Operating Profit Margins |              |
|----------------------------|-----------------|-----------------|-------------------|----------------|--------------------------|--------------|
|                            | 2011            | 2010            | 2011              | 2010           | 2011                     | 2010         |
| Otis                       | \$ 9,226        | \$ 8,472        | \$2,104           | \$1,915        | 22.8%                    | 22.6%        |
| Carrier                    | 9,334           | 8,496           | 1,190             | 852            | 12.7%                    | 10.0%        |
| UTC Fire & Security        | 5,120           | 4,687           | 562               | 478            | 11.0%                    | 10.2%        |
| Pratt & Whitney            | 9,798           | 9,350           | 1,460             | 1,505          | 14.9%                    | 16.1%        |
| Hamilton Sundstrand        | 4,503           | 4,125           | 793               | 680            | 17.6%                    | 16.5%        |
| Sikorsky                   | 5,245           | 4,597           | 633               | 477            | 12.1%                    | 10.4%        |
| Total segments             | 43,226          | 39,727          | 6,742             | 5,907          | 15.6%                    | 14.9%        |
| Eliminations and other     | (2)             | (265)           | (246)             | (321)          |                          |              |
| General corporate expenses | —               | —               | (295)             | (253)          |                          |              |
| Consolidated               | <u>\$43,224</u> | <u>\$39,462</u> | <u>\$6,201</u>    | <u>\$5,333</u> | <u>14.3%</u>             | <u>13.5%</u> |

For the first nine months of 2011 and 2010, restructuring costs included in consolidated operating profit totaled \$188 million and \$210 million, respectively, as follows:

| (Dollars in millions)  | Nine Months Ended September 30, |               |
|------------------------|---------------------------------|---------------|
|                        | 2011                            | 2010          |
| Otis                   | \$ 47                           | \$ 40         |
| Carrier                | 37                              | 32            |
| UTC Fire & Security    | 29                              | 53            |
| Pratt & Whitney        | 48                              | 48            |
| Hamilton Sundstrand    | 10                              | 11            |
| Sikorsky               | 16                              | 14            |
| Eliminations and other | 1                               | 12            |
| Total                  | <u>\$ 188</u>                   | <u>\$ 210</u> |

The tables and segment discussions that follow address the factors that contributed to the year-over-year changes in net sales and operating profits:

Otis –

|  | Factors Contributing to Total % Change Year-Over-Year in: |                   |                                      |                   |
|--|---|-------------------|--------------------------------------|-------------------|
|  | Quarter Ended September 30, 2011                          |                   | Nine Months Ended September 30, 2011 |                   |
|  | Net Sales   | Operating Profits | Net Sales                            | Operating Profits |
| Organic sales / Operational operating profit | 4 %   | 1 %               | 2 %                                  | 2 %               |
| Foreign currency translation                 | 7 %   | 8 %               | 6 %                                  | 7 %               |
| Acquisitions and divestitures, net           | 1 %   | —                 | 1 %                                  | —                 |
| Restructuring costs                          | —   | (4)%              | —                                    | —                 |
| Other  | —   | 3 %               | —                                    | 1 %               |
| Total % change                               | <u>12 %</u>   | <u>8 %</u>        | <u>9 %</u>                           | <u>10 %</u>       |

### Quarter ended September 30, 2011 Compared with Quarter ended September 30, 2010

Sales increased \$354 million (12%) in the third quarter of 2011, compared with the same period of 2010. The organic sales increase in the quarter was led by strong new equipment sales primarily in China and Russia (5% combined), partially offset by declines in new equipment sales in North America (1%). Service sales also increased in the quarter with continued growth in contractual maintenance and repairs led by North and South America.

Operating profits increased \$53 million (8%) in the third quarter of 2011, compared with the same period of 2010. Operational profit improvement in the quarter was due to benefits from higher volume, partially offset by the unfavorable impact of new

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equipment pricing and higher commodity costs. The 3% contributed by “Other” in the third quarter of 2011 primarily reflects gains from the sale of real estate.

### ***Nine months ended September 30, 2011 Compared with Nine months ended September 30, 2010***

Sales increased \$754 million (9%) in the first nine months of 2011, compared with the same period of 2010. The organic sales increase in the period was due to higher new equipment sales in China and Russia (combined 3%), partially offset by declines in North America (1%). Also contributing to the increase in organic sales was an increase in contractual maintenance across all regions and repair volume primarily in North America.

Operating profits increased \$189 million (10%) in the first nine months of 2011, compared with the same period of 2010. Operational profit improvement in the period was due to benefits from higher volume partially offset by new equipment pricing and the impact of higher commodity costs.

### **Carrier –**

#### **Factors Contributing to Total % Change Year-Over-Year in:**

|  | <b>Quarter Ended September 30, 2011</b> |                          | <b>Nine Months Ended September 30, 2011</b> |                          |
|--|---|--------------------------|---|--------------------------|
|  | <b>Net Sales</b>                        | <b>Operating Profits</b> | <b>Net Sales</b>                            | <b>Operating Profits</b> |
| Organic sales / Operational operating profit | 9 %                                     | 3 %                      | 12 %  | 30 %                     |
| Foreign currency translation                 | 4 %                                     | 3 %                      | 3 %   | 4 %                      |
| Acquisitions and divestitures, net           | (5)%                                    | (2)%                     | (5)%  | (3)%                     |
| Restructuring costs                          | —                                       | (2)%                     | —   | (1)%                     |
| Other  | —                                       | 9 %                      | —   | 10 %                     |
| Total % change                               | <u>8 %</u>                              | <u>11 %</u>              | <u>10 %</u>                                 | <u>40 %</u>              |

### ***Quarter ended September 30, 2011 Compared with Quarter ended September 30, 2010***

Sales increased \$239 million (8%) in the third quarter of 2011, compared with the same period of 2010. Organic sales growth of 9% was driven primarily by continued strength in the transport refrigeration business and growth in emerging markets, although as expected the growth rate in the transport refrigeration business has moderated in the third quarter of 2011. The 5% decrease in “Acquisitions and divestitures, net” reflects the net year-over-year impact from acquisitions and divestitures completed in the preceding twelve months.

Operating profit increased \$42 million (11%) in the third quarter of 2011, compared with the same period of 2010. The operational profit improvement of 3% was driven by solid conversion on higher organic sales growth and continued good performance in Carrier’s foreign ventures. This was partially offset by an unfavorable sales mix in the North America HVAC business and higher net commodity costs (9%). The 9% increase in “Other” reflects the net year-over-year impact of transactions associated with Carrier’s ongoing portfolio transformation and the absence of an approximately \$30 million valuation allowance charge reflected within equity income at an unconsolidated foreign venture recorded in 2010.

### ***Nine months ended September 30, 2011 Compared with Nine months ended September 30, 2010***

Sales increased \$838 million (10%) in the first nine months of 2011, compared with the same period of 2010. Organic sales growth of 12% was driven primarily by improvements in the transport refrigeration business. The 5% decrease in “Acquisitions and divestitures, net” reflects the net year-over-year impact from acquisitions and divestitures completed in the preceding twelve months.

Operating profit increased \$338 million (40%) in the first nine months of 2011, compared with the same period of 2010. Operational profit improvement of 30% was driven by strong conversion on organic sales growth, particularly in the higher margin transport refrigeration business, and earnings improvement in Carrier’s Japan joint venture (5%). This was partly offset by higher net commodity costs (12%). The 10% increase in “Other” primarily reflects the net year-over-year impact of items associated with Carrier’s ongoing portfolio transformation. Included in “Other” is the absence of an asset impairment charge of approximately \$58 million associated with the disposition of a business, partially offset by a gain on the sale of another business, both of which were recorded in the second quarter of 2010. Also included within “Other” is the absence of an approximately \$30 million valuation allowance charge reflected within equity income related to an unconsolidated foreign venture recorded in the third quarter of 2010.

UTC Fire & Security –

|  | Factors Contributing to Total % Change Year-Over-Year in: |                   |                                      |                   |
|--|---|-------------------|--------------------------------------|-------------------|
|  | Quarter Ended September 30, 2011                          |                   | Nine Months Ended September 30, 2011 |                   |
|  | Net Sales   | Operating Profits | Net Sales                            | Operating Profits |
| Organic sales / Operational operating profit | 2 %   | (2)%              | 3 %                                  | (1)%              |
| Foreign currency translation                 | 6 %   | 6 %               | 5 %                                  | 6 %               |
| Acquisitions and divestitures, net           | (2)%  | (1)%              | 2 %                                  | 1 %               |
| Restructuring costs                          | —   | 6 %               | —                                    | 5 %               |
| Other  | (1)%  | (5)%              | (1)%                                 | 7 %               |
| Total % change                               | <u>5 %</u>  | <u>4 %</u>        | <u>9 %</u>                           | <u>18 %</u>       |

**Quarter ended September 30, 2011 Compared with Quarter ended September 30, 2010**

Sales increased \$89 million (5%) in the third quarter of 2011, compared with the same period of 2010. The 2% organic sales growth reflects an increase in the products businesses (3%) while the service and install businesses declined (1%). Geographically, the organic growth was driven by stronger volume in the U.S. product businesses, partially offset by declines in the service and install businesses, particularly as a result of continuing market weakness in the U.K. The decrease contributed by “Acquisitions and divestitures, net” in the third quarter of 2011 reflects the net year-over-year impact from acquisitions and divestitures completed in the preceding twelve months, led entirely by the divestiture in March 2011 of the U.K. Guarding business.

Operating profits increased \$7 million (4%) in the third quarter of 2011, as compared with the same period of 2010. The operational profit decrease reflects lower profits in the U.K. as a result of continuing productivity challenges and a very soft market in the U.K., partially offset by the benefits from higher overall sales volume within the products businesses. The decrease contributed by “Acquisitions and divestitures, net” in the third quarter of 2011 reflects the net year-over-year impact from acquisitions and divestitures completed in the preceding twelve months, led entirely by the divestiture in March 2011 of the U.K. Guarding business. The 5% decrease in “Other” primarily reflects a \$20 million other-than-temporary impairment charge recorded on an equity investment in Asia, partially offset by the favorable settlement of litigation.

**Nine months ended September 30, 2011 Compared with Nine months ended September 30, 2010**

Sales increased \$433 million (9%) in the first nine months of 2011, compared with the same period of 2010. The 3% organic sales growth reflects growth in the products businesses while the service and install businesses were flat. Geographically, the organic growth was driven by stronger volume in the products businesses, partially offset by declines in the U.K. and U.S. service and install businesses as a result of weak market conditions. The increase contributed by “Acquisitions and divestitures, net” in the first nine months of 2011 reflects the net year-over-year impact from acquisitions and divestitures completed in the preceding twelve months.

Operating profits increased \$84 million (18%) for the first nine months of 2011, compared with the same period of 2010. The operational profit decrease reflects lower results in the U.K. due to lower sales and productivity challenges, partially offset by the benefits of higher overall sales volume within the products businesses and restructuring savings. The 7% increase contributed by “Other” primarily reflects the favorable resolution of litigation combined with the gain in the first quarter of 2011 on the disposition of the U.K. Guarding business, partially offset by a \$20 million other-than-temporary impairment charged recorded on an equity investment in Asia.

Pratt & Whitney –

|  | Factors Contributing to Total % Change Year-Over-Year in: |                   |                                      |                   |
|--|---|-------------------|--------------------------------------|-------------------|
|  | Quarter Ended September 30, 2011                          |                   | Nine Months Ended September 30, 2011 |                   |
|  | Net Sales   | Operating Profits | Net Sales                            | Operating Profits |
| Organic sales* / Operational operating profit* | 3 %   | (6)%              | 6 %                                  | (4)%              |
| Foreign currency (including P&WC net hedging)* | (2)%  | (4)%              | (1)%                                 | (3)%              |
| Acquisitions and divestitures, net             | —   | (1)%              | —                                    | —                 |
| Restructuring costs                            | —   | 1 %               | —                                    | —                 |
| Other  | —   | 8 %               | —                                    | 4 %               |
| Total % change                                 | <u>1 %</u>  | <u>(2)%</u>       | <u>5 %</u>                           | <u>(3)%</u>       |

\* 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

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hedging at P&WC has been netted against the translational foreign exchange impact for presentation purposes in the above table. For all other segments, these foreign exchange transactional impacts are included within the organic sales/operational operating profit caption in their respective tables. Due to its 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.

### **Quarter ended September 30, 2011 Compared with Quarter ended September 30, 2010**

Sales increased \$21 million (1%) in the third quarter of 2011, compared with the same period of 2010. Organic sales growth in the quarter primarily reflects an increase in overall aerospace aftermarket sales (7%), driven by spares, and in large commercial engine deliveries (1%). This was partially offset by the impact from fewer military engine deliveries (4%) and lower sales from both Rocketdyne and Pratt & Whitney Power Systems (combined 1%).

Operating profits decreased \$12 million (2%) in the third quarter of 2011, compared with the same period of 2010. The 6% operational profit decrease primarily reflects higher research and development costs (12%), net unfavorable commercial engine mix and fewer engine deliveries from the military business (combined 9%) as well as a decline at Rocketdyne and Pratt & Whitney Power Systems (combined 3%), partially offset by the benefit from higher commercial spares and overall aftermarket volumes. The 8% contributed by "Other" primarily reflects the gain on sale of an equity investment.

### **Nine months ended September 30, 2011 Compared with Nine months ended September 30, 2010**

Sales increased \$448 million (5%) in the first nine months of 2011, compared with the same period of 2010. The organic sales growth was primarily attributable to higher commercial aerospace aftermarket volumes (9%), driven by spares, partially offset by a decline in the military engine business (3%) driven by lower military engine deliveries.

Operating profits decreased \$45 million (3%) in the first nine months of 2011, compared with the same period of 2010. The operational profit decline (4%) primarily reflects higher research and development cost (14%), net unfavorable commercial engine mix and fewer engine deliveries from the military business (combined 10%), partially offset by the benefit from higher overall aerospace aftermarket volumes (20%). The 4% contributed by "Other" primarily reflects gains from the sale of equity interests in ventures through the first nine months of 2011.

### **Hamilton Sundstrand –**

|  | Factors Contributing to Total % Change Year-Over-Year in: |                   |                                      |                   |
|--|---|-------------------|--------------------------------------|-------------------|
|  | Quarter Ended September 30, 2011                          |                   | Nine Months Ended September 30, 2011 |                   |
|  | Net Sales   | Operating Profits | Net Sales                            | Operating Profits |
| Organic sales / Operational operating profit | 7 %   | 10 %              | 8 %                                  | 11 %              |
| Foreign currency translation                 | 2 %   | 2 %               | 2 %                                  | 2 %               |
| Acquisitions and divestitures, net           | (1)%  | —                 | (1)%                                 | —                 |
| Restructuring costs                          | —   | (1)%              | —                                    | —                 |
| Other  | —   | —                 | —                                    | 4 %               |
| Total % change                               | <u>8 %</u>  | <u>11 %</u>       | <u>9 %</u>                           | <u>17 %</u>       |

### **Quarter ended September 30, 2011 Compared with Quarter ended September 30, 2010**

Sales increased \$111 million (8%) in the third quarter of 2011, compared with the same period of 2010. The organic sales growth reflects higher volumes in both the aerospace (5%) and industrial (2%) businesses. The increase within aerospace was principally attributed to higher aftermarket volume, primarily commercial spares, while OEM sales volume was relatively flat. The industrial business increase was led by the compressor business as a result of general increases in the manufacturing and energy sectors, particularly in the U.S. and Asia.

Operating profits increased \$27 million (11%) in the third quarter of 2011, compared with the same period of 2010. Operational profit reflects an increase in both the aerospace (9%) and industrial (1%) businesses. The growth within aerospace reflects higher aftermarket volume, primarily commercial spares, partially offset by an adverse mix of product sales within OEM, including a reduction in military ground vehicle volumes and an increase in volume of lower margin commercial development programs. Also, operational profit growth reflects the benefit of lower research and development costs (9%) partially offset by higher warranty costs (8%). The increase within the industrials business reflects the benefit of higher volume.

### **Nine months ended September 30, 2011 Compared with Nine months ended September 30, 2010**

Sales increased \$378 million (9%) in the first nine months of 2011, compared with the same period of 2010. The organic sales growth primarily reflects volume increase in both the aerospace (6%) and industrial (2%) businesses. The increase within aerospace was driven by higher aftermarket volume (6%), primarily commercial spares. The industrial business increase was led by the compressor business as a result of general increases in the manufacturing and energy sectors, particularly in the U.S. and Asia.



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Operating profits increased \$113 million (17%) in the first nine months of 2011, compared with the same period of 2010. The increase in operational profit reflects an increase in both the aerospace (7%) and industrial (4%) businesses. The growth within aerospace reflects higher commercial aftermarket volume, partially offset by the adverse mix of product sales within OEM, including a reduction in military ground vehicle volumes and an increase in volume of lower margin commercial development programs. Also, operational profit growth reflects higher warranty costs (5%) partially offset by the benefit from lower research and development costs (3%). The increase within the industrial businesses reflects the benefit of higher volume and cost reduction initiatives. The increase contributed by “Other” reflects the impact from the absence of approximately \$28 million of asset impairment charges recorded in the second quarter of 2010. These charges were related primarily to the disposition of an aerospace business as part of Hamilton Sundstrand’s efforts to implement low cost sourcing initiatives.

### Sikorsky –

|  | Factors Contributing to Total % Change Year-Over-Year in: |                   |                                      |                   |
|--|---|-------------------|--------------------------------------|-------------------|
|  | Quarter Ended September 30, 2011                          |                   | Nine Months Ended September 30, 2011 |                   |
|  | Net Sales   | Operating Profits | Net Sales                            | Operating Profits |
| Organic sales / Operational operating profit | 21 %  | 36 %              | 13 %                                 | 18 %              |
| Acquisitions and divestitures, net           | —   | —                 | 1 %                                  | —                 |
| Restructuring costs                          | —   | (4)%              | —                                    | —                 |
| Other  | —   | —                 | —                                    | 15 %              |
| Total % change                               | <u>21 %</u>   | <u>32 %</u>       | <u>14 %</u>                          | <u>33 %</u>       |

### Quarter ended September 30, 2011 Compared with Quarter ended September 30, 2010

Sales increased \$330 million (21%) in the third quarter of 2011, as compared with the same period in 2010. The organic sales growth was primarily driven by higher international military aircraft sales and favorable configuration mix from military operations (15% combined), partially offset by the impact from lower aircraft deliveries from commercial operations (1%). The remainder of the increase in net sales was attributable to aftermarket support, driven by higher military volumes, and customer funded development programs (7% combined).

Operating profits increased \$52 million (32%) in the third quarter of 2011, as compared with the same period in 2010. The operational profit improvement primarily reflects the benefit from increased aircraft deliveries and favorable contract performance and aircraft configuration mix from military operations (20% combined) and increased aftermarket support (8%), driven by higher military volumes. The remainder of the operational profit increase is primarily driven by higher volume on customer funded development and lower research and development costs.

### Nine months ended September 30, 2011 Compared with Nine months ended September 30, 2010

Sales increased \$648 million (14%) in the first nine months of 2011 as compared with the same period in 2010. The organic sales growth was primarily driven by higher international military aircraft sales and favorable aircraft configuration mix from military operations (10% combined), including Canadian Maritime helicopters, and an increase in aftermarket support (4%), primarily driven by higher military volume. These increases were partially offset by a decrease from commercial operations (1%) due to unfavorable aircraft configuration mix.

Operating profits increased \$156 million (33%) in the first nine months of 2011 as compared to the same period in 2010. The operational profit improvement was primarily attributable to increased aftermarket support (7%), driven by higher military volumes. Operational profit also reflects the increase in military operations as higher aircraft deliveries and favorable aircraft configuration mix more than offset the adverse impact of losses associated with international military development aircraft sales (4% combined). The remainder of the operational profit increase is primarily driven by higher volume on customer funded development and lower research and development costs. The 15% increase in “Other” reflects the gain recognized on contribution of a business to a venture in the United Arab Emirates.

### Eliminations and other –

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 such as UTC Power and Clipper. The year-over-year change in sales for both the third quarter and first nine months of 2011, as compared with the same period of 2010, primarily reflects the impact from the acquisition of Clipper. The year-over-year change in operating profit for the third quarter of 2011, as compared with the same period of 2010, primarily reflects the absence of the prior year \$159 million other-than-temporary impairment charge on our investment in Clipper and the impact from the favorable resolution of litigation, partially offset by costs associated with the pending acquisition of Goodrich and the impact from the acquisition of Clipper. The year-over-year change in operating profit for the first



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nine months of 2011, as compared with the same period of 2010, primarily reflects the absence of a \$159 million other-than-temporary impairment charge on our investment in Clipper partially offset by the impact of losses at Clipper, costs associated with the pending acquisition of Goodrich and higher self-insurance reserves and legal costs.

### LIQUIDITY AND FINANCIAL CONDITION

| <u>(Dollars in millions)</u>   | <u>September 30,</u><br><u>2011</u> | <u>December 31,</u><br><u>2010</u> | <u>September 30,</u><br><u>2010</u> |
|--|-------------------------------------|------------------------------------|-------------------------------------|
| Cash and cash equivalents  | \$ 5,966                            | \$ 4,083                           | \$ 5,731                            |
| Total debt   | 11,364                              | 10,289                             | 12,302                              |
| Net debt (total debt less cash and cash equivalents)                 | 5,398                               | 6,206                              | 6,571                               |
| Total equity   | 23,588                              | 22,332                             | 22,253                              |
| Total capitalization (debt plus equity)                              | 34,952                              | 32,621                             | 34,555                              |
| Net capitalization (debt plus equity less cash and cash equivalents) | 28,986                              | 28,538                             | 28,824                              |
| Debt to total capitalization   | 33%                                 | 32%                                | 36%                                 |
| Net debt to net capitalization                                       | 19%                                 | 22%                                | 23%                                 |

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, which, after netting out capital expenditures, we target to equal or exceed net income attributable to common shareowners. For the full year of 2011, we expect operating cash flows less capital expenditures to exceed net income attributable to common shareowners. 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.

Although the global economy has improved as compared with 2010, most measures are pointing to a slow and uneven recovery. High unemployment and a weak housing sector in the U.S. continue to dampen consumer sentiment domestically, while concerns over European sovereign debt issues and the deficit debate in Washington, D.C. continue to plague financial markets and constrain government spending in certain countries. In light of these circumstances, we continue to assess our current business and closely monitor the impact on our customers and suppliers, and have determined that overall there has not been a significant effect on our financial position, results of operations or liquidity during the first nine months of 2011. Our domestic pension funds experienced a positive return on assets of approximately 3% during the first nine months of 2011. The continued recognition of prior pension losses and the impact of a lower discount rate, partially offset by additional funding and the positive returns experienced during 2010, are expected to increase pension expense in 2011 by approximately \$150 million as compared to 2010.

Approximately 88% of our domestic pension plans are invested in readily-liquid investments, including equity, fixed income, asset-backed receivables and structured products. The balance of our domestic pension plans (12%) is invested in less-liquid but market-valued investments, including real estate and private equity.

Our strong debt ratings and financial position have historically enabled us to issue long-term debt at favorable market rates, including our issuance of \$2.25 billion of long-term debt in February 2010. 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 for our pending acquisition of Goodrich for \$127.50 per share in cash equates to a total current enterprise value of \$18.4 billion, including \$1.9 billion in net debt to be assumed. Of the total \$16.5 billion required, we expect to finance the transaction through a combination of debt and equity issuances, with the equity component expected to approximate 25% of the total financing (other than the amount of net debt assumed). To manage the cash flow and liquidity impacts of these actions, we are suspending future share repurchases until September 30, 2012, and will significantly reduce repurchases for two years thereafter. In addition, we will reduce our budgeted acquisitions spending from \$2 billion per year to \$1 billion for the next few years, excluding spending for our pending acquisitions of Goodrich and Rolls-Royce's equity and program shares in IAE.

We executed a commitment letter, dated September 21, 2011, with various financial institutions that provides a 12-month commitment, subject to a 6-month extension for regulatory reasons, for a \$15 billion 364-day unsecured bridge loan facility.

At September 30, 2011, we had committed revolving credit agreements from banks permitting aggregate borrowings of up to \$3.0 billion under a \$1.6 billion revolving credit agreement and a \$1.4 billion multicurrency revolving credit agreement, which expire in November 2014 and December 2014, respectively. As of September 30, 2011, 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

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for the issuance of commercial paper. As of September 30, 2011, our maximum commercial paper borrowing authority was \$3 billion.

We continue to have access to the commercial paper markets and our existing credit facilities, and expect to continue to generate strong 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. Restricted cash as of September 30, 2011 was not significant. As of December 31, 2010, the amount of restricted cash was approximately \$75 million, all of which was included in current assets.

We believe our future operating cash flows will be sufficient to meet our future operating cash needs. Further, 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

| <u>(Dollars in millions)</u>                    | <u>Nine Months Ended September 30,</u> |                 |
|---|--|-----------------|
|   | <u>2011</u>                            | <u>2010</u>     |
| Net cash flows provided by operating activities | <u>\$ 4,578</u>                        | <u>\$ 4,230</u> |

The increase in cash generated from operating activities in the first nine months of 2011 as compared with the same period in 2010 was due largely to the increase in net income attributable to common shareowners as a result of higher sales volumes and to lower global pension cash contributions. These benefits were partially offset by higher working capital cash requirements. During the first nine months of 2011, the net increase in working capital resulted in a cash outflow of \$693 million compared to a cash inflow of \$31 million during the first nine months of 2010. This increase of \$724 million was primarily driven by higher accounts receivable due to increased sales volumes, as well as reduced advances at Sikorsky.

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 2011 and 2010 were \$247 million and \$699 million, respectively. During the first nine months of 2011 and 2010, we also contributed \$450 and \$250 million, respectively, in UTC common stock to our defined benefit pension plans. Our domestic pension plans are nearly 90% funded on a projected benefit obligation basis and we are not required to make additional contributions to our domestic pension plans through the end of 2012. Contributions to our defined benefit pension plans in 2011 are expected to meet or exceed the current funding requirements.

### Cash Flow - Investing Activities

| <u>(Dollars in millions)</u>                | <u>Nine Months Ended September 30,</u> |                   |
|---|--|-------------------|
|   | <u>2011</u>                            | <u>2010</u>       |
| Net cash flows used in investing activities | <u>\$ (298)</u>                        | <u>\$ (2,686)</u> |

The decrease in cash used in investing activities was largely a result of a decrease in acquisition activity in the first nine months of 2011, as compared with the same period of 2010. Investments in businesses in the first nine months of 2011 consisted of a number of small acquisitions in both our commercial and aerospace businesses. Investments in businesses in the first nine months of 2010 primarily reflected the acquisition of the GE Security business for approximately \$1.8 billion and the acquisition of a 49.9% equity stake in Clipper for approximately \$270 million. We expect total investments in businesses in 2011 to be less than \$500 million, including acquisitions completed during the first nine months of 2011, however, actual acquisition spending may vary depending upon

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the timing, availability and appropriate value of acquisition opportunities. Capital expenditures increased \$126 million primarily at Carrier and Hamilton Sundstrand, which included expenditures related to new product launches and investment in low-cost manufacturing facilities.

Customer financing activities were a net source of cash of \$43 million for the first nine months of 2011, compared to a net use of cash of \$29 million for the same period in 2010. While we expect that 2011 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 \$2.2 billion and \$2.0 billion related to commercial aircraft and certain contractual rights to provide product on new aircraft platforms at September 30, 2011 and December 31, 2010, respectively, of which as much as \$224 million may be required to be disbursed during 2011.

### **Cash Flow - Financing Activities**

| <u>(Dollars in millions)</u>                | <u>Nine Months Ended September 30,</u> |             |
|---|--|-------------|
|   | <u>2011</u>                            | <u>2010</u> |
| Net cash flows used in financing activities | \$ (2,410)                             | \$ (308)    |

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. 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 \$1,080 million of commercial paper outstanding at September 30, 2011.

We repurchased \$2.2 billion of our common stock in the first nine months of 2011, under an existing 60 million share repurchase program. Share repurchases in the first nine months of 2011 represented approximately 26.9 million shares. In addition to management's view that the repurchase of our common stock is a beneficial investment, we also repurchase to offset the dilutive effect of the issuance of stock and options under the stock-based employee benefit programs. At September 30, 2011, management had authority to repurchase approximately 7 million shares under the previously announced share repurchase program. Our share repurchases vary depending upon various factors including the level of other investing activities. However, as a result of our pending acquisition of Goodrich, we have suspended additional share repurchases until September 30, 2012, and will significantly reduce repurchases for two years thereafter.

We paid dividends on Common Stock of \$0.425 per share in the first quarter of 2011 totaling \$368 million in the aggregate, \$0.48 per share in the second quarter of 2011 totaling \$413 million in the aggregate, and \$0.48 per share in the third quarter of 2011 totaling \$411 million in the aggregate. On October 12, 2011, the Board of Directors declared a dividend of \$0.48 per share payable December 10, 2011 to shareowners of record at the close of business on November 18, 2011.

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.

### **Off-Balance Sheet Arrangements and Contractual Obligations**

In our 2010 Annual Report, incorporated by reference in our 2010 Form 10-K, we disclosed our off-balance sheet arrangements and contractual obligations. At September 30, 2011, 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.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There has been no significant change in our exposure to market risk during the first nine months of 2011. For discussion of our exposure to market risk, refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," contained in our 2010 Form 10-K.

**Item 4. Controls and Procedures**

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (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 Vice President, Controller (Controller), of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2011. 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, 2011, 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 quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**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," "should," "see," "guidance," "confident" and other words of similar meaning in connection with a discussion of future operating or financial performance. These include, among others, statements relating to:

- future sales, earnings, cash flow, results of operations, uses of cash and other measures of financial performance;
- the effect of economic conditions in the markets in which we operate in the United States 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;
- in respect of our recently announced agreement to acquire Goodrich and Pratt & Whitney's recently announced transactions with Rolls-Royce, the satisfaction of conditions precedent to, and consummation of, the proposed transactions, the timing of consummation of the proposed transactions, and the ability of the parties to secure regulatory approvals, and in the case of the Goodrich transaction, the approval of Goodrich's shareholders, in a timely manner;
- in respect of our recently announced agreement to acquire Goodrich, our ability to integrate the acquired operations and to realize opportunities for growth and innovation;
- 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 or impact of acquisition and divestiture activity, including integration of acquired businesses into our existing businesses;
- the development, production, delivery, support, performance and anticipated benefits of advanced technologies and new products and services;
- 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;

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- future repurchases of our common stock;
- future levels of indebtedness and capital research and development spending;
- future availability of credit;
- pension plan assumptions and future contributions; and
- the effect of changes in tax, environmental and other laws and regulations or political conditions in the United States and other countries in which we operate.

All forward-looking statements involve risks and uncertainties that may cause actual results to differ materially from those expressed or implied in the forward-looking statements. This Form 10-Q includes important information as to factors that may cause actual results to vary materially from those stated 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 Continuing Operations,” and “Liquidity and Financial Condition” and the section titled “Risk Factors” in this Form 10-Q and in our 2010 Form 10-K. Our 2010 Form 10-K also includes important information as to these risk 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 in our 2010 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.” For additional information identifying factors that may cause actual results to vary materially from those stated in the forward-looking statements, see our reports on Forms 10-K, 10-Q and 8-K filed with the SEC from time to time.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings**

As previously disclosed, on February 21, 2007, the European Commission’s Competition Directorate ruled that Otis’ subsidiaries in Belgium, Luxembourg and the Netherlands, and a portion of the business of Otis’ German subsidiary, violated European Union (EU) competition rules and assessed a €225 million (approximately \$300 million) civil fine against Otis, its relevant local entities, and UTC, which was paid during 2007. In May 2007, we filed an appeal of the decision with the General Court of the European Court of Justice (General Court). On July 13, 2011, the General Court rejected our appeal. On July 23, 2011, we filed an appeal of the judgment with the European Court of Justice.

Except as 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 2010 Form 10-K and Part II, Item 1, “Legal Proceedings,” of our 2011 Form 10-Q for the quarter ended June 30, 2011.

### **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 first nine months of 2011, the global economy continued to show signs of 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 some recent positive economic indicators, uncertainty continues to exist as to the overall rate and stability of the recovery. Global gross domestic product growth continues to be led by emerging markets, particularly in Brazil, Russia, India and China, while in the developed economies, particularly in Europe, the recovery remains sluggish due to the unwinding of fiscal stimuli, lingering high unemployment, concerns over European sovereign debt issues and the tightening of government budgets. As a result, further disruptions in Europe or in other economies could affect our revenues or liquidity.

Although consumer confidence in the U.S. has improved since the economic downturn, it still remains low, while unemployment remains high and the housing market remains depressed. 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 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 airline customers 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 also adversely affects our results.

***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 57% of our consolidated net sales in 2010, 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 the U.S. credit markets and other global and political factors. For example, a slowdown in building and remodeling activity can adversely affect Carrier's business. In addition to these factors, Carrier's financial performance 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 43% of our consolidated net sales in 2010, 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 in 2010 and over the first nine months of 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 engine 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 both the demand for air travel and the aftermarket sales and margins of our aerospace businesses. Future terrorist actions, pandemic health issues or major natural disasters could dramatically reduce both the demand for air travel and our aerospace businesses aftermarket sales and margins. Also, since a substantial portion of the backlog for commercial aerospace customers is scheduled for delivery beyond 2011, 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. 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 cash flows, competitive position, financial condition or results of operations.

***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 investigation (including violation 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 subject us to fines, penalties, repayments and treble and other damages. 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. Independently, failure to comply with U.S. laws and regulations related to the export of goods and technology outside the United States could result in civil or criminal penalties and suspension or termination of our export privileges. In addition, we are also sensitive to U.S. military budgets, which may fluctuate based on the policies of a new administration or Congress.

***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% of our total 2010 segment 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 United States are incurred in the applicable local currency (principally the Euro and the Canadian Dollar). For operating units with U.S. Dollar sales and local currency costs, there is a 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 13 to the Consolidated Financial Statements in our 2010 Annual Report and Note 8 to the Condensed Consolidated Financial Statements in this Form 10-Q for a 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 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 civil disturbances, health concerns, 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 cash flows, competitive position, financial condition or results of operations.

***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***

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

***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 September 21, 2011, we announced that we entered into an agreement to acquire Goodrich, and on October 12, 2011, Pratt & Whitney announced that Rolls-Royce will sell its equity and program shares in IAE to Pratt & Whitney and that Pratt & Whitney and Rolls-Royce have agreed to form a new venture to develop engines to power future mid-size aircraft. The



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success of these transactions will depend on our ability to integrate assets and personnel acquired in connection with these transactions, apply our internal controls processes to these acquired businesses, and cooperate with our strategic partners. However, 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. In addition, the success of our pending acquisition of Goodrich and Pratt & Whitney's recently announced transactions with Rolls-Royce will depend on the satisfaction of conditions precedent to, and consummation of, the proposed transactions, the timing of consummation of the proposed transactions, and the ability of the parties to secure regulatory approvals, and in the case of the Goodrich transaction, the approval of Goodrich's shareholders, in a timely manner. 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. These 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 affect our future financial results.

### ***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. These factors involve significant risks and uncertainties. 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 suppliers and subcontractors may encounter difficulties in developing and producing these new products and services, and may not realize the degree or timing of benefits initially anticipated. 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 services. To generate an 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 cash flows, competitive position, financial condition or results of operations.

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

We are subject to a variety of litigation, tax and legal compliance risks. These risks include, among other things, possible liability relating to product liability matters, personal injuries, intellectual property rights, government contracts, taxes, environmental matters and compliance with U.S. and foreign export 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), or suspension or debarment from government contracts. Independently, failure of us or one of our business units to comply with applicable export and trade practice laws could result in civil or criminal penalties and suspension or termination of export privileges. 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



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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.

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. 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 an adverse effect on our results of operations in the period in which a liability would be recognized or cash flows 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 2010 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% 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% 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.

### ***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 cash flows, competitive position, financial condition or results of operations.

### ***Our Financial Performance May Be Adversely Affected By Business Disruptions***

Our business may be impacted by disruptions, including threats to physical security, information technology attacks or failures, damaging weather or other acts of nature, pandemics or other public health crises. Any of these disruptions could affect our internal operations or our ability to provide products and services to our customers. We believe that we have adopted appropriate measures to mitigate potential risks to our technology and our operations from such disruptions. However, given the unpredictability of the timing, nature and scope of such disruptions, we could potentially be subject to production downtimes, operational delays, the compromising of confidential information, destruction of data, or the manipulation or improper use of our systems and networks, any of which could have a material adverse effect on our cash flows, competitive position, financial condition or results of operations.

### ***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

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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 United States, which could make it easier for competitors to capture market position in such countries by utilizing technologies that are similar to those developed or licensed by us. We may also be subject to disruptions, losses and liability resulting from information technology attacks or failures.

Any of these events or factors could diminish or cause us to lose the competitive advantages associated with our intellectual property, subject 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 cash flows, competitive position, financial condition or results of operations.

### **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, 2011 of equity securities that are registered by us pursuant to Section 12 of the Exchange Act.

| <u>2011</u>                | <u>Total Number of Shares<br/>Purchased<br/>(000's)</u> | <u>Average Price Paid<br/>per Share</u> | <u>Total Number of Shares<br/>Purchased as Part of a<br/>Publicly Announced<br/>Program<br/>(000's)</u> | <u>Maximum Number of<br/>Shares that may yet<br/>be Purchased Under<br/>the Program<br/>(000's)</u> |
|----------------------------|---|---|---|---|
| July 1 - July 31           | 1,710   | \$ 87.82                                | 1,708   | 14,326  |
| August 1 - August 31       | 4,526   | 70.56                                   | 4,525   | 9,801   |
| September 1 - September 30 | 2,864   | 71.81                                   | 2,864   | 6,937   |
| Total                      | <u>9,100</u>  | <u>\$ 74.20</u>                         | <u>9,097</u>  |   |

We repurchase shares under a program announced on March 10, 2010, which authorized the repurchase of up to 60 million shares of our common stock. Under the 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 Exchange Act. These repurchases are included within the scope of the overall repurchase program authorized in March 2010. 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, 2011.

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### Item 6. Exhibits

| <u>Exhibit Number</u> | <u>Exhibit Description</u>  |
|-----------------------|---|
| 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.*<br>(File name: utx-20110930.xml)                                     |
| 101.SCH               | XBRL Taxonomy Extension Schema Document.*<br>(File name: utx-20110930.xsd)                    |
| 101.CAL               | XBRL Taxonomy Extension Calculation Linkbase Document.*<br>(File name: utx-20110930_cal.xml)  |
| 101.DEF               | XBRL Taxonomy Extension Definition Linkbase Document.*<br>(File name: utx-20110930_def.xml)   |
| 101.LAB               | XBRL Taxonomy Extension Label Linkbase Document.*<br>(File name: utx-20110930_lab.xml)        |
| 101.PRE               | XBRL Taxonomy Extension Presentation Linkbase Document.*<br>(File name: utx-20110930_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 Operations for the quarters and nine months ended September 30, 2011 and 2010, (ii) Condensed Consolidated Balance Sheet at September 30, 2011 and December 31, 2010, (iii) Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2011 and 2010 and (iv) Notes to Condensed Consolidated Financial Statements. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

**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 24, 2011

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)

Dated: October 24, 2011

by: \_\_\_\_\_ /s/ PETER F. LONGO  
Peter F. Longo  
Vice President, Controller  
(on behalf of the Registrant and as the Registrant's Principal Accounting Officer)

**EXHIBIT INDEX**

| <b><u>Exhibit Number</u></b> | <b><u>Exhibit Description</u></b>   |
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**UNITED TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES**

**STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**

| <u>(Dollars in millions)</u>              | <u>Nine Months Ended September 30,</u> |                 |
|---|--|-----------------|
|   | <u>2011</u>                            | <u>2010</u>     |
| <b>Fixed Charges:</b>                     |  |                 |
| Interest expense <sup>1</sup>             | \$ 497                                 | \$ 560          |
| Interest capitalized                      | 15                                     | 13              |
| One-third of rents <sup>2</sup>           | 111                                    | 111             |
| <b>Total fixed charges</b>                | <b>\$ 623</b>                          | <b>\$ 684</b>   |
| <b>Earnings:</b>                          |  |                 |
| Income before income taxes                | \$ 5,773                               | \$ 4,852        |
| Fixed charges per above                   | 623                                    | 684             |
| Less: capitalized interest                | (15)                                   | (13)            |
|   | 608                                    | 671             |
| Amortization of interest capitalized      | 13                                     | 13              |
| <b>Total earnings</b>                     | <b>\$ 6,394</b>                        | <b>\$ 5,536</b> |
| <b>Ratio of earnings to fixed charges</b> | <b>10.26</b>                           | <b>8.09</b>     |

<sup>1</sup> Pursuant to the guidance in the Income Taxes Topic of the FASB ASC, interest related to unrecognized tax benefits recorded was approximately \$14 million and \$20 million for the nine months ended September 30, 2011 and 2010, respectively. The ratio of earnings to fixed charges would have been 10.50 and 8.34 for the nine months ended September 30, 2011 and 2010, respectively, if such interest were excluded from the calculation.

<sup>2</sup> Reasonable approximation of the interest factor.

October 24, 2011

Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549

Commissioners:

We are aware that our report dated October 24, 2011 on our review of interim financial information of United Technologies Corporation (the "Corporation") for the three-month and nine-month periods ended September 30, 2011 and 2010 and included in the Corporation's quarterly report on Form 10-Q for the quarter ended September 30, 2011 is incorporated by reference in its Registration Statement on Form S-3 (No. 333-167771), in the Registration Statement on Form S-4 (No. 333-77991) as amended by Post-Effective Amendment No. 1 on Form S-8 (No. 333-77991) and in the Registration Statements on Form S-8 (Nos. 333-175781, 333-175780, 333-156390, 333-125293, 333-110020, 333-100724, 333-100723, 333-100718, 333-82911, 333-77817, 333-21853, 333-21851, 033-57769 and 033-51385).

Very truly yours,

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut

## CERTIFICATION

I, Louis R. Chênevert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Technologies Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ LOUIS R. CHÊNEVERT

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Louis R. Chênevert  
Chairman & Chief Executive Officer

Date: October 24, 2011



## CERTIFICATION

I, Gregory J. Hayes, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Technologies Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ GREGORY J. HAYES

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Gregory J. Hayes  
Senior Vice President and Chief Financial Officer

Date: October 24, 2011

## CERTIFICATION

I, Peter F. Longo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of United Technologies Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ PETER F. LONGO

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Peter F. Longo  
Vice President, Controller

Date: October 24, 2011

**Section 1350 Certifications**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of United Technologies Corporation, a Delaware corporation (the "Corporation"), does hereby certify that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2011 (the "Form 10-Q") of the Corporation fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: October 24, 2011

/s/ LOUIS R. CHÊNEVERT

Louis R. Chênevert  
Chairman & Chief Executive Officer

Date: October 24, 2011

/s/ GREGORY J. HAYES

Gregory J. Hayes  
Senior Vice President and Chief Financial Officer

Date: October 24, 2011

/s/ PETER F. LONGO

Peter F. Longo  
Vice President and Controller