UNITED TECHNOLOGIES CORP /DE/
Form 10-Q
July 30, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from _______ to _______

Commission file number 1-812

UNITED TECHNOLOGIES CORPORATION

DELAWARE **06-0570975**
One Financial Plaza, Hartford, Connecticut 06103

(860) 728-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x. 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 x. 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 x	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 x.

At June 30, 2012 there were 911,787,235 shares of Common Stock outstanding.

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UNITED TECHNOLOGIES CORPORATION

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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.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

UNITED TECHNOLOGIES CORPORATION

AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in millions, except per share amounts)	Quarter Ended June 30, 2012	2011
Net Sales:		
Product sales	$ 9,585	$ 10,226
Service sales	4,222	4,243
	13,807	14,469
Costs and Expenses:		
Cost of products sold	7,123	7,666
Cost of services sold	2,811	2,802
Research and development	525	494
Selling, general and administrative	1,509	1,576
	11,968	12,538
Other income, net	340	219
Operating profit	2,179	2,150
Interest expense, net	168	141
Income from continuing operations before income taxes	2,011	2,009
Income tax expense	453	612
Net income from continuing operations	1,558	1,397
Discontinued operations (Note 2):		
(Loss) income from operations	(3)	70
Loss on disposal	(210)	
Income tax benefit (expense)	77	(37)
Net (loss) income on discontinued operations	(136)	33
Net income	**1,422**	**1,430**
Less: Noncontrolling interest in subsidiaries earnings	94	112

Net income attributable to common shareowners	**$**	**1,328**	**$**	**1,318**
Comprehensive income	**$**	**721**	**$**	**1,637**
Less: Comprehensive income attributable to noncontrolling interests		67		114
Comprehensive income attributable to common shareowners	**$**	**654**	**$**	**1,523**
Net income (loss) attributable to common shareowners:				
Net income from continuing operations	$	1,466	$	1,288
Net (loss) income from discontinued operations	$	(138)	$	30
Earnings Per Share of Common Stock - Basic:				
Net income from continuing operations	$	1.64	$	1.44
Net income attributable to common shareowners	$	1.49	$	1.48
Earnings Per Share of Common Stock - Diluted:				
Net income from continuing operations	$	1.62	$	1.41
Net income attributable to common shareowners	$	1.47	$	1.45

See accompanying Notes to Condensed Consolidated Financial Statements

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UNITED TECHNOLOGIES CORPORATION

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CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in millions, except per share amounts)	Six Months Ended June 30, 2012	2011
Net Sales:		
Product sales	$ 18,004	$ 18,908
Service sales	8,219	8,234
	26,223	27,142
Costs and Expenses:		
Cost of products sold	13,446	14,131
Cost of services sold	5,418	5,489
Research and development	1,069	962
Selling, general and administrative	3,038	3,026
	22,971	23,608
Other income, net	640	316
Operating profit	3,892	3,850
Interest expense, net	297	290
Income from continuing operations before income taxes	3,595	3,560
Income tax expense	773	1,103
Net income from continuing operations	2,822	2,457
Discontinued operations (Note 2):		
(Loss) income from operations	27	149
Loss on disposal	(1,171)	
Income tax benefit (expense)	151	(75)
Net (loss) income on discontinued operations	(993)	74
Net income	**1,829**	**2,531**
Less: Noncontrolling interest in subsidiaries earnings	171	201
Net income attributable to common shareowners	**$ 1,658**	**$ 2,330**
Comprehensive income	**$ 1,625**	**$ 3,442**
Less: Comprehensive income attributable to noncontrolling interests	152	239

Comprehensive income attributable to common shareowners	**$**	**1,473**	**$**	**3,203**
Net income (loss) attributable to common shareowners:				
Net income from continuing operations	$	2,655	$	2,261
Net (loss) income from discontinued operations	$	(997)	$	69
Earnings Per Share of Common Stock - Basic:				
Net income from continuing operations	$	2.98	$	2.52
Net income attributable to common shareowners	$	1.86	$	2.60
Earnings Per Share of Common Stock - Diluted:				
Net income from continuing operations	$	2.94	$	2.48
Net income attributable to common shareowners	$	1.83	$	2.55

See accompanying Notes to Condensed Consolidated Financial Statements

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UNITED TECHNOLOGIES CORPORATION

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CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

(Dollars in millions)	June 30, 2012	December 31, 2011
Assets		
Cash and cash equivalents	$ 5,966	$ 5,960
Accounts receivable, net	9,538	9,546
Inventories and contracts in progress, net	8,502	7,797
Future income tax benefits, current	1,677	1,662
Assets of discontinued operations	1,989	
Restricted cash, current	10,715	37
Other assets, current	755	756
Total Current Assets	39,142	25,758
Customer financing assets	1,145	1,035
Future income tax benefits	2,443	2,387
Fixed assets	15,012	15,980
Less: Accumulated depreciation	(9,295)	(9,779)
Fixed assets, net	5,717	6,201
Goodwill	16,116	17,943
Intangible assets, net	4,893	3,918
Other assets	5,197	4,210
Total Assets	$ 74,653	$ 61,452
Liabilities and Equity		
Short-term borrowings	$ 210	$ 630
Accounts payable	5,752	5,570
Accrued liabilities	12,853	12,287
Liabilities of discontinued operations	917	
Long-term debt currently due	61	129
Total Current Liabilities	19,793	18,616
Long-term debt	20,450	9,501
Future pension and postretirement benefit obligations	5,087	5,007
Other long-term liabilities	5,360	5,150
Total Liabilities	50,690	38,274
Commitments and contingent liabilities (Note 14)		
Redeemable noncontrolling interest	238	358
Shareowners Equity:		
Common Stock	13,538	13,445

Treasury Stock	(19,399)	(19,410)
Retained earnings	34,285	33,487
Unearned ESOP shares	(145)	(152)
Accumulated other comprehensive loss	(5,675)	(5,490)
Total Shareowners Equity	22,604	21,880
Noncontrolling interest	1,121	940
Total Equity	23,725	22,820
Total Liabilities and Equity	$ 74,653	$ 61,452

See accompanying Notes to Condensed Consolidated Financial Statements

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UNITED TECHNOLOGIES CORPORATION

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
(Dollars in millions)	**2012**	**2011**
Operating Activities of Continuing Operations:		
Net income from continuing operations	$ 2,822	$ 2,457
Adjustments to reconcile net income from continuing operations to net cash flows provided by operating activities of continuing operations:		
Depreciation and amortization	625	638
Deferred income tax provision	11	289
Stock compensation cost	96	124
Change in:		
Accounts receivable	262	(582)
Inventories and contracts in progress	(1,049)	(782)
Other current assets	(58)	(24)
Accounts payable and accrued liabilities	744	597
Global pension contributions	(24)	(70)
Other operating activities, net	(403)	(4)
Net cash flows provided by operating activities of continuing operations	3,026	2,643
Investing Activities of Continuing Operations:		
Capital expenditures	(431)	(371)
Investments in businesses	(209)	(184)
Dispositions of businesses	284	145
Decrease in customer financing assets, net	26	29
(Increase) decrease in restricted cash	(10,696)	9
Increase in collaboration intangible assets	(1,244)	
Other investing activities, net	(2)	70
Net cash flows used in investing activities of continuing operations	(12,272)	(302)
Financing Activities of Continuing Operations:		
Issuance (repayment) of long-term debt, net	10,784	(60)
(Decrease) increase in short-term borrowings, net	(418)	1,162
Common Stock issued under employee stock plans	138	168
Dividends paid on Common Stock	(825)	(781)
Repurchase of Common Stock		(1,500)
Other financing activities, net	(302)	(88)
Net cash flows provided by (used in) financing activities of continuing operations	9,377	(1,099)
Discontinued Operations:		
Net cash provided by (used in) operating activities	3	(24)
Net cash used in investing activities	(7)	(5)

Net cash used in financing activities		(10)
Net cash used in discontinued operations	(4)	(39)
Effect of foreign exchange rate changes on cash and cash equivalents	(37)	110
Net increase in cash and cash equivalents	90	1,313
Cash and cash equivalents, beginning of year	5,960	4,083
Cash and cash equivalents, end of period	6,050	5,396
Less: Cash and cash equivalents of discontinued operations	84	
Cash and cash equivalents of continuing operations, end of period	$ 5,966	$ 5,396

See accompanying Notes to Condensed Consolidated Financial Statements

UNITED TECHNOLOGIES CORPORATION

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The Condensed Consolidated Financial Statements at June 30, 2012 and for the quarters and six months ended June 30, 2012 and 2011 are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. The results reported in these Condensed Consolidated Financial Statements should not necessarily be taken as indicative of results that may be expected for the entire year. The financial information included herein should be read in conjunction with the financial statements and notes in our Annual Report to Shareowners (2011 Annual Report) incorporated by reference to our Annual Report on Form 10-K for calendar year 2011 (2011 Form 10-K).

Certain reclassifications have been made to the prior year amounts to conform to the current year presentation. On September 28, 2011, we announced a new organizational structure that allows us to better serve customers through greater integration across product lines. Effective January 1, 2012, we formed the UTC Climate, Controls & Security segment which combines the former Carrier and UTC Fire & Security segments. In 2012, the Company approved plans for the divestiture of a number of non-core businesses. The results of operations including the expected loss on disposition and the related cash flows which result from these non-core businesses have been reclassified to Discontinued Operations in our Condensed Consolidated Statement of Comprehensive Income and Condensed Consolidated Statement of Cash Flows for all periods presented. See Note 2 for further discussion.

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

Business Acquisitions and Dispositions. During the first six months of 2012, our investment in business acquisitions was $358 million (including debt assumed of $149 million).

On September 21, 2011, we announced an agreement to acquire Goodrich Corporation (Goodrich), a global supplier of systems and services to the aerospace and defense industry with 2011 sales of $8.1 billion. Goodrich products include aircraft nacelles and interior systems, actuation and landing systems, and electronic systems. 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 estimated enterprise value of $18.2 billion, including $1.7 billion in net debt to be assumed. In March 2012, Goodrich received shareholder approval for the transaction. The transaction is subject to customary closing conditions, including regulatory approvals. We expect that this acquisition will close in mid-2012. Once the acquisition is complete, Goodrich and Hamilton Sundstrand will be combined to form a new segment named UTC Aerospace Systems. This segment and our Pratt & Whitney segment will be separately reportable segments although they will both be included within the UTC Propulsion & Aerospace Systems organizational structure. We expect the increased scale, financial strength and complementary products of the new combined business will strengthen our position in the aerospace and defense industry. Further, we expect that this acquisition will enhance our ability to support our customers with more integrated systems.

In 2012, the Company approved plans for the divestiture of a number of non-core businesses. Cash generated from these divestitures is intended to be used to repay a portion of the short-term debt we expect to incur as part of the financing for the proposed acquisition of Goodrich. See Note 2 for further discussion.

In July 2012, we completed the acquisition of Goodrich and announced agreements to sell a number of non-core businesses. See Note 17 for discussion of subsequent events.

On June 29, 2012, Pratt & Whitney, Rolls-Royce plc (Rolls-Royce), and MTU Aero Engines AG (MTU) and Japanese Aero Engines Corporation (JAEC), participants in the IAE International Aero Engines AG (IAE) collaboration, completed a restructuring of their interests in IAE. Under the terms of the agreement, Rolls-Royce sold its ownership and collaboration interests in IAE to Pratt & Whitney, while also entering into a license for its V2500 intellectual property with Pratt & Whitney. In exchange for the increased ownership and collaboration interests and intellectual property license, Pratt & Whitney paid Rolls-Royce $1.5 billion at closing with additional payments due to Rolls-Royce conditional upon each hour flown by V2500-powered aircraft in service at the closing date of the purchase from Rolls-Royce during the fifteen year period following closing of the purchase. The collaboration interest and intellectual property licenses are reflected as intangible assets and will be amortized in relation to the economic benefits received over the remaining estimated 30 year life of the V2500 program. Rolls-Royce will continue to support IAE as a strategic supplier for the V2500 engine and continue to perform its key responsibilities for IAE, including the

manufacture of parts and assembly of engines. Pratt & Whitney entered into a collaboration arrangement with MTU with respect to a portion of the acquired collaboration interest in IAE for consideration of approximately $233 million with additional payments due to Pratt & Whitney in the future. As a result of these transactions, Pratt & Whitney has a 61% net interest in the collaboration and a 49.5% ownership interest in IAE. Based on the criteria set forth in the Consolidation Topic of the FASB Accounting Standards Codification (ASC), we have determined that IAE is a

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variable interest entity (VIE). IAE s business purpose is to coordinate the design, development, and the manufacture of, and to provide product support to the V2500 program through involvement with the collaborators. IAE retains limited equity with the primary economics of the V2500 program passed to the participants in the separate collaboration arrangement. As such, UTC is determined to be the primary beneficiary of IAE as it absorbs the significant economics of IAE and has the power to direct the activities that are considered most significant to IAE. The consolidation of IAE resulted in a gain of $21 million recognized on the remeasurement to fair value of our previously held equity interest on obtaining control of IAE. The carrying amounts and classification of assets and liabilities for IAE in our condensed consolidated balance sheet as of June 30, 2012 are as follows:

(Dollars in millions)	
Current assets	$ 1,565
Noncurrent assets	902
Total assets	$ 2,467
Current liabilities	$ 1,465
Noncurrent liabilities	902
Total liabilities	$ 2,367

Goodwill. Changes in our goodwill balances for the first six months of 2012 were as follows:

(Dollars in millions)	Balance as of January 1, 2012	Goodwill resulting from business combinations	Foreign currency translation and other	Balance as of June 30, 2012
Otis	$ 1,516	$ 8	$ (37)	$ 1,487
UTC Climate, Controls & Security	9,758	36	(178)	9,616
Pratt & Whitney	1,223	254	(543)	934
Hamilton Sundstrand	4,475		(744)	3,731
Sikorsky	348			348
Total Segments	17,320	298	(1,502)	16,116
Eliminations and other	623		(623)	
Total	$ 17,943	$ 298	$ (2,125)	$ 16,116

For the six months ended June 30, 2012, Pratt & Whitney recorded $254 million of tax-deductible goodwill resulting from business combinations related to its increased ownership interest and consolidation of IAE. The approximately $2.1 billion decrease reflected under Foreign currency translation and other in the table above primarily reflects the decision to divest a number of non-core businesses and the resulting reclassification to Assets of discontinued operations. See Note 2 for further discussion.

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

	June 30, 2012		December 31, 2011	
(Dollars in millions)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized:				
Service portfolios	$ 2,031	$ (1,100)	$ 2,036	$ (1,060)
Patents and trademarks	390	(153)	463	(183)
IAE collaboration	1,244			

Other, principally customer relationships	3,173		(1,418)	3,329		(1,429)
	6,838		(2,671)	5,828		(2,672)
Unamortized:						
Trademarks and other	726			762		
Total	$ 7,564	$	(2,671)	$ 6,590	$	(2,672)

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Amortization of intangible assets for the quarter and six months ended June 30, 2012 was $96 million and $195 million respectively, compared with $103 million and $203 million for the same periods of 2011. Average amortization of these intangible assets for 2012 through 2016 is expected to approximate $360 million per year.

Note 2: Discontinued Operations

In 2012, the Company approved plans for the divestiture of a number of non-core businesses. Cash generated from these divestitures is intended to be used to repay a portion of the short-term debt we expect to incur as part of the financing for the proposed acquisition of Goodrich. These divestitures are expected to generate approximately $3 billion in net cash, on an after-tax basis.

In the first quarter of 2012, the Hamilton Sundstrand Industrial businesses, Pratt & Whitney Rocketdyne (Rocketdyne), and Clipper Windpower (Clipper) all met the held-for-sale criteria. On June 29, 2012, management approved a plan for the divestiture of UTC Power. The operating results of Clipper and UTC Power had previously been reported within Eliminations & other in our segment disclosure. The results of operations, including the net losses expected on disposition, and the related cash flows which result from these non-core businesses have been reclassified to Discontinued Operations in our Condensed Consolidated Statement of Comprehensive Income and Condensed Consolidated Statement of Cash Flows for all periods presented. The assets and liabilities of these non-core businesses have been reclassified to Assets of discontinued operations and Liabilities of discontinued operations in our Condensed Consolidated Balance Sheet as of June 30, 2012. Cash flows from the operation of these discontinued businesses will continue until their disposals, most of which are expected to occur in the second half of 2012.

As a result of the decision to dispose of these businesses, the Company has recorded pre-tax goodwill impairment charges of approximately $360 million and $590 million related to Rocketdyne and Clipper, respectively, in discontinued operations during the first quarter of 2012, and pre-tax net asset impairment charges of approximately $179 million related to UTC Power in discontinued operations during the second quarter of 2012. The goodwill impairment charges result from the decision to dispose of both Rocketdyne and Clipper within a relatively short period after acquiring the businesses. Consequently, there has not been sufficient opportunity for the long-term operations to recover the value implicit in goodwill at the initial date of acquisition. The impairment charge at UTC Power results from adjusting the net assets of the business to the estimated fair value less cost to sell the business expected to be realized upon sale and reflects the loss in value from the disposition of the business before the benefits of the technology investments could be fully realized. The fair value of these businesses has been estimated using information available in the marketplace as we market these businesses for sale. There could be gains or additional losses recorded upon final disposition of these businesses based upon the values, terms and conditions that are ultimately negotiated.

The following summarized financial information related to these non-core businesses has been segregated from continuing operations and will be reported as discontinued operations through the dates of disposition:

(Dollars in millions)	Quarter Ended June 30, 2012	Quarter Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Discontinued Operations:				
Net sales	$ 562	$ 606	$ 1,086	$ 1,278
(Loss) income from operations	$ (3)	$ 70	$ 27	$ 149
Income tax benefit (expense)	1	(37)	(9)	(75)
(Loss) income from operations, net of income taxes	(2)	33	18	74
Loss on disposal	(210)		(1,171)	
Income tax benefit	76		160	
Net (loss) income on discontinued operations	$ (136)	$ 33	$ (993)	$ 74

The income tax benefit for the six months ended June 30, 2012 includes approximately $235 million of unfavorable income tax adjustments related to the recognition of a deferred tax liability on the existing difference between the accounting versus tax gain on the planned disposition of Hamilton Sundstrand s Industrial businesses.

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The assets and liabilities of discontinued operations on the Condensed Consolidated Balance Sheet as of June 30, 2012 are as follows:

(Dollars in millions)	
Assets	
Cash and cash equivalents	$ 84
Accounts receivable, net	357
Inventories and contracts in progress, net	164
Future income tax benefits, current	18
Other assets, current	13
Future income tax benefits	7
Fixed assets, net	295
Goodwill	905
Intangible assets, net	103
Other assets	43
Assets of discontinued operations	$ 1,989
Liabilities	
Short-term borrowings	$ 1
Accounts payable	156
Accrued liabilities	628
Future pension and postretirement benefit obligations	1
Other long-term liabilities	131
Liabilities of discontinued operations	$ 917

We announced agreements for the sale of Rocketdyne on July 23, 2012 and for the sale of the Hamilton Sundstrand Industrial businesses on July 25, 2012. See Note 17 for discussion of subsequent events.

Note 3: Earnings Per Share

(Dollars in millions, except per share amounts; shares in millions)	Quarter Ended June 30, 2012	Quarter Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income from continuing operations	$ 1,466	$ 1,288	$ 2,655	$ 2,261
Net (loss) income from discontinued operations	(138)	30	(997)	69
Net income attributable to common shareowners	$ 1,328	$ 1,318	$ 1,658	$ 2,330
Basic weighted average number of shares outstanding	893.4	892.9	892.1	895.9
Stock awards	11.4	16.9	12.1	16.5
Diluted weighted average number of shares outstanding	904.8	909.8	904.2	912.4
Earnings (Loss) Per Share of Common Stock - Basic:				
Net income from continuing operations	$ 1.64	$ 1.44	$ 2.98	$ 2.52
Net (loss) income from discontinued operations	(0.16)	0.03	(1.12)	0.08
Net income attributable to common shareowners	1.49	1.48	1.86	2.60
Earnings (Loss) Per Share of Common Stock - Diluted:				
Net income from continuing operations	$ 1.62	$ 1.41	$ 2.94	$ 2.48
Net (loss) income from discontinued operations	(0.15)	0.03	(1.10)	0.08
Net income attributable to common shareowners	1.47	1.45	1.83	2.55

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 June 30, 2012, the number of stock awards excluded from the computation was 6.2 million. For the six months ended June 30, 2012, there were no anti-dilutive stock awards excluded from the computation. There were no anti-dilutive stock awards excluded from the computation for the quarter and six months ended June 30, 2011. On June 18, 2012, we issued 22,000,000 Equity Units, which did not impact diluted earnings per share in the quarter or six months ended June 30, 2012.

Note 4: Inventories and Contracts in Progress

(Dollars in millions)	June 30, 2012	December 31, 2011
Raw materials	$ 1,139	$ 1,321
Work-in-process	3,823	3,175
Finished goods	3,083	3,078
Contracts in progress	7,101	6,899
	15,146	14,473
Less:		
Progress payments, secured by lien, on U.S. Government contracts	(281)	(422)
Billings on contracts in progress	(6,363)	(6,254)
	$ 8,502	$ 7,797

As of June 30, 2012 and December 31, 2011, the above inventory balances include capitalized contract development costs of $826 million and $776 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 5: Borrowings and Lines of Credit

(Dollars in millions)	June 30, 2012	December 31, 2011
Commercial paper	$	$ 455
Other borrowings	210	175
Total short-term borrowings	$ 210	$ 630

On November 8, 2011, we entered into a bridge credit agreement with various financial institutions that provides for a $15 billion unsecured bridge loan facility available to partially fund the cash consideration of the pending acquisition of Goodrich and pay related fees, expenses and other amounts expected to become due and payable by UTC as a result of the acquisition. Any funding under the bridge credit agreement would substantially occur concurrently with the consummation of the Goodrich acquisition, subject to customary conditions for acquisition financings of this type. Any loans made pursuant to the bridge credit agreement would mature on the date that is 364 days after the funding date. We have reduced the available commitments under this bridge loan facility to $2 billion primarily as a result of the subsequent financing transactions on June 1, 2012 and June 18, 2012 as described below.

On April 24, 2012, we entered into a term loan credit agreement with various financial institutions that provides for a $2 billion unsecured term loan facility, and which is available to partially fund the cash consideration of the pending acquisition of Goodrich and pay related fees, expenses and other amounts expected to become due and payable by UTC as a result of the acquisition. Any loan under the agreement would mature on December 31, 2012, and funding would occur shortly before consummation of the acquisition, subject to customary conditions for financings of this type. Funding would be conditioned on the substantially contemporaneous termination of the remaining commitments under our $15 billion bridge credit agreement executed on November 8, 2011.

On June 1, 2012, we issued a total of $9.8 billion of long-term debt, which is comprised of $1.0 billion aggregate principal amount of 1.200% notes due 2015, $1.5 billion aggregate principal amount of 1.800% notes due 2017, $2.3 billion aggregate principal amount of 3.100% notes due

2022, $3.5 billion aggregate principal amount of 4.500% notes due 2042, $1.0 billion aggregate principal amount of three-month LIBOR plus 0.270% floating rate notes due 2013, and $0.5 billion aggregate principal amount of three-month LIBOR plus 0.500% floating rate notes due 2015. We expect to primarily use the net proceeds of these notes to partially fund the cash consideration for the pending acquisition of Goodrich and pay related fees, expenses and other amounts expected to become due and payable by UTC as a result of the acquisition. The remainder of the net proceeds from these notes, if any, will be used for general corporate purposes. The three-month LIBOR rate as of June 30, 2012 was approximately 0.5%.

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On June 18, 2012, we issued 22,000,000 Equity Units. Each Equity Unit has a stated amount of $50 and initially is in the form of a corporate unit consisting of (a) a freestanding stock purchase contract under which the holder will purchase from us on August 1, 2015, a number of shares of our common stock determined pursuant to the terms of the agreement and (b) a 1/20, or 5.0%, undivided beneficial ownership interest in $1,000 principal amount on our 1.55% junior subordinated notes due 2022. Holders of the Equity Units will be entitled to receive quarterly contract adjustment payments at a rate of 5.95% per year of the stated amount of $50 per Equity Unit, subject to our right to defer such payments. We expect to primarily use the net proceeds of the Equity Units to partially fund the cash consideration of the pending acquisition of Goodrich and pay related fees, expenses and other amounts expected to become due and payable by UTC as a result of the acquisition. The remainder of the net proceeds from the Equity Units, if any, will be used for general corporate purposes.

The net proceeds from the sale of the Equity Units were allocated between the purchase contracts and the notes in our financial statements based on the underlying fair value of each instrument at the time of issuance taking into consideration the contract adjustment payments. The fair value of the purchase contracts is expected to approximate the present value of the contract adjustment payments and was recorded as a reduction to Common Stock, with an offsetting credit to liabilities. This liability will be accreted over three years through interest charges to the income statement based on a constant rate calculation. The purchase contracts are reflected in our diluted earnings per share calculations using the treasury stock method.

Cash generated from the issuances of long-term debt and Equity Units during June 2012 is currently designated for the Goodrich acquisition and payment of related fees, expenses and other amounts expected to become due and payable by UTC as a result of the acquisition, and has therefore been classified as Restricted cash, current in our Condensed Consolidated Balance Sheet as of June 30, 2012. The restricted cash balance held as of June 30, 2012 and December 31, 2011 was $10.7 billion and $37 million, respectively.

At June 30, 2012, we had revolving credit agreements with various banks permitting aggregate borrowings of up to $4 billion pursuant to a $2 billion revolving credit agreement and a $2 billion multicurrency revolving credit agreement, both of which expire in November 2016. As of June 30, 2012, there were no borrowings under either of these revolving credit agreements. The undrawn portions of our revolving credit agreements are also available to serve as backup facilities for the issuance of commercial paper. As of June 30, 2012, our maximum commercial paper borrowing authority as set by our Board of Directors was $4 billion. We generally use our commercial paper borrowings for general corporate purposes, including the funding of potential acquisitions and repurchases of our common stock.

Long-term debt consisted of the following:

(Dollars in millions)	June 30, 2012	December 31, 2011
LIBOR plus 0.270% floating rate notes due 2013	$ 1,000	$
LIBOR plus 0.500% floating rate notes due 2015	500	
1.200% notes due 2015*	1,000	
4.875% notes due 2015*	1,200	1,200
5.375% notes due 2017*	1,000	1,000
1.800% notes due 2017*	1,500	
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
3.100% notes due 2022*	2,300	
1.550% junior subordinated notes due 2022**	1,100	
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
4.500% notes due 2042*	3,500	
Project financing obligations	81	127
Other (including capitalized leases and discounts)	158	131
Total long-term debt	20,511	9,630
Less current portion	(61)	(129)

Long-term debt, net of current portion	$ 20,450	$ 9,501

* 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.

** The junior subordinated notes are redeemable at our option, in whole or in part, on a date not earlier than August 1, 2017. The redemption price will be the principal amount, plus accrued and unpaid interest, if any, up to but excluding the redemption date. We may extend or eliminate the optional redemption date as part of a remarketing of the junior subordinated notes which could occur between April 29, 2015 and July 15, 2015 or between July 23, 2015 and July 29, 2015.

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.

The closing of the acquisition of Goodrich on July 26, 2012 materially changed certain of the borrowings and lines of credit listed above. See Note 17 for discussion of subsequent events, including the Goodrich acquisition financing.

Note 6: Income Taxes

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

It is reasonably possible that over the next twelve months the amount of unrecognized tax benefits may decrease within a range of $10 million to $120 million as a result of additional worldwide uncertain tax positions, the revaluation of current uncertain tax positions arising from developments in examinations, in appeals or in the courts, or the closure of tax statutes. A portion of this net reduction may impact the Company s 2012 or 2013 income tax expense. Not included in the range is 198 million (approximately $247 million) of tax benefits that we have claimed related to a 1998 German reorganization. A portion of these tax benefits was denied by the German Tax Office on July 5, 2012, as a result of the audit of tax years 1999 to 2000. 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 through 2008 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 resolution discussions relating to the 2004 and 2005 tax years to be completed within the next six months.

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Note 7: Employee Benefit Plans

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

	Quarter Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2012**	**2011**	**2012**	**2011**
Defined Benefit Plans	$ 11	$ 41	$ 24	$ 70
Defined Contribution Plans	$ 56	$ 56	$ 118	$ 113

There were no contributions to our domestic defined benefit pension plans in the first six months of 2012 and 2011.

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

	Pension Benefits		Other Postretirement Benefits	
	Quarter Ended June 30,		Quarter Ended June 30,	
(Dollars in millions)	**2012**	**2011**	**2012**	**2011**
Service cost	$ 115	$ 111	$ 1	$ 1
Interest cost	313	326	8	10
Expected return on plan assets	(456)	(458)		
Amortization	(3)	(3)		(1)
Recognized actuarial net loss (gain)	180	116	(2)	(2)
Net settlement and curtailment loss	7	13		
Total net periodic benefit cost	$ 156	$ 105	$ 7	$ 8

	Pension Benefits		Other Postretirement Benefits	
	Six Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2012**	**2011**	**2012**	**2011**
Service cost	$ 230	$ 222	$ 2	$ 2
Interest cost	626	650	16	20
Expected return on plan assets	(912)	(914)		
Amortization	(6)	(6)		(2)
Recognized actuarial net loss (gain)	361	231	(4)	(4)
Net settlement and curtailment loss	35	13		
Total net periodic benefit cost	$ 334	$ 196	$ 14	$ 16

Net settlements and curtailment losses for pension benefits includes curtailment losses of approximately $3 million and $24 million related to, and recorded in, discontinued operations for the quarter and six months ended June 30, 2012, respectively.

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Note 8: Restructuring Costs

During the first six months of 2012, we recorded net pre-tax restructuring costs totaling $232 million for new and ongoing restructuring actions as follows:

(Dollars in millions)	
Otis	$ 63
UTC Climate, Controls & Security	72
Pratt & Whitney	54
Hamilton Sundstrand	5
Sikorsky	6
Eliminations and other	4
Restructuring costs recorded within continuing operations	204
Restructuring costs recorded within discontinued operations	28
Total	$ 232

The net costs included $110 million recorded in cost of sales, $94 million in selling, general and administrative expenses, and $28 million in discontinued operations. As described below, these costs primarily relate to actions initiated during 2012 and 2011.

2012 Actions. During the first six months of 2012, 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 $187 million, including $88 million in cost of sales, $72 million in selling, general and administrative expenses and $27 million in discontinued operations.

We expect the actions initiated in the first six months of 2012 to result in net workforce reductions of approximately 2,300 hourly and salaried employees, the exiting of approximately 600,000 net square feet of facilities and the disposal of assets associated with exited facilities. As of June 30, 2012, we have completed net workforce reductions of approximately 1,300 employees and exited approximately 100,000 net square feet. We are targeting the majority of the remaining workforce and all facility related cost reduction actions for completion during 2012 and 2013. 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 2012 restructuring actions:

(Dollars in millions)	Severance	Asset Write-Downs	Facility Exit, Lease Termination and Other Costs	Total
Restructuring accruals at March 31, 2012	$ 84	$	$ 3	$ 87
Net pre-tax restructuring costs	59	1	11	71
Utilization and foreign exchange	(50)	(1)	(4)	(55)
Balance at June 30, 2012	$ 93	$	$ 10	$ 103

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

(Dollars in millions)	Severance	Asset Write-Downs	Facility Exit, Lease Termination and Other Costs	Total

Expected costs	$	197	$	13	$	46	$	256
Costs incurred - quarter ended March 31, 2012		(96)		(12)		(8)		(116)
Costs incurred - quarter ended June 30, 2012		(59)		(1)		(11)		(71)
Balance at June 30, 2012	$	42	$		$	27	$	69

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

(Dollars in millions)	Expected Costs	Costs Incurred Quarter Ended March 31, 2012	Costs Incurred Quarter Ended June 30, 2012	Remaining Costs at June 30, 2012
Otis	$ 61	$ (23)	$ (31)	$ 7
UTC Climate, Controls & Security	98	(25)	(24)	49
Pratt & Whitney	61	(34)	(16)	11
Hamilton Sundstrand	5	(1)	(2)	2
Eliminations and other	4	(6)	2	
Discontinued operations	27	(27)		
Total	$ 256	$ (116)	$ (71)	$ 69

2011 Actions. During the first six months of 2012, we recorded net pre-tax restructuring costs totaling $41 million for restructuring actions initiated in 2011, including $19 million in cost of sales, $21 million in selling, general and administrative expenses and $1 million in discontinued operations. The 2011 actions relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of field operations.

As of June 30, 2012, we have completed net workforce reductions of approximately 4,000 employees of an expected 5,000 employees, and have exited approximately 100,000 net square feet of facilities of an expected 2 million net square feet. We are targeting the majority of the remaining workforce and facility related cost reduction actions for completion during 2012 and 2013.

The following table summarizes the accrual balances and utilization by cost type for the 2011 restructuring actions:

(Dollars in millions)	Severance	Asset Write-Downs	Facility Exit, Lease Termination and Other Costs	Total
Restructuring accruals at March 31, 2012	$ 83	$	$ 14	$ 97
Net pre-tax restructuring costs	18		3	21
Utilization and foreign exchange	(31)		(5)	(36)
Balance at June 30, 2012	$ 70	$	$ 12	$ 82

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	$ 304	$ 4	$ 69	$ 377
Costs incurred through December 31, 2011	(259)	(4)	(23)	(286)
Costs incurred - quarter ended March 31, 2012	(10)		(10)	(20)
Costs incurred - quarter ended June 30, 2012	(18)		(3)	(21)
Remaining costs at June 30, 2012	$ 17	$	$ 33	$ 50

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

(Dollars in millions)	Expected Costs	Costs Incurred through December 31, 2011	Costs Incurred Quarter Ended March 31, 2012	Costs Incurred Quarter Ended June 30, 2012	Remaining Costs at June 30, 2012
Otis	$ 101	$ (76)	$ (6)	$ (4)	$ 15
UTC Climate, Controls & Security	122	(93)	(9)	(13)	7
Pratt & Whitney	47	(37)	(2)	(1)	7
Hamilton Sundstrand	8	(8)			
Sikorsky	75	(51)	(3)	(2)	19
Discontinued operations	24	(21)		(1)	2
Total	$ 377	$ (286)	$ (20)	$ (21)	$ 50

2010 Actions. As of June 30, 2012, we have approximately $44 million of accrual balances remaining related to 2010 actions.

Note 9: Financial Instruments

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

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

Foreign Currency Forward Contracts. We manage our foreign currency transaction risks to acceptable limits through the use of derivatives that hedge forecasted cash flows associated with foreign currency transaction exposures, which are accounted for as cash flow hedges, as we deem appropriate. To the extent these derivatives are effective in offsetting the variability of the hedged cash flows, and otherwise meet the hedge accounting criteria of the Derivatives and Hedging Topic of the FASB ASC, the changes in the derivatives fair values are not included in current earnings but are included in Accumulated other comprehensive loss. These changes in fair value will subsequently be reclassified into earnings as a component of product sales or expenses, as applicable, when the forecasted transaction occurs. To the extent that a previously designated hedging transaction is no longer an effective hedge, any ineffectiveness measured in the hedging relationship is recorded currently in earnings in the period in which it occurs.

To the extent the hedge accounting criteria are not met, the foreign currency forward contracts are utilized as economic hedges and changes in the fair value of these contracts are recorded currently in earnings in the period in which they occur. These include hedges that are used to reduce exchange rate risks arising from the change in fair value of certain foreign currency denominated assets and liabilities (e.g. payables, receivables) and other economic hedges where the hedge accounting criteria were not met.

The four quarter rolling average of the notional amount of foreign exchange contracts hedging foreign currency transactions was $11.1 billion and $10.4 billion at June 30, 2012 and December 31, 2011, respectively.

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The following table summarizes the fair value of derivative instruments as of June 30, 2012 and December 31, 2011 which consist solely of foreign exchange contracts:

	June 30, 2012		December 31, 2011	
(Dollars in millions)	**Derivatives designated as hedging instruments**	**Derivatives not designated as hedging instruments**	**Derivatives designated as hedging instruments**	**Derivatives not designated as hedging instruments**
Balance Sheet Asset Locations:				
Other assets, current	$ 101	$ 30	$ 69	$ 40
Other assets	2	1	3	2
	103	31	72	42
Total Asset Derivative Contracts		$ 134		$ 114
Balance Sheet Liability Locations:				
Accrued liabilities	$ 87	$ 34	$ 81	$ 40
Other long-term liabilities	21	2	43	1
	108	36	124	41
Total Liability Derivative Contracts		$ 144		$ 165

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

	Quarter Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2012**	**2011**	**2012**	**2011**
(Loss) gain recorded in Accumulated other comprehensive loss	$ (155)	$ 1	$ (63)	$ 100
(Loss) gain reclassified from Accumulated other comprehensive loss into Product sales (effective portion)	$ (8)	$ 33	$ (19)	$ 76

Assuming current market conditions continue, a $54 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 June 30, 2012, all derivative contracts accounted for as cash flow hedges will mature by June 2014.

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

	Quarter Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2012**	**2011**	**2012**	**2011**
(Loss) gain recognized in Other income, net	$ (78)	$ 32	$ (40)	$ 28

Fair Value Disclosure. As of January 1, 2012, we adopted the provisions of 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 many of the existing concepts for measuring fair value and does not result in a change in our application of the Fair Value Measurements and Disclosures Topic of the FASB ASC. The guidance includes enhanced disclosure requirements about recurring Level 3 fair value measurements for each class of assets and

liabilities measured at fair value in the balance sheet, which has no impact on our financial statements or disclosures as there are presently no Level 3 fair value measurements in our Condensed Consolidated Balance Sheet. This ASU also requires additional disclosures for items that are not measured at fair value in the balance sheet but for which the fair value is required to be disclosed.

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Valuation Hierarchy. The following table provides the valuation hierarchy classification of assets and liabilities that are carried at fair value and measured on a recurring and nonrecurring basis in our Condensed Consolidated Balance Sheet as of June 30, 2012 and December 31, 2011:

(Dollars in millions)	Total Carrying Value at June 30, 2012	Quoted price in active markets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)
Recurring fair value measurements:				
Available-for-sale securities	$ 839	$ 839	$	$
Derivative assets	134		134	
Derivative liabilities	(144)		(144)	
Nonrecurring fair value measurements:				
Equity method investments	440		440	
Business dispositions	100		100	

During 2012, we recorded net gains on nonrecurring fair value measurements of approximately $222 million within Other income, net from UTC Climate, Controls & Security s ongoing portfolio transformation efforts including the integration of the legacy UTC Fire & Security businesses with the legacy Carrier businesses. These net gains include approximately $357 million from the sales of controlling interests in manufacturing and distribution joint ventures in Asia and Canada, of which approximately $272 million relates to non-cash gains. These gains were partially offset by $103 million of other-than-temporary impairment charges related to business dispositions and $32 million loss on the disposition of the U.S. fire and security branch operations.

(Dollars in millions)	Total Carrying Value at December 31, 2011	Quoted price in active markets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)
Recurring fair value measurements:				
Available-for-sale securities	$ 926	$ 926	$	$
Derivative assets	114		114	
Derivative liabilities	(165)		(165)	
Nonrecurring fair value measurements:				
Equity method investment	13	13		

During 2011, we recorded non-cash other-than-temporary impairment charges of $66 million within Other income, net on an equity investment. The impairment charge recorded on our investment was determined by comparing the carrying value of our investment to the closing market value of the shares on the date the investment was deemed to be impaired.

Valuation Techniques. Our available-for-sale securities include equity investments that are traded in active markets, either domestically or internationally. They are measured at fair value using closing stock prices from active markets and are classified within Level 1 of the valuation hierarchy. Our derivative assets and liabilities are managed on the basis of net exposure to market and credit risks of each of the counterparties. The fair value for these derivative assets and liabilities is measured at the price that would be received on a net asset position for a particular risk or to transfer a net liability position for a particular risk in an orderly transaction between market participants at the measurement date. Our derivative assets and liabilities include foreign exchange contracts and commodity derivatives that are measured at fair value using internal models based on observable market inputs such as forward rates, interest rates, our own credit risk and our counterparties credit risks. Based on these inputs, the derivative assets and liabilities are classified within Level 2 of the valuation hierarchy. Based on our continued ability to trade securities and enter into forward contracts, we consider the markets for our fair value instruments to be active. As of June 30, 2012, there were no significant transfers in and out of Level 1 and Level 2.

As of June 30, 2012, 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.

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The following table provides carrying amounts and fair values of financial instruments that are not carried at fair value in our Condensed Consolidated Balance Sheet at June 30, 2012 and December 31, 2011:

	June 30, 2012		December 31, 2011	
(Dollars in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term receivables	$ 273	$ 267	$ 283	$ 276
Customer financing notes receivable	311	298	309	297
Short-term borrowings	(210)	(210)	(630)	(630)
Long-term debt (excluding capitalized leases)	(20,479)	(23,652)	(9,575)	(11,639)

The following table provides the valuation hierarchy classification of assets and liabilities that are not carried at fair value in our Condensed Consolidated Balance Sheet as of June 30, 2012:

(Dollars in millions)	Total Fair Value at June 30, 2012	Quoted price in active markets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)
Recurring fair value measurements:				
Long-term receivables	$ 267	$	$ 267	$
Customer financing notes receivable	298		298	
Short-term borrowings	(210)			(210)
Long-term debt (excluding capitalized leases)	(23,652)		(23,452)	(200)

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

We had commercial aerospace financing and other contractual commitments totaling approximately $2.8 billion at June 30, 2012, which now include approximately $580 million of IAE commitments, related to commercial aircraft and certain contractual rights to provide product on new aircraft platforms. We had commercial aerospace financing and other contractual commitments of approximately $2.3 billion at December 31, 2011. 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 10: Credit Quality of Long-Term Receivables

A long-term or financing receivable represents a contractual right to receive money on demand or on fixed and determinable dates, including trade receivable balances with maturity dates greater than one year. Our long-term and financing receivables primarily represent balances related to the aerospace businesses such as long-term trade accounts receivable, leases, and notes receivable. We also have other long-term receivables in our commercial businesses; however, both the individual and aggregate amounts are not significant.

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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 June 30, 2012 and December 31, 2011:

(Dollars in millions)	June 30, 2012	December 31, 2011
Long-term trade accounts receivable	$ 200	$ 204
Notes and leases receivable	539	365
Total long-term receivables	$ 739	$ 569

The increase reflected in Notes and leases receivable as of June 30, 2012, as compared to December 31, 2011, primarily reflects the impact of consolidating IAE. See Note 1 for further discussion.

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 June 30, 2012 and December 31, 2011, 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.

The following table provides the balance of aerospace long-term receivables and summarizes the associated changes in the reserve for estimated credit losses and exposure for the six months ended June 30, 2012 and 2011, respectively:

(Dollars in millions)	2012	2011
Beginning balance of the reserve for credit losses and exposure as of January 1	$ 70	$ 42
Provision	1	1
Charge-offs		
Recoveries	(1)	(8)
Other	(4)	
Ending balance of the reserve for credit losses and exposure: individually evaluated for impairment as of June 30	$ 66	$ 35
Ending balance of long-term receivables: individually evaluated for impairment as of June 30	$ 739	$ 595

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.

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The following table summarizes the credit risk profile by creditworthiness category for aerospace long-term receivable balances at June 30, 2012 and December 31, 2011:

	June 30, 2012		December 31, 2011	
(Dollars in millions)	Long-term trade accounts receivable	Notes and leases receivable	Long-term trade accounts receivable	Notes and leases receivable
A - (low risk, collateralized/uncollateralized)	$ 196	$ 24	$ 201	$
B - (moderate risk, collateralized/uncollateralized)	4	427	3	295
C - (high risk, collateralized/uncollateralized)		81		70
D - (in default, uncollateralized)		7		
Total	$ 200	$ 539	$ 204	$ 365

Note 11: Shareowners Equity and Noncontrolling Interest

As of January 1, 2012, we adopted the provisions of the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. As a result of this adoption, we have presented total comprehensive income for each of the periods presented within a single continuous Condensed Consolidated Statement of Comprehensive Income.

A summary of the changes in shareowners equity and noncontrolling interest (excluding redeemable noncontrolling interest) comprising total equity for the quarters and six months ended June 30, 2012 and 2011 is provided below:

	Quarter Ended June 30,					
	2012			2011		
(Dollars in millions)	Shareowners Equity	Noncontrolling Interest	Total Equity	Shareowners Equity	Noncontrolling Interest	Total Equity
Equity, beginning of period	$ 22,492	$ 1,057	$ 23,549	$ 22,126	$ 1,000	$ 23,126
Comprehensive income for the period:						
Net income	1,328	94	1,422	1,318	112	1,430
Total other comprehensive (loss) income	(674)	(27)	(701)	205	2	207
Total comprehensive income for the period	654	67	721	1,523	114	1,637
Common Stock issued under employee plans	104		104	253		253
Common Stock repurchased				(750)		(750)
Equity Units issuance	(216)		(216)			
Dividends on Common Stock	(413)		(413)	(413)		(413)
Dividends on ESOP Common Stock	(16)		(16)	(16)		(16)
Dividends attributable to noncontrolling interest		(72)	(72)		(90)	(90)
Purchase of subsidiary shares from noncontrolling interest		(2)	(2)			
Sale of subsidiary shares in noncontrolling interest		20	20			
Acquisition of noncontrolling interest		47	47			
Redeemable noncontrolling interest in subsidiaries earnings		(7)	(7)		(6)	(6)
Redeemable noncontrolling interest in total other comprehensive income		7	7		(2)	(2)
Change in redemption value of put options	(1)		(1)			
Redeemable noncontrolling interest reclassification to noncontrolling interest		4	4			

Equity, end of period	$ 22,604	$ 1,121	$ 23,725	$ 22,723	$ 1,016	$ 23,739

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	Six Months Ended June 30,					
	2012			2011		
(Dollars in millions)	Shareowners Equity	Noncontrolling Interest	Total Equity	Shareowners Equity	Noncontrolling Interest	Total Equity
Equity, beginning of period	$ 21,880	$ 940				