

# UNITED TECHNOLOGIES CORP /DE/

## FORM 10-K (Annual Report)

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

FORM 10-K

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

For the fiscal year ended December 31, 2009

Commission file number 1-812

UNITED TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation or organization)

06 0570975
(I.R.S. Employer Identification No.)

One Financial Plaza, Hartford, Connecticut
(Address of principal executive offices)

06103
(Zip Code)

Registrant's telephone number, including area code: (860) 728-7000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class
Common Stock (\$1 par value)
(CUSIP 913017 10 9)

Name of each exchange on which registered
New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes
No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes
No

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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 (Check one):

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 Act). Yes No

The aggregate market value of the voting Common Stock held by non-affiliates at June 30, 2009 was approximately

\$48,749,457,537, based on the New York Stock Exchange closing price for such shares on that date. For purposes of this calculation, the Registrant has assumed that its directors and executive officers are affiliates.

At January 31, 2010, there were 937,400,008 shares of Common Stock outstanding.

List hereunder documents incorporated by reference and the Part of the Form 10-K into which the document is incorporated: (1) portions of the United Technologies Corporation 2009 Annual Report to Shareowners are incorporated by reference in Parts I, II and IV hereof; and (2) portions of the United Technologies Corporation Proxy Statement for the 2010 Annual Meeting of Shareowners are incorporated by reference in Part III hereof.

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**Table of Contents**

**UNITED TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES**

**Index to Annual Report  
on Form 10-K for  
Year Ended December 31, 2009**

	<u>Page</u>
<b>PART I</b>	<b>3</b>
Item 1. Business:	3
Cautionary Note Concerning Factors That May Affect Future Results	9
Item 1A. Risk Factors	10
Item 1B. Unresolved Staff Comments	13
Item 2. Properties	14
Item 3. Legal Proceedings	14
Item 4. Submission of Matters to a Vote of Security Holders	15
<b>PART II</b>	<b>15</b>
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	15
Item 6. Selected Financial Data	16
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	16
Item 8. Financial Statements and Supplementary Data	16
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	16
Item 9A. Controls and Procedures	16
<b>PART III</b>	<b>17</b>
Item 10. Directors, Executive Officers and Corporate Governance	17
Item 11. Executive Compensation	19
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	19
Item 13. Certain Relationships and Related Transactions, and Director Independence	20
Item 14. Principal Accounting Fees and Services	20
<b>PART IV</b>	<b>20</b>
Item 15. Exhibits and Financial Statement Schedules	20
<b>SIGNATURES</b>	<b>24</b>

**UNITED TECHNOLOGIES CORPORATION**

**Annual Report on Form 10-K for  
Year Ended December 31, 2009**

Whenever reference is made in this Form 10-K to specific sections of UTC's 2009 Annual Report to Shareowners (2009 Annual Report), those sections are incorporated herein by reference. 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 product 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**

**Item 1. Business**

**General**

United Technologies Corporation was incorporated in Delaware in 1934. UTC provides high technology products and services to the building systems and aerospace industries worldwide. Growth is attributable to acquisitions and the internal development of our existing businesses. The following description of our business should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2009 Annual Report, especially the information contained therein under the heading "Business Overview."

Our operating units include businesses with operations throughout the world. Otis, Carrier and UTC Fire & Security (collectively referred to as the commercial businesses) serve customers in the commercial and residential property industries worldwide. Carrier also serves commercial, industrial, transport refrigeration and food service equipment customers. Pratt & Whitney, Hamilton Sundstrand and Sikorsky (collectively referred to as the aerospace businesses) primarily serve commercial and government customers in both the original equipment and aftermarket parts and services markets of the aerospace industry. Hamilton Sundstrand and Pratt & Whitney also serve customers in certain industrial markets. For 2009, our commercial and industrial revenues (generated principally by our commercial businesses) were approximately 58 percent of our consolidated revenues, and commercial aerospace and military aerospace revenues were approximately 21 percent and 21 percent, respectively, of our consolidated revenues. Revenues for 2009 from outside the United States, including U.S. export sales, were 59 percent of our total segment revenues.

This Form 10-K and our quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are available free of charge through the Investor Relations section of our Internet website (<http://www.utc.com>) under the heading "SEC Filings" as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). Our SEC filings are also available for reading and copying at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site (<http://www.sec.gov>) containing reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

**Description of Business by Segment**

We conduct our business through six principal segments: Otis, Carrier, UTC Fire & Security, Pratt & Whitney, Hamilton Sundstrand and Sikorsky. Each segment groups similar operating companies and the management organization of each segment has general operating autonomy over a range of products and services. The principal products and services of each segment are as follows:

Otis —elevators, escalators, moving walkways and service.

Carrier—heating, ventilating, air conditioning (HVAC) and refrigeration systems, controls, services and energy efficient products for residential, commercial, industrial and transportation applications.

UTC Fire & Security—fire and special hazard detection and suppression systems and firefighting equipment, security, monitoring and rapid response systems and service and security personnel services.

Pratt & Whitney —commercial, military, business jet and general aviation aircraft engines, parts and services, industrial gas turbines, geothermal power systems and space propulsion.

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## Table of Contents

Hamilton Sundstrand—aerospace products and aftermarket services, including power generation, management and distribution systems, flight systems, engine control systems, environmental control systems, fire protection and detection systems, auxiliary power units, propeller systems and industrial products, including air compressors, metering pumps and fluid handling equipment.

Sikorsky—military and commercial helicopters, aftermarket helicopter and aircraft parts and services.

Segment financial data for the years 2007 through 2009, including financial information about foreign and domestic operations and export sales, appears in Note 17 to the Consolidated Financial Statements in our 2009 Annual Report. Segment revenues as discussed below include intercompany sales, which are ultimately eliminated within the “Eliminations and other” category as reflected in the segment financial data in Note 17 to the Consolidated Financial Statements in our 2009 Annual Report.

### Otis

Otis is the world’s largest elevator and escalator manufacturing, installation and service company. Otis designs, manufactures, sells and installs a wide range of passenger and freight elevators for low-, medium- and high-speed applications, as well as a broad line of escalators and moving walkways. In addition to new equipment, Otis provides modernization products to upgrade elevators and escalators as well as maintenance services for both its products and those of other manufacturers. Otis serves customers in the commercial and residential property industries around the world. Otis sells directly to the end customer and, to a limited extent, through sales representatives and distributors.

Revenues generated by Otis’ international operations were 80 percent of total Otis segment revenues in 2009 and 2008. At December 31, 2009, Otis’ backlog was \$14,550 million as compared to \$15,025 million at December 31, 2008. Of the total Otis backlog at December 31, 2009, approximately \$8,036 million is expected to be realized as sales in 2010.

### Carrier

Carrier is the world’s largest provider of HVAC and refrigeration solutions, including controls for residential, commercial, industrial and transportation applications. Carrier also provides installation, retrofit and aftermarket services for the products it sells and those of other manufacturers in the HVAC and refrigeration industries. In 2009, as part of its business transformation strategy, Carrier completed divestitures of several lower-margin businesses, acquired several higher-margin service businesses, and formed ventures with other partners in the U.S., Europe, the Middle East and Australia. This included the acquisition of StrionAir, a leading air purification technology company, Logical Automation, a leading building automation controls company, and the formation of Carrier Enterprise, LLC, a venture with Watsco, Inc., to distribute Carrier, Bryant, Payne and Totaline residential and light commercial HVAC products in the U.S. sunbelt region and selected territories in the Caribbean and Latin America. Carrier also integrated into its operations UTC Power’s micro-turbine-based combined cooling, heating and power systems business. Carrier’s products and services are sold under Carrier and other brand names to building contractors and owners, homeowners, transportation companies, retail stores and food service companies. Carrier sells directly to the end customer and through manufacturers’ representatives, distributors, wholesalers, dealers and retail outlets. Certain of Carrier’s HVAC businesses are seasonal and can be impacted by weather. Carrier customarily offers its customers incentives to purchase products to ensure an adequate supply of its products in the distribution channels.

Revenues generated by Carrier’s international operations, including U.S. export sales, were 55 percent and 60 percent of total Carrier segment revenues in 2009 and 2008, respectively. At December 31, 2009, Carrier’s business backlog was \$2,199 million as compared to \$1,996 million at December 31, 2008. Substantially all the business backlog at December 31, 2009 is expected to be realized as sales in 2010.

### UTC Fire & Security

UTC Fire & Security is a global provider of security and fire safety products and services. We created the UTC Fire & Security segment in the second quarter of 2005 upon acquiring Kidde and adding the Kidde industrial, retail and commercial fire safety businesses to the former Chubb segment. UTC Fire & Security provides electronic security products such as intruder alarms, access control systems and video surveillance systems and designs and manufactures a wide range of fire safety products including specialty hazard detection and fixed suppression products, portable fire extinguishers and other firefighting equipment. Services provided to the electronic security and fire safety industries include systems integration, installation, maintenance and inspection services. UTC Fire & Security also provides monitoring, response and security personnel services, including cash-in-transit security, to complement its electronic security and fire safety businesses. In November 2009, we entered into an agreement with General Electric Company (GE) to purchase the GE Security business. Subject to regulatory approvals and the satisfaction of customary closing conditions, the closing is anticipated to take place early in the second quarter of 2010. GE Security, part of GE Technology Infrastructure, supplies security and fire safety technologies for commercial and residential applications through a broad product portfolio that includes fire detection and life safety systems, intrusion alarms, video surveillance and access control systems. We intend to incorporate the GE Security business within the UTC Fire & Security segment, which will significantly enhance UTC Fire &

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## Table of Contents

Security's geographic diversity with GE Security's strong North American presence and increased product and technology offerings. UTC Fire & Security products and services are used by governments, financial institutions, architects, building owners and developers, security and fire consultants and other end-users requiring a high level of security and fire protection for their businesses and residences. In 2009, we also completed the acquisition of GST Holdings Limited (GST), a fire alarm provider in China. With the acquisition of the remaining 71% of the outstanding shares of GST, UTC Fire & Security further strengthened its presence in the Chinese fire safety industry.

UTC Fire & Security provides its products and services under Chubb, Kidde and other brand names and sells directly to the customer as well as through manufacturer representatives, distributors, dealers and U.S. retail distribution. Revenues generated by UTC Fire & Security's international operations were 82 percent and 83 percent of total UTC Fire & Security segment revenues in 2009 and 2008, respectively. At December 31, 2009, UTC Fire & Security's business backlog was \$898 million as compared to \$1,064 million at December 31, 2008. Substantially all the business backlog at December 31, 2009 is expected to be realized as sales in 2010.

### Pratt & Whitney

Pratt & Whitney is among the world's leading suppliers of aircraft engines for the commercial, military, business jet and general aviation markets. Pratt & Whitney Global Services provides maintenance, repair and overhaul services, including the sale of spare parts, as well as fleet management services for large commercial engines. Pratt & Whitney produces families of engines for wide and narrow body aircraft in the commercial and military markets. Pratt & Whitney Power Systems also sells engines for industrial applications. In 2009, UTC completed the transition of UTC Power's geothermal power systems business to Pratt & Whitney Power Systems. Pratt & Whitney Canada (P&WC) is a world leader in the production of engines powering business, regional, light jet, utility and military aircraft and helicopters. Pratt & Whitney Rocketdyne (PWR) is a leader in the design, development and manufacture of sophisticated aerospace propulsion systems for military and commercial applications, including the U.S. space shuttle program.

In view of the risks and costs associated with developing new engines, Pratt & Whitney has entered into collaboration arrangements in which revenues, costs and risks are shared. At December 31, 2009, the interests of participants in Pratt & Whitney-directed commercial jet engine programs ranged from 14 percent to 48 percent. In addition, Pratt & Whitney has interests in other engine programs, including a 33 percent interest in the International Aero Engines (IAE) collaboration, which sells and supports V2500 engines for the Airbus A320 family of aircraft. At December 31, 2009, a portion of Pratt & Whitney's interests in IAE (equivalent to 4 percent of the overall IAE collaboration) were held by Pratt & Whitney sub-partners. Pratt & Whitney also has a 50 percent interest in the Engine Alliance (EA), a joint venture with GE Aviation, which markets and manufactures the GP7000 engine for the Airbus A380 aircraft. At December 31, 2009, 40 percent of Pratt & Whitney's 50 percent interest in the EA was held by other participants. Pratt & Whitney is also pursuing additional collaboration partners.

In terms of engine development programs, Pratt & Whitney is under contract with the U.S. Air Force to develop the F135 engine, a derivative of Pratt & Whitney's F119 engine, to power the single-engine F-35 Lightning II aircraft being developed by Lockheed Martin. In addition, Pratt & Whitney is currently developing technology intended to enable it to power proposed and future aircraft, including testing of the PurePower PW1000G Geared TurboFan engine. Ground and flight testing for the PurePower PW1000G demonstrator engine was successfully completed in 2009. PurePower PW1000G models have been selected by Bombardier to power the new CSeries passenger aircraft and by Mitsubishi Heavy Industries to power the new Mitsubishi Regional Jet, both scheduled to enter into service in 2013. The PurePower PW1000G targets a significant reduction in fuel burn and noise levels with lower environmental emissions and operating costs than current production engines. In December 2009, the Irkut Corporation of Russia also selected the PurePower PW1000G engine to power the proposed new Irkut MC-21 passenger aircraft, which is planned to enter into service in 2016. Pratt & Whitney has also received Federal Aviation Authority (FAA) and European Aviation Safety Agency (EASA) certification for the Advantage70 upgrade to its PW4000 engine for Airbus A330 aircraft. The Advantage70 upgrade is intended to reduce maintenance and fuel costs and increase thrust. PWR is developing a liquid fuel J-2X engine to support NASA's vision for space exploration. PWR is also upgrading the performance of the RS68 engine to support U.S. Air Force launch requirements and NASA requirements. P&WC has received FAA and EASA certifications for its PW600 engine series developed for the very light jet market. PW600 engine models have been selected by aircraft manufacturers such as Cessna Aircraft and Embraer. P&WC is also developing the PW210 engine for Sikorsky's S-76D helicopter and the PurePower PW800 engine for the new generation of long-range business jets. Pratt & Whitney's Global Material Solutions is in the process of engineering, certifying, manufacturing and selling new parts, including life limited parts, for CFM56-3 engines. <sup>1</sup> Pratt & Whitney continues to enhance its programs through performance improvement measures and product base expansion.

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<sup>1</sup> CFM56 is a trademark of CFM International.



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## Table of Contents

Pratt & Whitney's products are sold principally to aircraft manufacturers, airlines and other aircraft operators, aircraft leasing companies, space launch vehicle providers and the U.S. and foreign governments. Pratt & Whitney's products and services must adhere to strict regulatory and market-driven safety and performance standards. The frequently changing nature of these standards, along with the long duration of aircraft engine programs, creates uncertainty regarding engine program profitability. The vast majority of sales are made directly to the end customer and, to a limited extent, through independent distributors and foreign sales representatives. Sales to Airbus were 11 percent of total Pratt & Whitney revenues in 2009, before taking into account discounts or financial incentives offered to customers. Sales to the U.S. government were 31 percent of total Pratt & Whitney segment revenues in 2009, as compared with 27 percent in 2008.

Revenues from Pratt & Whitney's international operations, including U.S. exports, were 51 percent and 54 percent of total Pratt & Whitney segment revenues in 2009 and 2008, respectively. At December 31, 2009, Pratt & Whitney's business backlog was \$22,614 million, including \$4,577 million of U.S. government-funded contracts and subcontracts, as compared to \$25,982 million and \$5,892 million, respectively, at December 31, 2008. Of the total Pratt & Whitney backlog at December 31, 2009, approximately \$7,113 million is expected to be realized as sales in 2010. Pratt & Whitney's backlog includes certain contracts for which actual costs may ultimately exceed total revenues from these contracts. See Note 1 to the Consolidated Financial Statements in our 2009 Annual Report for a description of our accounting for long-term contracts.

Effective January 1, 2009, we adopted the provisions of the Collaborative Arrangements Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC). This topic requires that participants in a collaborative arrangement report costs incurred and revenues generated from such transactions on a gross basis and in the appropriate line items in each company's financial statements. As required, we have applied the provisions of the Collaborative Arrangements Topic retrospectively for all periods presented. As a result, the collaborators' share of revenues, including its impact on business backlog (approximately \$2.4 billion), which was previously reported on a net basis, is now reported on a gross basis. Prior to the adoption of the provisions of the Collaborative Arrangements Topic of the FASB ASC, Pratt & Whitney's business backlog as of December 31, 2008 was \$23,570 million, including \$5,871 million of U.S. government-funded contracts and subcontracts.

### Hamilton Sundstrand

Hamilton Sundstrand is among the world's leading suppliers of technologically advanced aerospace and industrial products and aftermarket services for diversified industries worldwide. Hamilton Sundstrand's aerospace products, such as power generation, management and distribution systems, flight systems, engine control systems, environmental control systems, fire protection and detection systems, auxiliary power units and propeller systems, serve commercial, military, regional, business and general aviation, as well as military ground vehicle, space and undersea applications. In 2009, UTC completed the transition of the program management of UTC Power's space and defense fuel cell power plant business to Hamilton Sundstrand's energy, space and defense business. Aftermarket services include spare parts, overhaul and repair, engineering and technical support and fleet maintenance programs. Hamilton Sundstrand sells aerospace products to airframe manufacturers, the U.S. and foreign governments, aircraft operators and independent distributors. Sales to the U.S. government were 26 percent of total Hamilton Sundstrand segment revenues in 2009, as compared with 20 percent in 2008.

Hamilton Sundstrand is engaged in development programs for the Boeing 787 aircraft, the new Bombardier CSeries aircraft, the new Mitsubishi Regional Jet, the Airbus A350 aircraft, the Lockheed Martin F-35 Lightning II military aircraft and the Airbus A400M military aircraft. Hamilton Sundstrand is also the prime contractor for NASA's space suit/life support system and produces environmental monitoring and control, life support, mechanical systems and thermal control systems for the U.S. space shuttle program, the international space station and the Orion crew exploration vehicle.

Hamilton Sundstrand's principal industrial products, such as air compressors, metering pumps and fluid handling equipment, serve industries involved with chemical and hydrocarbon processing, oil and gas production, water and wastewater treatment and construction. Hamilton Sundstrand sells these products under the Sullair, Sundyne, Milton Roy and other brand names directly to end users, and through manufacturer representatives and distributors.

Revenues generated by Hamilton Sundstrand's international operations, including U.S. export sales, were 50 percent and 51 percent of total Hamilton Sundstrand segment revenues in 2009 and 2008, respectively. At December 31, 2009, Hamilton Sundstrand's business backlog was \$5,077 million, including \$835 million under U.S. government-funded contracts and subcontracts, as compared to \$5,226 million and \$913 million, respectively, at December 31, 2008. Of the total Hamilton Sundstrand backlog at December 31, 2009, approximately \$2,245 million is expected to be realized as sales in 2010.

### Sikorsky

Sikorsky is one of the world's largest manufacturers of military and commercial helicopters and also provides aftermarket helicopter and aircraft parts and services.



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## Table of Contents

Current major production programs at Sikorsky include the UH-60M Black Hawk medium-transport helicopters and HH-60M Medevac helicopters for the U.S. and foreign governments, the S-70 Black Hawk for foreign governments, the MH-60S and MH-60R helicopters for the U.S. Navy, the International Naval Hawk for multiple naval missions, and the S-76 and S-92 helicopters for commercial operations. The UH-60M helicopter is the latest and most modern in a series of Black Hawk variants that Sikorsky has been delivering to the U.S. Army since 1978 and requires significant additional assembly hours relative to the previous variants. In December 2007, the U.S. government and Sikorsky signed a five-year multi-service contract for 537 H-60 helicopters to be delivered to the U.S. Army and U.S. Navy, which include the UH-60M, HH-60M, MH-60S and MH-60R. The contract includes options for an additional 263 aircraft, spares, and kits, potentially making it the largest contract in UTC and Sikorsky history. Actual production quantities will be determined year-by-year over the life of the program based on funding allocations set by Congress and Pentagon acquisition priorities. The deliveries of the aircraft are scheduled to be made through 2012. Sikorsky is also developing the CH-53K next generation heavy lift helicopter for the U.S. Marine Corps and the CH-148 derivative of the H-92 helicopter, a military variant of the S-92 helicopter, for the Canadian government. The latter is being developed under a fixed-price contract that provides for the development, production, and 22-year logistical support of 28 helicopters. This is the largest and most expansive fixed-price development contract in Sikorsky's history. In December 2008, Sikorsky and the Canadian government executed amendments to the contract that revised the delivery schedule and contract specifications. The first test flight was successfully conducted in November 2008 and the contract provides for delivery of the first interim configuration helicopter in the fourth quarter of 2010. Sikorsky is in discussions with the Canadian government concerning an anticipated delay in completing certain elements of the specification for the interim aircraft.

Sikorsky's aftermarket business includes spare parts sales, overhaul and repair services, maintenance contracts and logistics support programs for helicopters and other aircraft. Sales are made directly by Sikorsky and by its subsidiaries and joint ventures. Sikorsky is increasingly engaging in logistics support programs and partnering with its government and commercial customers to manage and provide maintenance and repair services.

Sales to the U.S. government were 63% in 2009, as compared with 57% in 2008. Revenues generated by Sikorsky's international operations, including U.S. export sales, were 33 percent and 36 percent of total Sikorsky revenues in 2009 and in 2008, respectively. At December 31, 2009, Sikorsky's business backlog was \$10,329 million, including \$4,957 million under U.S. government-funded contracts and subcontracts, as compared to \$13,167 million and \$6,725 million, respectively, at December 31, 2008. Of the total Sikorsky backlog at December 31, 2009, approximately \$5,142 million is expected to be realized as sales in 2010.

### Other

UTC Power is a world leader in the application of fuel cell technology to stationary and transportation applications. In the application of stationary fuel cell power, UTC has delivered more than 260 200kW phosphoric acid fuel cell power plants since 1992. UTC Power ceased production of the 200kW unit in 2009 and began deliveries of its 400kW phosphoric acid fuel cell. This new fuel cell is expected to have greater durability than any other large stationary fuel cell currently available in the market. UTC Power's automotive and bus transportation fuel cell power plants are based on proton exchange membrane (PEM) technology, including its PureMotion 120 power plant, which is currently used in revenue service in transit bus applications in Connecticut, California and Europe. UTC Power is currently developing PEM fuel cells for submarine applications. In addition, UTC Power is the maker of alkaline-based fuel cells used to provide electricity and drinking water to the U.S. space shuttle.

Although fuel cells are believed to be superior to conventional power generation technologies in terms of total system efficiency and environmental characteristics, the technology is still in either early commercialization or development. Continued technology advancement and cost reduction are required to achieve wide-scale market acceptance. Government support is needed to fully commercialize fuel cell technology. There is still significant uncertainty as to whether and when commercially viable fuel cells will be produced.

In 2009, we completed the transition of UTC Power's micro-turbine-based combined cooling, heating and power systems business to Carrier's businesses, its geothermal power systems business to Pratt & Whitney's Power Systems business, and program management of its space and defense fuel cell power plant business to Hamilton Sundstrand's energy, space and defense business. The results of UTC Power are included in the "Eliminations and other" category in the segment financial data in Note 17 to the Consolidated Financial Statements in our 2009 Annual Report.

In December 2009, we agreed to acquire a 49.5% equity stake in Clipper Windpower Plc (Clipper), a California-based wind turbine manufacturer that trades on the AIM London Stock Exchange. We completed the acquisition on January 12, 2010. Pursuant to our agreement with Clipper, we are prohibited from acquiring additional shares of Clipper within two years of the closing date that would result in an equity stake in excess of 49.9% without the prior approval of Clipper. The investment is intended to expand our power generation portfolio and allow us to enter the wind power segment by leveraging our expertise in blade technology, turbines and gearbox design.

## **Other Matters Relating to Our Business as a Whole**

### **Competition and Other Factors Affecting Our Businesses**

As worldwide businesses, our operations can be affected by a variety of economic and other factors, including those described in this section, in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2009 Annual Report, in Item 1, "Cautionary Note Concerning Factors That May Affect Future Results," and in Item 1A, "Risk Factors" in this Form 10-K. Each business unit is subject to significant competition from a large number of companies in the United States and other countries, and each competes on the basis of price, delivery schedule, product performance and service.

Our aerospace businesses are subject to substantial competition from domestic manufacturers, foreign manufacturers (whose governments sometimes provide research and development assistance, marketing subsidies and other assistance for their national commercial products) and companies that obtain regulatory agency approval to manufacture spare parts. In particular, Pratt & Whitney experiences intense competition for new commercial airframe/engine combinations. Engine suppliers may offer substantial discounts and other financial incentives, performance and operating cost guarantees, participation in financing arrangements and maintenance agreements. Customer selections of engines and components can also have a significant impact on later sales of parts and services. In addition, the U.S. government's and other governments' policies of purchasing parts from suppliers other than the original equipment manufacturer affect military spare parts sales. Significant elements of our aerospace businesses, such as spare parts sales for engines and aircraft in service, have short lead times. Therefore, backlog information may not be indicative of future demand. Pratt & Whitney's major competitors in the sale of engines are GE Aviation, Rolls-Royce, Honeywell and Turbomeca. For information regarding customer financing commitments, participation in guarantees of customer financing arrangements and performance and operating cost guarantees, see Notes 4 and 14 to the Consolidated Financial Statements in our 2009 Annual Report.

### **Research and Development**

Since changes in technology can have a significant impact on our operations and competitive position, we spend substantial amounts of our own funds on research and development. These expenditures, which are charged to expense as incurred, were \$1,558 million or 3.0 percent of total sales in 2009, as compared with \$1,771 million or 3.0 percent of total sales in 2008 and \$1,678 million or 3.1 percent of total sales in 2007. We also perform research and development work under contracts funded by the U.S. government and other customers. This contract research and development, which is performed principally in the Pratt & Whitney segment and to a lesser extent in the Hamilton Sundstrand and Sikorsky segments, amounted to \$2,124 million in 2009, as compared to \$2,101 million in 2008 and \$2,123 million in 2007. These contract research and development costs include amounts that are expensed as incurred, through cost of products sold, and amounts that are capitalized into inventory to be subsequently recovered through production aircraft shipments. Of the totals, \$2,095 million, \$2,008 million and \$1,872 million were expensed in 2009, 2008 and 2007, respectively. The remaining costs have been capitalized.

### **U.S. Government Contracts**

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. In the case of a termination for convenience, we would normally be entitled to reimbursement for our allowable costs incurred, plus termination costs and a reasonable profit. 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. Most of our U.S. government sales are made under fixed-price type contracts, while approximately \$2,874 million or 5.5 percent of our total sales for 2009 were made under cost-reimbursement type contracts.

Our contracts with the U.S. government are also subject to audits. Like many defense contractors, we have received audit reports from the U.S. government which recommend that we reduce certain contract prices because cost or pricing data we submitted in negotiation of the contract prices or cost accounting practices may not have conformed to government regulations. Some of these audit reports have involved substantial reductions. We have made voluntary refunds in those cases we believe appropriate, have settled some allegations and continue to litigate certain cases. For further discussion of risks related to government contracting, see the discussion in Item 1A, "Risk Factors" and Item 3, "Legal Proceedings," in this Form 10-K and Note 16 to the Consolidated Financial Statements in our 2009 Annual Report for further discussion.

### **Compliance with Environmental and Other Government Regulations**

Our operations are subject to and affected by environmental regulation by federal, state and local authorities in the United States and regulatory authorities with jurisdiction over our foreign operations. We have incurred and will likely continue to incur liabilities under various government statutes for the cleanup of pollutants previously released into the environment. We do not anticipate that compliance with current provisions relating to the protection of the environment or that any payments we may be required to make for cleanup liabilities will have a material adverse effect upon our cash flows, competitive position, financial condition or results of operations. Environmental matters are further addressed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Notes 1 and 16 to the Consolidated Financial Statements in our 2009 Annual Report.



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## Table of Contents

Most of the U.S. laws governing environmental matters include criminal provisions. If we were convicted of a violation of the federal Clean Air Act or Clean Water Act, the facility or facilities involved in the violation would be ineligible to be used in performing any U.S. government contract we are awarded until the Environmental Protection Agency certified that the condition giving rise to the violation had been corrected.

We conduct our businesses through subsidiaries and affiliates worldwide. Changes in legislation or government policies can affect our worldwide operations. For example, governmental regulation of refrigerants and energy efficiency standards, elevator safety codes and fire safety regulations are important to the businesses of Carrier, Otis and UTC Fire & Security respectively, while government safety and performance regulations, restrictions on aircraft engine noise and emissions and government procurement practices can impact our aerospace businesses.

### Intellectual Property and Raw Materials

We maintain a portfolio of patents, trademarks, licenses and franchises related to our businesses. While this portfolio is cumulatively important to our business, we do not believe that the loss of any one or group of related patents, trademarks, licenses or franchises would have a material adverse effect on our overall business or on any of our operating segments.

We believe we have adequate sources for our purchases of materials, components, services and supplies used in our manufacturing. We work continuously with our supply base to ensure an adequate source of supply and to reduce costs. We pursue cost reductions through a number of mechanisms, including consolidating our purchases, reducing the number of suppliers, strategic global sourcing and using online bidding competitions among potential suppliers. In some instances, we depend upon a single source of supply or participate in commodity markets that may be subject to allocations of limited supplies by suppliers. Like other users in the United States, we are largely dependent upon foreign sources for certain raw materials requirements such as cobalt (Finland, Norway, Russia and Canada), tantalum (Australia and Canada), chromium (South Africa, Kazakhstan, Zimbabwe and Russia) and rhenium (Chile, Kazakhstan and Germany). We have a number of ongoing programs to manage this dependence and the accompanying risk, including long-term agreements and the conservation of materials through scrap reclamation and new manufacturing processes. We believe that our supply management practices are based on an appropriate balancing of the foreseeable risks and the costs of alternative practices. Although recent high prices for some raw materials important to some of our businesses (steel, copper, aluminum, titanium and nickel) have caused margin and cost pressures, we do not foresee any near term unavailability of materials, components or supplies that would have an adverse effect on our overall business or on any of our business segments. For further discussion of the possible effects of the cost and availability of raw materials on our business, see Item 1A, "Risk Factors" in this Form 10-K.

### Employees and Employee Relations

At December 31, 2009, our total employment was approximately 206,700, approximately 65 percent of which represents employees based outside the United States. During 2009, we renegotiated twelve domestic multi-year collective bargaining agreements, the largest of which covered certain workers at Sikorsky, Otis and Carrier. In 2010, numerous collective bargaining agreements are subject to renegotiation, the largest of which cover certain workers at Pratt & Whitney, Carrier and Hamilton Sundstrand. Although some previous contract renegotiations have had a significant impact on our financial condition or results of operations, particularly at Sikorsky, we do not anticipate such problems in the renegotiation of the above contracts that would either individually or in the aggregate have a material adverse effect on our financial condition or results of operations. For discussion of the effects of our restructuring actions on employment, see Item 3, "Legal Proceedings" in this Form 10-K and under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 12 to the Consolidated Financial Statements in our 2009 Annual Report.

For a discussion of other matters which may affect our financial condition, results of operations or cash flows, including the risks of our international operations, see the further discussion under the headings "General" and "Description of Business by Segment" in this section, Item 1A, "Risk Factors" in this Form 10-K, and under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2009 Annual Report.

### Cautionary Note Concerning Factors That May Affect Future Results

This Form 10-K 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," "plans," "strategy," "prospects," "estimate," "project," "target," "anticipate," "guidance" 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 revenues, earnings, cash flow, uses of cash and other measures of financial performance;

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## Table of Contents

- the effect of economic conditions in the United States and globally, including the financial condition of our customers and suppliers;
- new business opportunities;
- restructuring costs and savings;
- the scope, nature or impact of acquisition and divestiture activity, including integration of acquired businesses into our existing businesses;
- the development, production and support 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;
- the outcome of contingencies;
- future repurchases of common stock;
- future levels of indebtedness and capital spending;
- future availability of and access to credit markets;
- pension plan assumptions and future contributions; and
- the effect of changes in tax, environmental and other laws and regulations 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 Annual Report on Form 10-K 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 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.” Our 2009 Annual Report also includes important information as to these risk factors in the “Business” section under the headings “Description of Business by Segment” and “Other Matters Relating to Our Business as a Whole,” and in the “Risk Factors” and “Legal Proceedings” sections. Additional important information as to these factors is included in our 2009 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 and Other 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.

### Item 1A. Risk Factors

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, including, but not limited to, those set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results. For a discussion identifying additional risk factors and important factors that could cause actual results to differ materially from those anticipated, see the discussion in the “Business” section under the headings “Other Matters Relating to Our Business as a Whole” and “Cautionary Note Concerning Factors That May Affect Future Results” in this Form 10-K and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Notes to Consolidated Financial Statements” in our 2009 Annual Report.

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

As widely reported, the global economic turmoil that began in 2008 continued throughout 2009, including 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. Governments have taken unprecedented actions intended to address extreme financial and economic conditions that include severely restricted credit and declines in real estate values. In recent months, certain indices and economic data have begun to show first signs of improvement and stabilization in the macroeconomic environment. However, there can be no assurance that these improvements will be broad-based and sustainable, or that they will affect markets relevant to us. Further, there can be no assurance that we will not experience further adverse effects that may be material to our revenues, results of operations, financial condition and ability to access capital. 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,



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## Table of Contents

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. We are unable to predict the likely duration and severity of disruption in financial markets and adverse economic conditions in the U.S. and other countries.

### ***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 58% of our consolidated revenues in 2009, 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. In addition to these factors, Carrier's financial performance can also be influenced by production and utilization of transport equipment and, in its residential business, weather conditions.

The results of our commercial and military aerospace businesses, which generated approximately 42% of our consolidated revenues in 2009, are directly tied to the economic conditions in the commercial aviation and defense industries, which are cyclical in nature. The challenging operating environment currently faced by commercial airlines is expected to continue. 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 revenues 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 or pandemic health issues 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 2010, 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 an adverse effect on our financial performance 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. 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 to reflect 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 Economic Conditions, Foreign Currency Fluctuations and Changes in Local Government Regulation***

We conduct our business on a global basis, with approximately 59% of our total 2009 segment revenues derived from operations outside of the United States and from 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





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## Table of Contents

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 revenues 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 revenues. See Note 1 and Note 13 to the Consolidated Financial Statements in our 2009 Annual Report 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, 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, 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 total 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. While these factors and their impact are difficult to predict, any one or more of them could adversely affect our business, financial condition or operating results.

### ***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 some 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, price increases, or decreased availability of raw materials or commodities, could have an 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 an adverse effect on our results of operations or financial condition.

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

We seek to grow through strategic acquisitions. In the past several years, we have made various acquisitions and have entered into joint venture arrangements intended to complement and expand our businesses, and may continue to do so in the future. The 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. We may encounter difficulties in integrating acquisitions with our operations, applying our internal controls processes to these acquisitions, or in managing strategic investments. Additionally, we may not realize the degree or timing of benefits we anticipate when we first enter into a transaction. Any of the foregoing could adversely affect our business and results of operations. In addition, the recent effectiveness of revisions to accounting for business combinations, which, among other things, require companies 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. Lower performance by those divested businesses 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. We regularly invest substantial amounts in research and development efforts that pursue

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## Table of Contents

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 internal and supplier-produced parts and materials; performance of suppliers and subcontractors; achieving cost and production efficiencies, validation of innovative technologies and the level of customer interest in new technologies and products. These factors involve significant risks and uncertainties. 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. In particular, we cannot predict with certainty whether, when and in what quantities our aerospace businesses, particularly Pratt & Whitney, Sikorsky and Hamilton Sundstrand, will produce aircraft engines, helicopters, aircraft systems and components and other products currently in development or pending required certifications. Any of the foregoing could adversely affect our business and results of operations.

### ***We Are Subject to Litigation, Tax, Environmental and Other Legal Compliance Risks That Could Adversely Affect Our Operating Results***

We are subject to a variety of litigation tax and legal compliance risks. These risks include, among other things, litigation concerning 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 litigation. If convicted or found liable, we could be subject to 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 and regulations could result in higher expenses and payments, and uncertainty relating to laws and regulations may also affect how we conduct our operations and structure our investments and could limit our ability to enforce our rights. Changes in environmental laws and regulations could lead to new or additional investment in product designs and could increase environmental compliance expenditures. In the area of tax, 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. While we believe we have adopted appropriate risk management and compliance programs to address and reduce these risks, 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 this Form 10-K. 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 an adverse effect on our results of operations in the period in which such event occurs or on our cash flows in the period in which the ultimate settlement with the applicable taxing authority occurs.

### **Item 1B. Unresolved Staff Comments**

None.

## Table of Contents

### Item 2. Properties

Location	Number of Facilities - Owned							Total
	Otis	Carrier	UTC Fire & Security	Pratt & Whitney	Hamilton Sundstrand	Sikorsky	Other	
<b>Manufacturing:</b>								
North America	—	10	4	36	22	8	—	80
Europe & Middle East	7	7	8	6	17	1	—	46
Asia	4	2	—	6	2	—	—	14
Emerging Markets*	10	18	4	3	5	1	—	41
	<u>21</u>	<u>37</u>	<u>16</u>	<u>51</u>	<u>46</u>	<u>10</u>	<u>—</u>	<u>181</u>
<b>Non-Manufacturing:</b>								
North America	4	5	4	28	4	—	11	56
Europe & Middle East	16	10	4	2	1	—	—	33
Asia	2	2	5	1	—	1	—	11
Emerging Markets*	6	8	4	—	—	—	—	18
	<u>28</u>	<u>25</u>	<u>17</u>	<u>31</u>	<u>5</u>	<u>1</u>	<u>11</u>	<u>118</u>
Location	Number of Facilities - Leased							Total
	Otis	Carrier	UTC Fire & Security	Pratt & Whitney	Hamilton Sundstrand	Sikorsky	Other	
<b>Manufacturing:</b>								
North America	1	5	5	23	8	5	2	49
Europe & Middle East	—	3	14	1	13	1	—	32
Asia	—	2	—	4	2	—	—	8
Emerging Markets*	3	1	9	—	5	—	—	18
	<u>4</u>	<u>11</u>	<u>28</u>	<u>28</u>	<u>28</u>	<u>6</u>	<u>2</u>	<u>107</u>
<b>Non-Manufacturing:</b>								
North America	4	47	11	15	3	9	4	93
Europe & Middle East	12	19	14	—	—	—	—	45
Asia	5	2	7	1	—	—	—	15
Emerging Markets*	8	5	2	—	—	—	—	15
	<u>29</u>	<u>73</u>	<u>34</u>	<u>16</u>	<u>3</u>	<u>9</u>	<u>4</u>	<u>168</u>

\* For purposes of this table, emerging markets is based on the countries included in the MSCI Emerging Markets Index <sup>SM</sup>.

Our fixed assets as of December 31, 2009 include manufacturing facilities and non-manufacturing facilities such as warehouses set forth in the tables above and a substantial quantity of machinery and equipment, most of which are general purpose machinery and equipment using special jigs, tools and fixtures and in many instances having automatic control features and special adaptations. The facilities, warehouses, machinery and equipment in use as of December 31, 2009 are in good operating condition, are well-maintained and substantially all are in regular use.

### Item 3. Legal Proceedings

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.

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## Table of Contents

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. Both the DOJ and UTC have appealed the decision. 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.

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 government contracts. The DOD claims that Sikorsky's liability is approximately \$83 million (including interest through December 2009). We believe this claim is without merit and Sikorsky filed an appeal in December 2009 with the U.S. Court of Federal Claims.

As previously disclosed, on February 21, 2007, the European Commission's Competition Directorate (EU Commission) 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 before the EU's European Court of First Instance. A decision on the appeal is expected within the next twelve months. Depending upon the outcome, a further appeal by either party to the European Court of Justice is possible.

On September 21, 2009, Pratt & Whitney announced plans to close its Connecticut Airfoil Repair Operations facility in East Hartford, Connecticut by the second quarter of 2010 and its engine overhaul facility in Cheshire, Connecticut by early 2011. On September 22, 2009, the International Association of Machinists (IAM) filed a lawsuit in the U.S. District Court for the District of Connecticut in Hartford, Connecticut alleging that Pratt & Whitney's decision to close these facilities and transfer certain work to facilities outside Connecticut breached the terms of its collective bargaining agreement with the IAM, which expires on December 5, 2010, and seeking to enjoin Pratt & Whitney from moving the work for the duration of the collective bargaining agreement. Pratt & Whitney believes that it has fully complied with the collective bargaining agreement and that the IAM's contentions are without merit. On February 5, 2010, following a trial on the merits, the court issued a declaratory judgment that Pratt & Whitney had breached its obligations under the collective bargaining agreement and permanently enjoined Pratt & Whitney from closing the facilities and transferring the work described in the challenged plans for the duration of the current collective bargaining agreement. Pratt & Whitney is reviewing the decision and considering whether to appeal. Pratt & Whitney has recorded \$53 million of restructuring costs associated with these planned closures. We do not believe that resolution of this matter will have a material adverse effect upon our competitive position, results of operations, cash flows or financial condition.

Like many other industrial companies in recent years, we or our subsidiaries are named as a defendant in lawsuits alleging personal injury as a result of exposure to asbestos integrated into certain of our products or premises. While we have never manufactured asbestos and no longer incorporate it in any currently-manufactured products, certain of our historical products, like those of many other manufacturers, have contained components incorporating asbestos. A substantial majority of these asbestos-related claims have been covered by insurance or other forms of indemnity or have been dismissed without payment. The remainder of the closed cases have been resolved for amounts that are not material individually or in the aggregate. Based on the information currently available, we do not believe that resolution of these asbestos-related 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 the legal matters discussed above will have a material adverse effect upon our competitive position, results of operations, cash flows or financial condition. A further discussion of government contracts and related investigations, as well as a discussion of our environmental liabilities, can be found under the heading "Other Matters Relating to Our Business as a Whole – Compliance with Environmental and Other Government Regulations" in Item 1, "Business," and in Item 1A, "Risk Factors," in this Form 10-K.

### **Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to security holders for a vote during the quarter ended December 31, 2009.

## **PART II**

### **Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Performance Graph and Comparative Stock Data appearing in our 2009 Annual Report containing the following data relating to our Common Stock: shareholder return, principal market, quarterly high and low sales prices, approximate number of shareowners and frequency and amount of dividends are hereby incorporated by reference. The information required by Item 5 with respect to securities authorized for issuance under equity compensation plans is incorporated by reference in Part III, Item 12 of this Form 10-K.

## Table of Contents

### Issuer Purchases of Equity Securities

The following table provides information about our purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the quarter ended December 31, 2009.

	Total Number of Shares Purchased (000's)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program (000's)	Maximum Number of Shares that may yet be Purchased Under the Program (000's)
2009				
October 1 - October 31	1	\$ 59.99	—	14,037
November 1 - November 30	1,733	68.04	1,733	12,304
December 1 - December 31	2,922	69.17	2,922	9,382
Total	4,656	\$ 68.74	4,655	

We repurchase shares under a program announced on June 11, 2008, 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, as amended. These repurchases are included within the scope of our overall repurchase program discussed above. 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 1,000 shares were reacquired in transactions outside the program during the quarter.

#### Item 6. Selected Financial Data

The Five Year Summary appearing in our 2009 Annual Report is hereby incorporated by reference. See “Notes to Consolidated Financial Statements” in our 2009 Annual Report for a description of any accounting changes and acquisitions or dispositions of businesses materially affecting the comparability of the information reflected in the Five Year Summary.

#### Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

We hereby incorporate by reference in this Form 10-K the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2009 Annual Report.

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

For information concerning market risk sensitive instruments, see discussion under the heading “Market Risk and Risk Management” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2009 Annual Report and under the heading “Foreign Exchange and Hedging Activity” in Note 1 and Note 13 to the Consolidated Financial Statements in our 2009 Annual Report.

#### Item 8. Financial Statements and Supplementary Data

The 2009 and 2008 Consolidated Balance Sheet, and other financial statements for the years 2009, 2008 and 2007, together with the report thereon of PricewaterhouseCoopers LLP dated February 11, 2010 in our 2009 Annual Report are incorporated by reference in this Form 10-K. The 2009 and 2008 unaudited Selected Quarterly Financial Data appearing in our 2009 Annual Report is incorporated by reference in this Form 10-K.

#### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

#### Item 9A. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended, 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. 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



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## Table of Contents

assurance of achieving their control objectives. Based upon our evaluation, our CEO, CFO and Controller concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, 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, CFO and Controller, as appropriate, to allow timely decisions regarding required disclosure.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control—Integrated Framework*. Our management concluded that based on its assessment, our internal control over financial reporting was effective as of December 31, 2009. The effectiveness of our internal control over financial reporting as of December 31, 2009 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in our 2009 Annual Report.

There has been no change in our internal control over financial reporting during the quarter ended December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 with respect to directors, the Audit Committee of the Board of Directors and audit committee financial experts is incorporated herein by reference to the sections of our Proxy Statement for the 2010 Annual Meeting of Shareowners titled “General Information Concerning the Board of Directors,” “Nominees,” and “Committees of the Board” (under the headings “The Audit Committee” and “The Committee on Nominations and Governance”).



## Table of Contents

### Executive Officers of the Registrant

The following persons are executive officers of United Technologies Corporation:

<u>Name</u>	<u>Title</u>	<u>Other Business Experience Since 1/1/2005</u>	<u>Age 2/11/2010</u>
Alain Bellemare	President, Hamilton Sundstrand Corporation (since January 2009)	President, Pratt & Whitney Canada	48
Ari Bousbib	President, Commercial Companies and Executive Vice President (since 2008)	President, Otis Elevator	48
J. Thomas Bowler, Jr.	Senior Vice President, Human Resources and Organization (since 2007)	Vice President, Human Resources, United Technologies Corporation; Vice President, Human Resources and Organization, Pratt & Whitney	57
William M. Brown	President, UTC Fire & Security (since 2006)	President, Asia Pacific, Carrier Corporation	47
Louis R. Chênevert	Director (since 2006), Chairman (since January 2010), President (since 2006) and Chief Executive Officer (since 2008)	President and Chief Operating Officer, United Technologies Corporation; President, Pratt & Whitney	52
Geraud Darnis	President, Carrier Corporation (since 2001)	—	50
Charles D. Gill	Senior Vice President and General Counsel (since 2007)	Vice President and General Counsel, and Secretary, Carrier Corporation; Executive Assistant to Chairman and Chief Executive Officer, United Technologies Corporation	45
Gregory J. Hayes	Senior Vice President and Chief Financial Officer (since 2008)	Vice President, Accounting and Finance, United Technologies Corporation; Vice President, Accounting and Control, United Technologies Corporation; Vice President, Controller, United Technologies Corporation	49
David P. Hess	President, Pratt & Whitney (since January 2009)	President, Hamilton Sundstrand Corporation; President, Hamilton Sundstrand Aerospace Power Systems	54
Didier Michaud-Daniel	President, Otis Elevator (since 2008)	President, Otis United Kingdom and Central Europe Area, Otis Elevator	52
Jeffrey P. Pino	President, Sikorsky Aircraft (since 2006)	Senior Vice President, Corporate Strategy, Marketing & Commercial Programs, Sikorsky Aircraft	55
Thomas I. Rogan	Vice President, Treasurer (since 2001)	—	57
Margaret M. Smyth	Vice President, Controller (since 2007)	Vice President and Chief Accounting Officer, 3M Co.; Managing Partner, Deloitte & Touche	46

All of the officers serve at the pleasure of the Board of Directors of United Technologies Corporation or the subsidiary designated.

Information concerning Section 16(a) compliance is incorporated herein by reference to the section of our Proxy Statement for the 2010 Annual Meeting of Shareowners titled "Other Matters" under the heading "Section 16(a) Beneficial Ownership Reporting Compliance." We have adopted a code of ethics that applies to all our directors, officers, employees and representatives. This code is publicly available on our website at <http://www.utc.com/Governance/Ethics/Code+of+Ethics>. Amendments to the



## Table of Contents

code of ethics and any grant of a waiver from a provision of the code requiring disclosure under applicable SEC rules will be disclosed on our website. Our Corporate Governance Guidelines and the charters of our Board of Directors' Audit Committee, Finance Committee, Committee on Nominations and Governance, Public Issues Review Committee and Committee on Compensation and Executive Development are available on our website at <http://www.utc.com/Governance/Board+of+Directors>. These materials may also be requested in print free of charge by writing to our Investor Relations Department at United Technologies Corporation, United Technologies Building, Investor Relations, Hartford, CT 06101.

### Item 11. Executive Compensation

The information required by Item 11 is incorporated herein by reference to the sections of our Proxy Statement for the 2010 Annual Meeting of Shareowners titled "Executive Compensation" and "Director Compensation."

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information relating to security ownership of certain beneficial owners and management required by Item 12 is incorporated herein by reference to the sections of our Proxy Statement for the 2010 Annual Meeting titled "Security Ownership of Directors, Nominees, Executive Officers and Certain Beneficial Owners." The Equity Compensation Plan Information required by Item 12 is set forth in the table below.

#### EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2009 concerning common stock issuable under equity compensation plans.

Plan category	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) <sup>(1)</sup>
Equity compensation plans approved by security holders	62,029,000 <sup>(2)</sup>	\$ 51.82	27,219,000 <sup>(3)</sup>
Equity compensation plans not approved by security holders	7,947,000 <sup>(4)</sup>	\$ 40.50	0
<b>Total</b>	<b>69,976,000</b>	<b>\$ 50.54<sup>(5)</sup></b>	<b>27,219,000</b>

<sup>(1)</sup> Consists of shares of UTC Common Stock or units equal in value to a share of UTC Common Stock (e.g., restricted stock, restricted stock units, performance share units) (Full Share Award) available for future issuance under the terms of the 2005 Long-Term Incentive Plan, as amended (2005 LTIP). Full Share Awards will result in a reduction in the number of shares of UTC Common Stock available for delivery under the 2005 LTIP in an amount equal to 3.1 times the number of shares to which the award corresponds. Stock options and stock appreciation rights do not constitute Full Share Awards and will result in a reduction in the number of shares of UTC Common Stock available for delivery under the 2005 LTIP on a one-for-one basis.

<sup>(2)</sup> Consists of options awarded under the 1989 Long Term Incentive Plan (1989 LTIP), the 2005 LTIP and the Non-Employee Director Stock Option Plan (Non-Employee Director Plan). Options issued under the 1989 LTIP include options that resulted from the conversion of awards granted under equity compensation plans of Sundstrand Corporation at the time it was merged into Hamilton Sundstrand. This amount includes 344,000 restricted shares and restricted share units and 3,112,000 performance share units at the target level. Up to an additional 3,112,000 could be issued if performance goals are achieved above target.

<sup>(3)</sup> Represents the maximum number of shares of common stock available to be awarded as of December 31, 2009.

<sup>(4)</sup> Consists of options awarded under the UTC Employee Stock Option Plan. This Plan authorized the award of non-qualified stock options to employees below the executive level considered to have the potential to contribute to the long-term success of UTC. These options consisted of rights to purchase a specified number of shares of UTC Common Stock at a fixed option price equal to the fair market value of UTC Common Stock on the date the stock option was granted. Options vested three years after the grant date and have a ten-year term. Effective April 14, 2005, all equity compensation awards are now provided under the shareowner-approved 2005 LTIP.

<sup>(5)</sup> Weighted-average calculation does not include restricted shares and performance share units because they have no exercise price.

## Table of Contents

### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is incorporated herein by reference to the sections of our Proxy Statement for the 2010 Annual Meeting titled “General Information Concerning the Board of Directors,” “Director Independence,” and “Other Matters” (under the heading “Transactions with Related Persons”).

### Item 14. Principal Accounting Fees and Services

The information required by Item 14 is incorporated by reference to the section of our Proxy Statement for the 2010 Annual Meeting titled “Appointment of a Firm of Independent Registered Public Accountants to Serve as Independent Auditors for 2010,” including the information provided in that section with regard to “Audit Fees,” “Audit Related Fees,” “Tax Fees” and “All Other Fees.”

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements, Financial Statement Schedules and Exhibits

(1) Financial Statements (incorporated by reference from the 2009 Annual Report):

	<b>Page Number in Annual Report</b>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	25
<a href="#">Consolidated Statement of Operations for the three years ended December 31, 2009</a>	26
<a href="#">Consolidated Balance Sheet as of December 31, 2009 and 2008</a>	27
<a href="#">Consolidated Statement of Cash Flows for the three years ended December 31, 2009</a>	28
<a href="#">Consolidated Statement of Changes in Equity for the three years ended December 31, 2009</a>	29
<a href="#">Notes to Consolidated Financial Statements</a>	31
<a href="#">Selected Quarterly Financial Data (Unaudited)</a>	55

(2) Financial Statement Schedule for the three years ended December 31, 2009:

	<b>Page Number in Form 10-K</b>
<a href="#">SCHEDULE I—Report of Independent Registered Public Accounting Firm on Financial Statement Schedule</a>	S-I
<a href="#">SCHEDULE II—Valuation and Qualifying Accounts</a>	S-II

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

(3) Exhibits:

The following list of exhibits includes exhibits submitted with this Form 10-K as filed with the SEC and those incorporated by reference to other filings.

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## Table of Contents

<u>Exhibit Number</u>	
3(i)	Restated Certificate of Incorporation, restated as of May 5, 2006, incorporated by reference to Exhibit 3(i) to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2006.
3(ii)	Bylaws as amended and restated effective December 10, 2008, incorporated by reference to Exhibit 3(ii) to UTC's Current Report on Form 8-K (Commission file number 1-812) filed with the SEC on December 12, 2008.
4.1	Amended and Restated Indenture, dated as of May 1, 2001, between UTC and The Bank of New York, as trustee, incorporated by reference to Exhibit 4(a) to UTC's Registration Statement on Form S-3 (Commission file number 333-60276) filed with the SEC on May 4, 2001. UTC hereby agrees to furnish to the Commission upon request a copy of each other instrument defining the rights of holders of long-term debt of UTC and its consolidated subsidiaries and any unconsolidated subsidiaries.
10.1	United Technologies Corporation Annual Executive Incentive Compensation Plan, incorporated by reference to Exhibit 10.1 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995, and Amendment thereto, effective January 1, 2009, incorporated by reference to Exhibit 10.1 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2008.
10.2	United Technologies Corporation Executive Estate Preservation Program, incorporated by reference to Exhibit 10(iv) to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1992.
10.3	United Technologies Corporation Pension Preservation Plan, as amended and restated, effective December 31, 2009.*
10.4	United Technologies Corporation Senior Executive Severance Plan, incorporated by reference to Exhibit 10(vi) to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1992, as amended by Amendment thereto, effective December 10, 2003, incorporated by reference to Exhibit 10.4 of UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2003, and Amendment thereto, effective June 11, 2008, incorporated by reference to Exhibit 10.4 of UTC's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended June 30, 2008.
10.5	United Technologies Corporation Deferred Compensation Plan, as amended and restated, effective January 1, 2005, incorporated by reference to Exhibit 10.5 of UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2008.
10.6	United Technologies Corporation Long Term Incentive Plan, incorporated by reference to Exhibit 10.11 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1989, as amended by Amendment No. 1, incorporated by reference to Exhibit 10.6 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995, and Amendment No. 2, incorporated by reference to Exhibit 10.6 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2003.
10.7	Schedule of Terms for Nonqualified Stock Option and Dividend Equivalent Awards relating to the United Technologies Corporation Long Term Incentive Plan, as amended (referred to above in Exhibit 10.6), incorporated by reference to Exhibit 10.15 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2004.
10.8	Schedule of Terms and Form of Award for Restricted Stock Awards relating to the United Technologies Corporation Long Term Incentive Plan, as amended (referred to above in Exhibit 10.6), incorporated by reference to Exhibit 10.1 to UTC's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended September 30, 2004.
10.9	Schedule of Terms and Form of Award for Nonqualified Stock Option Awards relating to the United Technologies Corporation Long Term Incentive Plan, as amended (referred to above in Exhibit 10.6), incorporated by reference to Exhibit 10.2 to UTC's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended September 30, 2004.
10.10	Schedule of Terms and Forms of Award for Continuous Improvement Incentive Program Non-qualified Stock Option and Dividend Equivalent Awards relating to the United Technologies Corporation Long Term Incentive Plan, as amended (referred to above in Exhibit 10.6), incorporated by reference to Exhibit 10.6 to UTC's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended September 30, 2004.
10.11	United Technologies Corporation Executive Leadership Group Program, as amended and restated, effective June 10, 2009, incorporated by reference to Exhibit 10.7 to UTC's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended September 30, 2009.
10.12	Schedule of Terms for Restricted Share Unit Retention Awards relating to the United Technologies Corporation Executive Leadership Group Program (referred to above in Exhibit 10.11), incorporated by reference to Exhibit 10.3 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed with the SEC on March 24, 2006.
10.13	Form of Award Agreement for Restricted Share Unit Retention Awards relating to the United Technologies Corporation

Executive Leadership Group Program (referred to above in Exhibit 10.11), incorporated by reference to Exhibit 10.2 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed with the SEC on March 24, 2006.

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## Table of Contents

- 10.14 United Technologies Corporation Board of Directors Deferred Stock Unit Plan, as amended and restated October 8, 2008, incorporated by reference to Exhibit 10.9 to UTC's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended September 30, 2008.
- 10.15 Retainer Payment Election Form for United Technologies Corporation Board of Directors Deferred Stock Unit Plan (referred to above in Exhibit 10.14), incorporated by reference to Exhibit 10.1 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed with the SEC on April 18, 2006.
- 10.16 Form of Deferred Restricted Stock Unit Award relating to the United Technologies Corporation Board of Directors Deferred Stock Unit Plan (referred to above in Exhibit 10.14).\*
- 10.17 United Technologies Corporation Nonemployee Director Stock Option Plan, incorporated by reference to Exhibit 10.12 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 1995, as amended by Amendment No. 1, incorporated by reference to Exhibit 10(iii)(A)(2) to UTC's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2000, Amendment No. 2, incorporated by reference to Exhibit 10(iii)(A)(1) to UTC's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001, Amendment No. 3, incorporated by reference to Exhibit 10.17 to UTC's Annual Report on Form 10-K for fiscal year ending December 31, 2001, Amendment No. 4, incorporated by reference to Exhibit 10.12 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ending December 31, 2002 and Amendment No. 5, incorporated by reference to Exhibit 10.12 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2003.
- 10.18 Form of Nonqualified Stock Option Award relating to the United Technologies Corporation Nonemployee Director Stock Option Plan, as amended (referred to above in Exhibit 10.17), incorporated by reference to Exhibit 10.4 to UTC's Quarterly Report on Form 10-Q (Commission file number 1-812) for the quarterly period ended September 30, 2004.
- 10.19 United Technologies Corporation 2005 Long-Term Incentive Plan, as amended and restated effective April 9, 2008, incorporated by reference to Exhibit 10.1 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed with the SEC on April 11, 2008.
- 10.20 Schedule of Terms for restricted stock awards relating to the United Technologies Corporation 2005 Long-Term Incentive Plan (referred to above in Exhibit 10.19), incorporated by reference to Exhibit 10.1 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed with the SEC on September 20, 2005.
- 10.21 Form of Award Agreement for restricted stock awards relating to the United Technologies Corporation 2005 Long-Term Incentive Plan (referred to above in Exhibit 10.19), incorporated by reference to Exhibit 10.2 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed with the SEC on September 20, 2005.
- 10.22 Schedule of Terms for non-qualified stock option awards relating to the United Technologies Corporation 2005 Long-Term Incentive Plan (referred to above in Exhibit 10.19), incorporated by reference to Exhibit 10.3 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed with the SEC on September 20, 2005.
- 10.23 Form of Award Agreement for non-qualified stock option awards relating to the United Technologies Corporation 2005 Long-Term Incentive Plan (referred to above in Exhibit 10.19), incorporated by reference to Exhibit 10.4 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed with the SEC on September 20, 2005.
- 10.24 Schedule of Terms for performance share unit awards relating to the United Technologies Corporation 2005 Long-Term Incentive Plan (referred to above in Exhibit 10.19), incorporated by reference to Exhibit 10.28 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2008.
- 10.25 Schedule of Terms for stock appreciation rights awards relating to the United Technologies Corporation 2005 Long-Term Incentive Plan (referred to above in Exhibit 10.19), incorporated by reference to Exhibit 10.29 to UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2008.
- 10.26 Form of Award Agreement for performance share unit and stock appreciation rights awards relating to the United Technologies Corporation 2005 Long-Term Incentive Plan (referred to above in Exhibit 10.19), incorporated by reference to Exhibit 10.1 to UTC's Current Report on Form 8-K filed with the SEC on October 16, 2006.
- 10.27 Form of Award Agreement for performance share unit and stock appreciation rights awards relating to the United Technologies Corporation 2005 Long-Term Incentive Plan (referred to above in Exhibit 10.19), incorporated by reference to Exhibit 10.1 to UTC's Current Report on Form 8-K (Commission file number 1-812) filed with the SEC on December 20, 2005.
- 10.28 United Technologies Corporation LTIP Performance Share Unit Deferral Plan, relating to the 2005 Long-Term Incentive Plan (referred to above in Exhibit 10.19), incorporated by reference to Exhibit 10.36 of UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2008.



## Table of Contents

10.29	United Technologies Corporation International Deferred Compensation Replacement Plan, effective January 1, 2005, incorporated by reference to Exhibit 10.35 of UTC's Annual Report on Form 10-K (Commission file number 1-812) for fiscal year ended December 31, 2008.
10.30	United Technologies Corporation Company Automatic Excess Plan, effective January 1, 2010.*
10.31	United Technologies Corporation Savings Restoration Plan, effective January 1, 2010.*
11	Statement Re: Computations of Per Share Earnings.*
12	Statement Re: Computation of Ratios.*
13	Annual Report for the year ended December 31, 2009 (except for the information therein expressly incorporated by reference in this Form 10-K, the Annual Report is provided solely for the information of the SEC and is not to be deemed "filed" as part of this Form 10-K).*
14	Code of Ethics. The UTC Code of Ethics may be accessed via UTC's website at <a href="http://www.utc.com/Governance/Ethics/Code+of+Ethics">http://www.utc.com/Governance/Ethics/Code+of+Ethics</a> .
21	Subsidiaries of the Registrant.*
23	Consent of PricewaterhouseCoopers LLP.*
24	Powers of Attorney of John V. Faraci, Jean-Pierre Garnier, Jamie S. Gorelick, Carlos M. Gutierrez, Edward A. Kangas, Charles R. Lee, Richard D. McCormick, Harold W. McGraw III, Richard B. Myers, H. Patrick Swygert, André Villeneuve and Christine Todd Whitman.*
31	Rule 13a-14(a)/15d-14(a) Certifications.*
32	Section 1350 Certifications.*
101.INS	XBRL Instance Document.* (File name: utx-20091231.xml)
101.SCH	XBRL Taxonomy Extension Schema Document.* (File name: utx-20091231.xsd)
101.PRE	XBRL Taxonomy Presentation Linkbase Document.* (File name: utx-20091231_pre.xml)
101.LAB	XBRL Taxonomy Label Linkbase Document.* (File name: utx-20091231_lab.xml)
101.CAL	XBRL Taxonomy Calculation Linkbase Document.* (File name: utx-20091231_cal.xml)
101. DEF	XBRL Taxonomy Definition Linkbase Document.* (File name: utx-20091231_def.xml)

### Notes to Exhibits List :

\* Submitted electronically herewith.

Exhibits 10.1 through 10.31 are contracts, arrangements or compensatory plans filed as exhibits pursuant to Item 15(b) of the requirements for Form 10-K reports.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language) for the year ended December 31, 2009: (i) Consolidated Statement of Operations, (ii) Consolidated Balance Sheet, (iii) Consolidated Statement of Cash Flows, (iv) Consolidated Statement of Changes in Equity, (v) Notes to Consolidated Financial Statements tagged in block text format, and (vi) Financial Schedule of Valuation and Qualifying Accounts tagged in block text format.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Annual Report on Form 10-K 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 Section 13 or 15(d) 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)

By:                   /s/ G REGORY J. H AYES                    
**Gregory J. Hayes**  
**Senior Vice President and Chief Financial Officer**

By:                   /s/ M ARGARET M. S MYTH                    
**Margaret M. Smyth**  
**Vice President, Controller**

Date: February 11, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
<u>          /s/ L OUIS R. C HÊNEVERT          </u> <b>Louis R. Chênevert</b>	Director, Chairman, President and Chief Executive Officer	February 11, 2010
<u>          /s/ G REGORY J. H AYES          </u> <b>Gregory J. Hayes</b>	Senior Vice President and Chief Financial Officer	February 11, 2010
<u>          /s/ M ARGARET M. S MYTH          </u> <b>Margaret M. Smyth</b>	Vice President, Controller	February 11, 2010
<u>          /s/ J OHN V. F ARACI *          </u> <b>(John V. Faraci)</b>	Director )	
<u>          /s/ J EAN -P IERRE G ARNIER *          </u> <b>(Jean-Pierre Garnier)</b>	Director )	
<u>          /s/ J AMIE S. G ORELICK *          </u> <b>(Jamie S. Gorelick)</b>	Director )	
<u>          /s/ C ARLOS M. G UTIERREZ *          </u> <b>(Carlos M. Gutierrez)</b>	Director )	
<u>          /s/ E DWARD A. K ANGAS *          </u> <b>(Edward A. Kangas)</b>	Director )	
<u>          /s/ C HARLES R. L EE *          </u> <b>(Charles R. Lee)</b>	Director )	
<u>          /s/ R ICHARD D. M C C ORMICK *          </u> <b>(Richard D. McCormick)</b>	Director )	

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**Table of Contents**

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ HAROLD W. MCGRAW III *</u> (Harold W. McGraw III)	Director )	
<u>/s/ RICHARD B. MYERS *</u> (Richard B. Myers)	Director )	
<u>/s/ H. PATRICK SWYGERT *</u> (H. Patrick Swygert)	Director )	
<u>/s/ ANDRÉ VILLENEUVE *</u> (André Villeneuve)	Director )	
<u>/s/ CHRISTINE TODD WHITMAN *</u> (Christine Todd Whitman)	Director )	

\*By: /s/ CHARLES D. GILL  
Charles D. Gill  
Senior Vice President and  
General Counsel, as Attorney-in-Fact

Date: February 11, 2010

**SCHEDULE I**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON  
FINANCIAL STATEMENT SCHEDULE**

To the Board of Directors  
of United Technologies Corporation:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 11, 2010 appearing in the 2009 Annual Report to Shareowners of United Technologies Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut  
February 11, 2010

**SCHEDULE II**

**UNITED TECHNOLOGIES CORPORATION AND SUBSIDIARIES**  
**Valuation and Qualifying Accounts**  
**Three Years Ended December 31, 2009**  
**(Millions of Dollars)**

<b>Allowances for Doubtful Accounts and Other Customer Financing Activity:</b>	
Balance December 31, 2006	\$ 424
Provision charged to income	41
Doubtful accounts written off (net)	(101)
Other adjustments	4
Balance December 31, 2007	368
Provision charged to income	159
Doubtful accounts written off (net)	(129)
Other adjustments	(12)
Balance December 31, 2008	386
<b>Provision charged to income</b>	<b>145</b>
<b>Doubtful accounts written off (net)</b>	<b>(80)</b>
<b>Balance December 31, 2009</b>	<b><u>\$ 451</u></b>
<b>Future Income Tax Benefits - Valuation allowance:</b>	
Balance December 31, 2006	\$ 542
Additions charged to income tax expense	131
Additions charged to goodwill, due to acquisitions	2
Reductions credited to income tax expense	(36)
Other adjustments	(94)
Balance December 31, 2007	545
Additions charged to income tax expense	146
Reductions charged to goodwill, due to acquisitions	(152)
Reductions credited to income tax expense	(11)
Other adjustments	170
Balance December 31, 2008	698
<b>Additions charged to income tax expense</b>	<b>186</b>
<b>Additions charged to goodwill, due to acquisitions</b>	<b>3</b>
<b>Reductions credited to income tax expense</b>	<b>(16)</b>
<b>Other adjustments</b>	<b>32</b>
<b>Balance December 31, 2009</b>	<b><u>\$ 903</u></b>

**UNITED TECHNOLOGIES CORPORATION  
PENSION PRESERVATION PLAN  
AS AMENDED AND RESTATED EFFECTIVE DECEMBER 31, 2009**

WHEREAS, United Technologies Corporation (the "Corporation") established the United Technologies Corporation Pension Preservation Plan (the "Preservation Plan") effective January 1, 1978 for the benefit of certain employees and merged the United Technologies Corporation Pension Replacement Plan (the "Replacement Plan") into the Preservation Plan, effective December 31, 2006; and

WHEREAS, the Corporation reserved the right to amend the Preservation Plan through the action of its Pension Administration and Investment Committee (the "PAIC") and/or its Pension Administration Committee (the "PAC"); and

WHEREAS, pursuant to a resolution duly adopted on December 3, 2009, the PAIC approved the amendment of the Preservation Plan for the purpose of conforming the terms of the Plan to the changes to the UTC Employee Retirement Plan; and

NOW, THEREFORE, effective December 31, 2009, the Preservation Plan is amended and restated as follows:

1. INTRODUCTION & PURPOSE

The United Technologies Corporation Pension Preservation Plan (the "Preservation Plan") is maintained as an unfunded plan solely for the purpose of providing retirement benefits in excess of the retirement and survivor benefits that may be paid from tax-qualified retirement plans due to (i) benefit limitations imposed by Section 415 of the Internal Revenue Code of 1986, as amended from time to time (the "Code") and (ii) the limitation imposed by Section 401(a)(17) of the Code on compensation that may be taken into account in computing retirement benefits under tax-qualified retirement plans (referred to collectively as the "Limits"). The Preservation Plan restores the amount of the retirement benefit or survivor benefit that may not be paid from the United Technologies Corporation Employee Retirement Plan (or any other tax-qualified defined benefit retirement plan sponsored by the Corporation) (the "Qualified Retirement Plan") as a result of the Limits so that the total actuarial present value of the Qualified Retirement Plan and Pension Preservation Plan benefits equals the actuarial present value of the retirement benefit or survivor benefit that would be paid from the Qualified Retirement Plan if such Plan were administered without regard to the Limits. Effective with the merger of the Replacement Plan into this Plan, the amount of any reduction of Qualified Plan Retirement benefits resulting from the deferral of compensation that would otherwise be recognized under the Qualified Retirement Plans shall be provided under this Plan. The Preservation Plan shall be administered and construed to effectuate the foregoing intent.

2. EFFECTIVE DATE

The Preservation Plan became effective on January 1, 1978. Except to the extent otherwise specifically provided herein, the Preservation Plan is hereby amended and restated, effective December 31, 2009. The Preservation Plan, as amended and restated, applies to amounts that were earned or vested after December 31, 2004 under the Preservation and Replacement Plans. Amounts that were earned and vested (within the meaning of Section 409A) under either the Preservation Plan or the Replacement Plan before January 1, 2005, and any subsequent increases in these amounts that are treated as grandfathered benefits under Section 409A, are subject to and shall continue to be governed by the terms of the Prior Plans as set forth in Appendix A and Appendix B as applicable.

From January 1, 2005 to the present, the Preservation Plan has been operated in good faith compliance with Section 409A in accordance with guidance provided by the Internal Revenue Service and provided for the following during this good faith compliance period:

- (a) Continued commencement of benefits under this Plan and the Qualified Retirement Plan;
- (b) Allowance of new payment elections by participants to comply with 409A requirements; and
- (c) Prohibited acceleration of any payments that would otherwise have been made in a later year and prohibited deferral to a later year of a payment that would otherwise have been made in the current year.

### 3. DEFINITIONS

Any capitalized terms used herein that are not defined in this Section 3 shall have the meanings given to them by the United Technologies Corporation Employee Retirement Plan unless the context clearly indicates otherwise.

*Beneficiary* means the person, persons or entity designated in writing by a Participant to receive the value of his or her Current Plan Benefit in the event of the Participant's death, in accordance with the terms of this Plan. If a Participant fails to designate a Beneficiary under this Plan, the Beneficiary or Contingent Annuitant shall be determined under the Qualified Retirement Plan. If the Beneficiary (and any contingent Beneficiary) does not survive the Participant or if no Beneficiary is designated under the Qualified Retirement Plan, the value of the Participant's Plan Benefit will be payable to the estate of the Participant, in accordance with the terms of this Plan.

*Compensation Reduction* means a reduction in compensation otherwise recognized under the Qualified Retirement Plan (without regard to the Limits) by reason of a Participant's participation in the United Technologies Corporation Deferred Compensation Plan.

*Code* means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto. Reference to any section of the Internal Revenue Code shall include any final regulations or other applicable guidance.

*Corporation* means the United Technologies Corporation.

*Current Plan Benefit* means amounts credited on or after January 1, 2005 under either the Preservation or Replacement Plans.

*Disability* means permanent and total disability as determined under the Corporation's long-term disability plan applicable to the Participant, or if there is no such plan applicable to the Participant, "Disability" means a determination of total disability by the Social Security Administration; provided that, in either case, the Participant's condition also qualifies as a "disability" for purposes of Section 409A(a)(2)(C) of the Code.

*Election Form* means the form provided to Participants electronically or in paper form for the purpose of electing the form of payment for a Current Plan Benefit.

*Prior Plans* means the United Technologies Corporation Pension Preservation Plan, as in effect on December 31, 2004, as set forth in Appendix A and the United Technologies Corporation Pension Replacement Plan, as in effect on December 31, 2004, as set forth in Appendix B.

*Prior Preservation Plan* means the United Technologies Corporation Pension Preservation Plan, as in effect on December 31, 2004, as set forth in Appendix A. All amounts earned and vested under the Prior Preservation Plan as of December 31, 2004, and any subsequent increases in these amounts that are permitted to be treated as grandfathered benefits under Section 409A, shall continue to be subject to the terms and conditions of the Prior Preservation Plan and shall not be affected by this amendment and restatement.

*Prior Replacement Plan* means the United Technologies Corporation Pension Replacement Plan, as in effect on December 31, 2004, as set forth in Appendix B. All amounts earned and vested under the Prior Replacement Plan as of December 31, 2004, and any subsequent increases in these amounts that are permitted to be treated as grandfathered benefits under Section 409A, shall continue to be subject to the terms and conditions of the Prior Replacement Plan and shall not be affected by this amendment and restatement.

*Prior Plan Benefit* means the aggregate value of the Prior Preservation Plan Benefit and Prior Replacement Plan Benefit as identified in Section 6, which are valued and administered separately in accordance with the terms and procedures in effect under the Prior Plans.

*Qualified Retirement Plan* means the United Technologies Corporation Employee Retirement Plan (or any other tax-qualified defined benefit retirement plan sponsored by the Corporation or a UTC Company).

*Separation from Service* means a Participant's Termination of Employment with all UTC Companies, other than by reason of death. A Separation from Service will be deemed to occur where the Participant and the UTC Company that employs the Participant reasonably anticipate that the bona fide level of services the Participant will perform (whether as



an employee or as an independent contractor) will be permanently reduced to a level that is less than thirty-seven and a half percent (37.5%) of the average level of bona fide services the Participant performed during the immediately preceding 36 months (or the entire period the Participant has provided services if the Participant has been providing services to the UTC Companies for less than 36 months.) A Participant shall not be considered to have had a Separation from Service as a result of a transfer from one UTC Company to another UTC Company.

*Specified Employee* means each of the fifty (50) highest-paid officers and other executives of the Corporation and its Subsidiaries, effective annually as of April 1<sup>st</sup>, based on wages subject to federal income tax withholding, and amounts that are excluded from taxable income by the employee's election to make pre-tax contributions under a cafeteria plan, section 401(k) plan, or similar plan, determined for the preceding calendar year as provided in Treas. Reg. § 1.415(c)-2(d)(3). The term includes both U.S. and non-U.S. employees, and the compensation used to determine whether an employee is among the fifty (50) highest-paid officers and other executives shall be determined by treating non-U.S. compensation as if it had been earned in the U.S. by a U.S. citizen.

*UTC Company* means United Technologies Corporation or any entity controlled by or under common control with United Technologies Corporation within the meaning of Section 414(b) or (c) of the Code (but substituting "at least 20 percent" for "at least 80 percent" as the control threshold used in applying Sections 414(b) and (c)).

#### 4. ELIGIBILITY

Each employee of a UTC Company who is a Participant in the Qualified Retirement Plan shall be eligible to participate in the Preservation Plan if and to the extent such employee's compensation increases such that the Participant's Accrued Benefit under the Qualified Retirement Plan is limited by (i) provisions of the Qualified Retirement Plan that are designed solely to comply with the Limits; or (ii) such employee experiences a Compensation Reduction. In no event shall any person who is not entitled to benefits under the Qualified Retirement Plan be eligible for retirement benefits or survivor benefits under this Preservation Plan. An employee of the UTC Companies who is eligible for retirement benefits under the Preservation Plan and has completed three years of "Continuous Service" (as defined in the UTC Employee Retirement Plan as in effect on January 1, 2008) shall be referred to herein as a "Participant."

#### 5. DETERMINATION OF PRESERVATION PLAN BENEFIT

The amount of the retirement benefit or survivor benefit payable from the Preservation Plan to or in respect of a Participant shall equal the excess, if any, of (a) over (b), and for purposes of this calculation, it shall be assumed that Qualified Retirement Plan Benefit and Preservation Plan Benefit commence at the same time, where

- (a) equals the retirement benefit or survivor benefit that would be paid to such Participant (or on his or her behalf to his Contingent Annuitant or Beneficiary) under the Qualified Retirement Plan if the provisions of the Qualified Retirement Plan were administered without regard to the Limits and Compensation Reduction; and
- (b) equals the retirement benefit or survivor benefit payable to such Participant (or on his or her behalf to his or her Contingent Annuitant or Beneficiary) under the Qualified Retirement Plan.

#### 6. PLAN BENEFITS

- (a) **Prior Plan Benefit.** Benefits accrued under the Prior Plan are not intended to be subject to Section 409A of the Code. No amendment to Appendix A or Appendix B that would constitute a "material modification" for purposes of Section 409A shall be effective unless the amending instrument states that it is intended to materially modify Appendix A and/or Appendix B and to cause the Prior Plan(s) to become subject to Section 409A. Although the Prior Plan Benefit is not intended to be subject to Section 409A, neither the UTC Companies nor any director, officer, or other representative of a UTC Company shall be liable for any adverse tax consequence suffered by a Participant or Beneficiary if a Prior Plan Benefit becomes subject to Section 409A.

- (i) *Prior Preservation Plan Benefit*

Amounts that were credited before January 1, 2005, and any subsequent increases in these amounts that are permitted to be treated as grandfathered benefits under Section 409A of the Code, shall be maintained and accounted for separately and shall remain subject to the terms and conditions of the Prior Plan, as set forth in Appendix A.

(ii) *Prior Replacement Plan Benefit*

Amounts that were credited before January 1, 2005, and any subsequent increases in these amounts that are permitted to be treated as grandfathered benefits under Section 409A of the Code, shall be maintained and accounted for separately and shall remain subject to the terms and conditions of the Prior Plan, as set forth in Appendix B.

- (b) **Current Plan Benefit.** Current Plan Benefit shall include amounts credited to Participants under either the Preservation or Replacement Plans on or after January 1, 2005.
- (c) **Sunset of Final Average Earnings Formula Plan Benefit.** The determination of benefits payable under Section 5 of this Plan ("Determination of Preservation Plan Benefit") shall be done in accordance with the applicable terms and provisions of the Qualified Retirement Plan, including the amendment to such Plan that provides for the elimination of the Final Average Earnings Formula and related credited service and compensation determination provisions, effective December 31, 2014.

7. FORM OF PRESERVATION PLAN BENEFIT

- (a) The Committee shall determine, as of the earlier of the Participant's Separation from Service or the Participant's date of death, that portion of the Participant's total retirement benefit or survivor benefit that is to be paid under the Preservation Plan, using the same formula that is used under the UTC Employee Retirement Plan to calculate such Participant's benefit. The Committee will apply either the Final Average Earnings (FAE) formula, Cash Balance (CB) formula, or both as applicable to each Participant under the Qualified Retirement Plan. The Preservation Plan retirement benefit or survivor benefit shall be paid to the Participant, or on his or her behalf to any Contingent Annuitant or Beneficiary (as designated under the Qualified Retirement Plan), as a monthly annuity, unless a timely election is made in accordance with Subparagraph (c) of this Section 7.
- (b) A Participant may elect separate payment methods for Prior and Current Plan Benefits. Prior Plan Benefit elections are administered separately in accordance with the terms and procedures in effect under the Prior Plans, as set forth in Appendices A and B.
- (c) Unless a Participant elects a form of the benefit payment for Current Plan Benefit, benefits earned under the Preservation Plan will be paid as a single life annuity or actuarially equivalent life annuity. A Participant may elect to receive a single lump-sum payment or a series of 2 to 10 annual installment payments. A payment election under the Plan shall be made on an electronic or written Election Form, completed and submitted to the UTC Pension Service Center no later than December 31st of the calendar year prior to the year in which the period of service commences on which the benefit is based. A change in actuarially equivalent annuities shall not be deemed to be a change in payment election for purposes of this Plan. Except as provided below in Subsection (d), a Participant's payment election shall become irrevocable on the election deadline date.
- (d) **Change in Payment Election.** A Participant may make an election to change the form of payment that the Participant elected under Section 7(c), subject to the following requirements:
  - (i) The new election must be made at least twelve months prior to the date payments are scheduled to commence (and the new election shall be ineffective if the payment commencement date occurs within twelve months after the date of the new election);
  - (ii) The new election will not take effect until at least twelve months after the date when the Participant submits a new Election Form to the UTC Pension Service Center; and
  - (iii) The new benefit payment commencement date must be five years later than the date on which payments commence under the current election.
- (e) If a Participant's benefit is calculated under the FAE formula and the Participant elects to have his or her Preservation Plan benefit paid in the form of a single lump-sum or annual installment distribution, the Actuarially Equivalent present value of the Preservation Plan retirement benefit or survivor benefit shall be determined using the RP-2000 Group Annuity Mortality Table and interest assumption equal to the average yield for tax-free municipal bonds of 10-year maturities, averaged over the prior 5 calendar years. For purposes of computing this interest assumption, the Actuary shall utilize the Barclays Capital 10-Year Municipal Bond Index, averaging the published yield for 10-year maturities (credit quality AA or above) on the last business day of the year over the most recent 5 consecutive full calendar year period. This rate shall be adjusted annually at the beginning of each calendar year.

- (f) The payment of a monthly annuity, lump-sum or annual installment distribution in accordance with this Section 7 shall be in full satisfaction of all of the Corporation's obligations with respect to the Participant under the Preservation Plan.

## 8. DISTRIBUTION OF BENEFIT

- (a) Except as provided in Section 7(d) (concerning the five-year delay following a Change in Payment Election), Section 8(b) (concerning distributions to Specified Employees), the value of a Participant's Preservation Plan Benefit will be distributed (or begin to be distributed) to the Participant as follows:
- (i) If a Participant's benefit is calculated under the FAE formula only, the benefit will be paid to Participant on the first of the month following the later of a Participant's Separation from Service, or when the Participant reaches age 55;
  - (ii) If a Participant's benefit is calculated under the CB formula only, the benefit will be paid to Participant on the first of the month following the Participant's Separation from Service;
  - (iii) If a Participant's benefit is calculated under both the FAE and CB formulas, the benefit will be paid to the Participant according to the rules outlined above in Subsections (i) and (ii) for the corresponding portions of the benefit.
- (b) Separation from Service of Specified Employees. If the Participant is a Specified Employee on the date of the Participant's Separation from Service, distribution of the Participant's Current Plan Benefit to the Participant that is made on account of the Participant's Separation from Service will not be made or commence earlier than the first day of the seventh month following the date of Separation from Service.
- (c) Administrative Adjustments in Payment Date. A payment is treated as being made on the date when it is due under the Plan if the payment is made on the due date specified by the Plan, or on a later date that is either (i) in the same calendar year (for a payment whose specified due date is on or before September 30), or (ii) by the 15th day of the third calendar month following the date specified by the Plan (for a payment whose specified due date is on or after October 1). A payment also is treated as being made on the date when it is due under the Plan if the payment is made not more than 30 days before the due date specified by the Plan. In no event, will a payment to a Specified Employee be made or commence earlier than the first day of the seventh month following the date of Separation from Service. A Participant may not, directly or indirectly, designate the taxable year of a payment made in reliance on the administrative rules in this Section 8(c).

## 9. DISTRIBUTION IN THE EVENT OF DEATH

- (a) If a Participant's benefit (or portion of a benefit) is calculated under the FAE formula and the Participant has not made an election to receive his or her Pension Preservation Plan Benefit in a lump sum or installments as of the date of death, any survivor benefits will be paid as a life annuity subject to the following:
- (i) If death occurs prior to age 55 with five years of service, the spouse of the Participant shall receive a 50% Contingent Annuity Benefit beginning on the date the Participant would have attained his or her 55th birthday. If the Participant is unmarried, no Plan benefit is payable.
  - (ii) If death occurs prior to age 55 with ten years of service, the spouse of the Participant shall receive a 100% Contingent Annuity Benefit beginning on the date the Participant would have attained his or her 55th birthday. If the Participant is unmarried, no Plan benefit is payable.
  - (iii) If death occurs on or after attainment of age 55 with ten years of service or attainment of age 65, survivor benefits shall be paid as a 100% Contingent Annuity Benefit beginning on the first business day of the month following the Participant's death in the following order:
    - (1) to the Spouse of the Participant, if the Participant is married at the time of death;
    - (2) to the named Beneficiary or contingent annuitant, if the Participant is not married at the time of death;
    - (3) to the children of the Participant if the Participant has not designated a Beneficiary prior to his or her death;  
or
    - (4) to the estate of the Participant, if the Participant has no children at the time of his or her death.

If the Participant is not married at the time of death and the Participant has not designated a Beneficiary or contingent annuitant, the benefit shall be payable as:

- (1) a 10-year certain actuarially equivalent annuity to the children of the Participant; or
  - (2) a 5-year certain actuarially equivalent annuity to the estate of the Participant.
- (b) If a Participant's benefit (or portion of a benefit) is calculated under the FAE formula and the Participant has made an election to receive his or her Preservation Plan Benefit in a lump sum or annual installments in accordance with Section 7(c) herein, such Participant shall have survivor benefits paid to his or her Beneficiary as follows: If death occurs prior to age 55, the Preservation Plan accrued benefit shall be paid in a lump sum payment as of the date the Participant would have attained his or her 55th birthday. If death occurs after the benefit commencement date but before all annual installments have been paid, the remaining installments will be paid to his or her Beneficiary as scheduled.
- (c) If a Participant's benefit (or portion of a benefit) is calculated under the CB formula, the Participant shall have survivor benefits paid in a lump sum on the first business day of the month following the Participant's death as follows:
- (i) to the Spouse of the Participant, if the Participant is married at the time of death;
  - (ii) to the named Beneficiary or contingent annuitant, if the Participant is not married at the time of death;
  - (iii) to the children of the Participant if the Participant has not designated a Beneficiary prior to his or her death; or
  - (iv) to the estate of the Participant, if the Participant has no children at the time of his or her death.

#### 10. DISABILITY

In the event of the Disability of a Participant, the Participant's Plan Benefit will be maintained and distributed in accordance with the terms of the Plan and the Participant's elections on file.

#### 11. MINIMUM BALANCE PAYOUT PROVISION

If the value of a Participant's Current Plan Benefit, determined at the time of the Participant's Separation From Service is less than one-hundred thousand dollars (\$100,000), the Committee will distribute the Participant's entire Current Plan Benefit in a lump sum on the first business day following the Participant's Separation From Service, notwithstanding a Participant's election to receive a different form of distribution.

#### 12. FUNDING

The Preservation Plan shall be maintained as an unfunded Plan that is not intended to meet the qualification requirements of Section 401 of the Code. Except in the event of a Change in Control of the Corporation (as described in Section 13 hereof), all benefits under the Preservation Plan shall be payable solely from the general assets of the Corporation. In this regard, the rights of each Participant, Contingent Annuitant and Beneficiary under the Preservation Plan with respect to his or her Preservation Plan retirement benefit or survivor benefit shall be those of a general unsecured creditor of the Corporation. No Participant, Contingent Annuitant or Beneficiary hereunder shall be entitled to receive any benefits payable under the Preservation Plan from the assets of the Qualified Retirement Plan, nor shall the Corporation undertake to set aside assets in trust or otherwise segregate assets to fund its obligations under the Preservation Plan except as provided in Section 13 hereof.

#### 13. CHANGE OF CONTROL

In the event of a Change of Control of the Corporation, the Corporation shall immediately fully fund the value of all Accrued Benefit under the Preservation Plan, determined by the Actuary as of the date of the Change of Control, provided the funding is not proximate to a downturn in the Corporation's financial health within the meaning of Treas. Reg. Section 1.409A-3(j)(4)(ix)(C)(1). The required proceeds will be contributed to the United Technologies Corporation Pension Preservation Plan Retirement Security Trust, a rabbi trust, and such proceeds will be held and maintained in the United States. In addition, if the United Technologies Corporation Board of Directors Committee on Compensation and Executive Development takes any action under the United Technologies Corporation Long Term Incentive Plan (the "LTIP"), including, without limitation, the accelerated vesting or other adjustment to outstanding LTIP awards in

anticipation of (i) a Change of Control (ii) an event, which if consummated, would constitute a Change of Control or (iii) any other significant change pertaining to the ownership of the Corporation, the Corporation shall then also immediately fund the United Technologies Corporation Pension Preservation Plan Retirement Security Trust, a rabbi trust, provided the funding is not proximate to a downturn in the Corporation's financial health within the meaning of Treas. Reg. Section 1.409A-3(j)(4)(ix)(C)(1); and further provided such funds are held and maintained in the United States. For purposes of this Section 13, "Change of Control" shall have the meaning given to that term under the LTIP.

14. NONASSIGNABILITY

No Participant, Contingent Annuitant or Beneficiary or any other person shall have the right to sell, assign, transfer, pledge, or otherwise encumber any interest in the Preservation Plan. All Preservation Plan benefits are unassignable and non-transferable and shall not be subject to attachment or seizure for the payment of any debts, judgments or other obligations. No Preservation Plan interest shall be transferred by operation of law in the event of the bankruptcy or insolvency of a Participant, Contingent Annuitant, or Beneficiary.

15. NO CONTRACT OF EMPLOYMENT

Participation in the Preservation Plan shall not be construed to constitute a direct or indirect contract of employment between the Corporation and the Participant. Nothing in the Preservation Plan shall be deemed to give a Participant the right to be retained in the service of the Corporation for any length of time. Participants, Contingent Annuitants and Beneficiaries shall have no rights against the Corporation resulting from participation in the Preservation Plan other than as specifically provided herein.

16. OPERATION AND ADMINISTRATION

The Preservation Plan shall be administered by the Pension Administration and Investment Committee of United Technologies Corporation (the "Committee"). The Committee shall have the right to delegate its responsibilities hereunder to sub-committees and individuals. Any question of administration or interpretation arising under the Preservation Plan shall be determined by the Committee (or its delegate) in its full discretion, and its decision shall be final and binding upon all parties.

17. TAXES/WITHHOLDING

The Corporation shall have the right to withhold taxes from Preservation Plan benefit accruals and payments to the extent it reasonably determines such withholding to be required by law to be withheld from such credits and payments.

18. GOVERNING LAW

The Preservation Plan shall be construed, administered and enforced in accordance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and to the extent not preempted thereby, the laws of the State of Connecticut (disregarding its choice-of-law rules).

19. AMENDMENT AND TERMINATION

- (a) The Corporation expects to continue the Preservation Plan indefinitely, but reserves the right, by action of the Committee, to amend or terminate the Preservation Plan at any time, provided, however, that no such action shall decrease any benefits accrued under the Preservation Plan as of the date of such action. Although the benefits accrued under the Preservation Plan are not subject to the restrictions imposed by Section 204(g) of ERISA, the proviso in the preceding sentence shall be construed in a manner consistent with Section 204(g) of ERISA. As a result, the proviso referred to in the preceding sentence imposes restrictions identical with the restrictions that would be imposed on the Preservation Plan if the Preservation Plan were subject to Section 204(g) of ERISA.
- (b) Upon the termination of the Plan with respect to all Participants, and termination of all arrangements sponsored by the Corporation or its affiliates that would be aggregated with the Plan under Section 409A of the Code, the Corporation shall have the right, in its sole discretion, and notwithstanding any elections made by the Participant, to pay the Participant's vested Benefit in a lump sum, to the extent permitted under Section 409A. All payments that may be made pursuant to this Section 19(b) shall be made no earlier than the thirteenth month and no later than the twenty-fourth month after the termination of the Plan. The Corporation may not

accelerate payments pursuant to this Section 19(b) if the termination of the Plan is proximate to a downturn in the Corporation's financial health within the meaning of Treas. Reg. Section 1.409A-3(j)(4)(ix)(C)(1). If the Corporation exercises its discretion to accelerate payments under this Section 19(b), it shall not adopt any new arrangement that would have been aggregated with this Plan under Section 409A within three years following the date of the Plan's termination.

## 20. COMPLIANCE WITH SECTION 409A

To the extent that rights or payments under this Plan are subject to Section 409A of the Internal Revenue Code, the Preservation Plan shall be construed and administered in compliance with the conditions of Section 409A and regulations and other guidance issued pursuant to Section 409A for deferral of income taxation until the time the compensation is paid. Any distribution election that would not comply with Section 409A of the Code shall not be effective for purposes of this Plan. To the extent that a provision of this Plan does not comply with Section 409A of the Code, such provision shall be void and without effect. The Corporation does not warrant that the Preservation Plan will comply with Section 409A of the Code with respect to any Participant or with respect to any payment. In no event shall a UTC Company; any director, officer, or employee of a UTC Company (other than the Participant); or any member of the Committee be liable for any additional tax, interest, or penalty incurred by a Participant or Beneficiary as a result of the Preservation Plan's failure to satisfy the requirements of Section 409A of the Code, or as a result of the Plan's failure to satisfy any other requirements of applicable tax laws.

## 21. SUCCESSORS

The provisions of the Preservation Plan shall bind and inure to the benefit of the Corporation, and its successors and assigns. The term successors shall include any corporate or other business entity that by merger, consolidation, purchase or otherwise acquires all or substantially all of the business and assets of the Corporation and successors of any such Corporation or other entity.

## 22. BENEFIT CLAIMS PROCEDURE

- (a) The Committee shall establish and communicate procedures for Participants to obtain forms required to effect elections and designations under the Plan. The Committee may establish a telephonic communication system to facilitate the administration of the Plan and to provide information to Participants, provided that any estimate of a Participant's current or projected accrued benefit shall in no event be binding on the Committee in the event of any discrepancy between such estimate and a Participant's actual accrued benefit, which, in all cases, shall control. Upon notification of the death of any Participant while in the employment of the Employer, the Committee may initiate any claim on behalf of the Spouse, Contingent Annuitant, or Beneficiary.
- (b) A Participant or Beneficiary who believes that he or she has been denied a benefit to which he or she is entitled under the Plan (referred to in this Section 22 as a "Claimant") may file a written request with the Committee setting forth the claim. The Committee shall consider and resolve the claim as set forth below.
  - (i) Upon receipt of a claim, the Committee or its designated agent shall advise the Claimant that a response will be forthcoming within 90 days. The Committee may, however, extend the response period for up to an additional 90 days for reasonable cause, and shall notify the Claimant of the reason for the extension and the expected response date. The Committee or its designated agent shall respond to the claim within the specified period.
  - (ii) If the claim is denied in whole or part, the Committee shall provide the Claimant with a written decision, using language calculated to be understood by the Claimant, setting forth (1) the specific reason or reasons for such denial; (2) the specific reference to relevant provisions of this Plan on which such denial is based; (3) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation why such material or such information is necessary; (4) appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; (5) the time limits for requesting a review of the claim; and (6) the Claimant's right to bring an action for benefits under Section 502(a) of ERISA.
  - (iii) Within 60 days after the Claimant's receipt of the written decision denying the claim in whole or in part, the Claimant may request a review of such determination by filing a notice of appeal in writing with the Benefit Claims Appeal Committee (the "Benefits Appeal Committee"). Such notice must set forth all relevant



factors upon which the appeal is based. The Claimant or his or her duly authorized representative may, but need not, review the relevant documents and submit issues and comment in writing for consideration by the Benefits Appeal Committee. If the Claimant does not request a review of the initial determination within such 60-day period, the Claimant shall be barred from challenging the determination.

- (iv) Within 60 days after the Benefits Appeal Committee receives a request for review, it will review the initial determination. If special circumstances require that the 60-day time period be extended, the Benefits Appeal Committee will so notify the Claimant and will render the decision as soon as possible, but no later than 120 days after receipt of the request for review.
- (v) The Benefits Appeal Committee shall have the greatest discretion permitted by law in making decisions pursuant to this Section 22. All decisions on review shall be final and binding with respect to all concerned parties. The decision on review shall set forth, in a manner calculated to be understood by the Claimant, (1) the specific reasons for the decision, including references to the relevant Plan provisions upon which the decision is based; (2) the Claimant's right to receive, upon request and free of charge, reasonable access to and copies of all documents, records, and other information, relevant to his or her benefits; and (3) the Claimant's right to bring an action for benefits under Section 502(a) of ERISA.

## **Appendix A**

This Appendix A sets forth the United Technologies Corporation Pension Preservation Plan, as in effect on December 31, 2004 ("Prior Preservation Plan"), and as modified thereafter from time to time in a manner that does not constitute a "material modification" for purposes of Section 409A. Amounts that were earned and vested (within the meaning of Section 409A) prior to January 1, 2005, and any subsequent increases in these amounts that are permitted to be treated as grandfathered benefits under Section 409A, are generally subject to and shall continue to be governed by the terms of this Prior Preservation Plan.

### UNITED TECHNOLOGIES CORPORATION PENSION PRESERVATION PLAN AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 1996

#### **1. INTRODUCTION & PURPOSE**

The United Technologies Corporation Pension Preservation Plan (the "Preservation Plan") is maintained as an unfunded plan solely for the purpose of providing retirement benefits in excess of the retirement and survivor benefits that may be paid from tax-qualified retirement plans due to (i) benefit limitations imposed by Section 415 of the Internal Revenue Code of 1986, as amended from time to time (the "Code") and (ii) the limitation imposed by Section 401(a)(17) of the Code on compensation that may be taken into account in computing retirement benefits under tax-qualified retirement plans (referred to collectively as the "Limits"). The Preservation Plan restores the amount of the retirement benefit or survivor benefit that is not paid from the United Technologies Corporation Employee Retirement Plan (or any other tax-qualified defined benefit retirement plan sponsored by the Corporation) (the "Qualified Retirement Plan") as a result of the Limits so that the total actuarial present value of the Qualified Retirement Plan and Pension Preservation Plan benefits equals the actuarial present value of the retirement benefit or survivor benefit that would be paid from the Qualified Retirement Plan if such Plan were administered without regard to the Limits. The Preservation Plan shall be administered and construed to effectuate the foregoing intent.

The capitalized terms used herein shall have the meanings given to them by the United Technologies Corporation Employee Retirement Plan unless the context clearly indicates otherwise.

#### **2. EFFECTIVE DATE**

The Preservation Plan became effective on January 1, 1978. This amendment and restatement of the Preservation Plan shall be effective January 1, 1996, except to the extent otherwise specifically provided herein.

### 3. ELIGIBILITY

An employee of United Technologies Corporation (the "Corporation") or an affiliate thereof who is a Participant in the Qualified Retirement Plan shall be eligible to participate in the Preservation Plan if and to the extent the Participant's Accrued Benefit under the Qualified Retirement Plan is reduced or limited by provisions of the Qualified Retirement Plan that are designed solely to comply with the Limits. In no event shall any person who is not entitled to benefits under the Qualified Retirement Plan be eligible for retirement benefits or survivor benefits under the Preservation Plan. An employee of the Corporation or an affiliate thereof who is eligible for retirement benefits under the Preservation Plan shall be referred to herein as a "Participant."

### 4. DETERMINATION OF PRESERVATION PLAN BENEFIT

The amount of the retirement benefit or survivor benefit payable from the Preservation Plan to or in respect of a Participant shall equal the excess, if any, of (a) over (b), where

- (a) equals the retirement benefit or survivor benefit that would be paid to such Participant (or on his or her behalf to his Contingent Annuitant or Beneficiary) under the Qualified Retirement Plan if the provisions of the Qualified Retirement Plan were administered without regard to the Limits; and
- (b) equals the retirement benefit or survivor benefit payable to such Participant (or on his or her behalf to his or her Contingent Annuitant or Beneficiary) under the Qualified Retirement Plan.

### 5. FORM OF PRESERVATION PLAN BENEFIT

- (a) The Plan Administrator shall determine, as of the earlier of the Participant's Retirement Date or the Participant's date of death, that portion of the Participant's total retirement benefit or survivor benefit that is to be paid under the Preservation Plan. The Preservation Plan retirement benefit or survivor benefit shall be paid to the Participant, or on his or her behalf to any Contingent Annuitant or Beneficiary (as designated under the Qualified Retirement Plan), in the form of distribution that applies to the benefit payments made to, or on behalf of, the Participant under the Qualified Retirement Plan unless the Participant has made a timely election to receive his or her Preservation Plan retirement benefit in a single lump-sum payment or in a series of 2 to 10 annual installment payments in accordance with this Section 5.
- (b) If—
  - (i) the Participant qualifies for an Early Retirement Annuity or a Normal Retirement Annuity or satisfies the Rule of 65 under Section 5.4 of the United Technologies Corporation Employee Retirement Plan (or dies after qualifying for an Early Retirement Annuity or a Normal Retirement Annuity or satisfying such Rule of 65, but before the date as of which retirement benefits under the Qualified Retirement Plan are scheduled to begin), and
  - (ii) terminates, or retires from, employment with the Corporation and its affiliates after December 31, 1995, the Participant may elect, in accordance with Section 5(c) hereof, to have his or her Preservation Plan retirement benefit or survivor benefit paid in a lump-sum or in annual installments, payable (or commencing) as of the Participant's Retirement Date. Subject to the provisions of Section 5(c) hereof, a Participant may revoke any such election at any time. A Participant shall have no right under the Preservation Plan to have his or her Qualified Retirement Plan benefit paid in a lump sum or in annual installments. Distributions from the Qualified Retirement Plan shall be governed solely by the terms of the Qualified Retirement Plan.
- (c) An election to have a lump-sum or installment distribution paid pursuant to Section 5(b) hereof (or a revocation of any such election) shall be disregarded unless it is filed at least one year before the Participant's Retirement Date (or, if earlier, the first day of the month next following the Participant's date of death), except that
  - (i) If such an election or revocation is filed on or before October 30, 1996, the election or revocation shall be given effect only if the Participant consents to a distribution (or the commencement of distributions) under the Preservation Plan as of a date occurring on or after January 1, 1997; and
  - (ii) If such an election or revocation is filed on or after November 1, 1996, and on or before December 31, 1996, the election or revocation shall be given effect only if the Participant consents to a distribution (or the commencement of distributions) under the Preservation Plan as of a date occurring on or after April 1, 1997.

- (d) If a Participant elects to have his or her Preservation Plan benefit paid in the form of a single lump-sum or annual installment distribution, the Actuarially Equivalent present value of the Preservation Plan retirement benefit or survivor benefit shall be determined using the 1983 Group Annuity Mortality Table and an interest assumption equal to the average yield for tax-free municipal bonds of 10-year maturities, averaged over the prior 5 calendar years. For purposes of computing this interest assumption, the Actuary shall utilize the Lehman Bros. Municipal Bond Index, averaging the published yield for 10-year maturities (credit quality AA or above) on the last business day of the year over the most recent 5 consecutive full calendar year period. This rate shall be adjusted annually at the beginning of each calendar year.
- (e) The payment of a lump-sum or annual installment distribution in accordance with this Section 5 shall be in full satisfaction of all of the Corporation's obligations with respect to the Participant under the Preservation Plan.

## 6. DEATH BENEFITS

A Participant who has made an election to receive Pension Preservation Plan benefits in a lump sum or annual installments in accordance with Section 5 herein shall have survivor benefits paid to his or her Pension Preservation Plan beneficiary as follows. If death occurs prior to age 55, the Pension Preservation Plan accrued benefit shall be paid in a lump sum payment as of the date the Participant would have attained his or her 55th birthday. If death occurs after retirement but before all annual installments have been paid, the remaining installments will be paid to his or her Beneficiary as scheduled unless the estate of the Participant is the Beneficiary in which case the commuted value of the remaining payments will be paid in a lump sum.

If no election to receive Pension Preservation Plan benefits in a lump sum or installments is in effect as of the date of death, any survivor benefits will be paid in accordance with the distribution option in effect and to the Beneficiary or Contingent Annuitant designated under the Qualified Retirement Plan.

## 7. FUNDING

The Preservation Plan shall be maintained as an unfunded Plan that is not intended to meet the qualification requirements of Section 401 of the Code. Except in the event of a Change in Control of the Corporation (as described in Section 7 hereof), all benefits under the Preservation Plan shall be payable solely from the general assets of the Corporation. In this regard, the rights of each Participant, Contingent Annuitant and Beneficiary under the Preservation Plan with respect to his or her Preservation Plan retirement benefit or survivor benefit shall be those of a general unsecured creditor of the Corporation. No Participant, Contingent Annuitant or Beneficiary hereunder shall be entitled to receive any benefits payable under the Preservation Plan from the assets of the Qualified Retirement Plan, nor shall the Corporation undertake to set aside assets in trust or otherwise segregate assets to fund its obligations under the Preservation Plan except as provided in Section 7 hereof.

## 8. CHANGE OF CONTROL

In the event of a Change of Control of the Corporation, the Corporation shall immediately fully fund the value of all Accrued Benefits under the Preservation Plan, determined by the Actuary as of the date of the Change of Control. The required proceeds will be contributed to the United Technologies Corporation Pension Preservation Plan Retirement Security Trust. In addition, if the United Technologies Corporation Board of Directors Committee on Compensation and Executive Development takes any action under the United Technologies Corporation Long Term Incentive Plan (the "LTIP"), including, without limitation, the accelerated vesting or other adjustment to outstanding LTIP awards in anticipation of (i) a Change of Control (ii) an event, which if consummated, would constitute a Change of Control or (iii) any other significant change pertaining to the ownership of the Corporation, the Corporation shall then also immediately fund the United Technologies Corporation Pension Preservation Plan Retirement Security Trust. For purposes of this Section 7, "Change of Control" shall have the meaning given to that term under the LTIP.

## 9. NONASSIGNABILITY

No Participant, Contingent Annuitant or Beneficiary or any other person shall have the right to sell, assign, transfer, pledge, or otherwise encumber any interest in the Preservation Plan. All Preservation Plan benefits are unassignable and non-transferable and shall not be subject to attachment or seizure for the payment of any debts, judgments or other obligations. No Preservation Plan interest shall be transferred by operation of law in the event of the bankruptcy or insolvency of a Participant, Contingent Annuitant, or Beneficiary.

#### 10. NO CONTRACT OF EMPLOYMENT

Participation in the Preservation Plan shall not be construed to constitute a direct or indirect contract of employment between the Corporation and the Participant. Nothing in the Preservation Plan shall be deemed to give a Participant the right to be retained in the service of the Corporation for any length of time. Participants, Contingent Annuitants and Beneficiaries shall have no rights against the Corporation resulting from participation in the Preservation Plan other than as specifically provided herein.

#### 11. OPERATION AND ADMINISTRATION

The Preservation Plan shall be administered by the Pension Administration and Investment Committee of United Technologies Corporation (the "Committee"). The Committee shall have the right to delegate its responsibilities hereunder to sub-committees and individuals. Any question of administration or interpretation arising under the Preservation Plan shall be determined by the Committee (or its delegate) in its full discretion, and its decision shall be final and binding upon all parties.

#### 12. TAXES/WITHHOLDING

The Corporation shall have the right to withhold taxes from Preservation Plan benefit payments to the extent it reasonably determines such withholding to be required by law.

#### 13. GOVERNING LAW

The Preservation Plan shall be construed, administered and enforced in accordance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and to the extent not preempted thereby, the laws of the State of Connecticut (disregarding its choice-of-law rules).

#### 14. AMENDMENT AND DISCONTINUANCE

The Corporation expects to continue the Preservation Plan indefinitely, but reserves the right, by action of the Committee, to amend or discontinue the Preservation Plan at any time, provided, however, that no such action shall decrease any benefits accrued under the Preservation Plan as of the date of such action. Although the benefits accrued under the Preservation Plan are not subject to the restrictions imposed by Section 204(g) of ERISA, the proviso in the preceding sentence shall be construed in a manner consistent with Section 204(g) of ERISA. As a result, the proviso referred to in the preceding sentence imposes restrictions identical with the restrictions that would be imposed on the Preservation Plan if the Preservation Plan were subject to Section 204 (g) of ERISA.

#### 15. SUCCESSORS

The provisions of the Preservation Plan shall bind and inure to the benefit of the Corporation, and its successors and assigns. The term successors shall include any corporate or other business entity that by merger, consolidation, purchase or otherwise acquires all or substantially all of the business and assets of the Corporation and successors of any such Corporation or other entity.

#### 16. BENEFIT CLAIMS PROCEDURE

- (a) The Plan Administrator shall establish and communicate procedures for Participants to obtain forms required to effect elections and designations under the Plan. The Plan Administrator may establish a telephonic communication system to facilitate the administration of the Plan and to provide information to Participants, provided that any estimate of a Participant's current or projected accrued benefit shall in no event be binding on the Plan Administrator in the event of any discrepancy between such estimate and a Participant's actual Accrued Benefit, which, in all cases, shall control. Upon notification of the death of any Participant while in the employment of the Employer, the Plan Administrator may initiate any claim on behalf of the Spouse, Contingent Annuitant, or Beneficiary.
- (b) If a claim is denied, the Plan Administrator or its designated agent shall give the claimant notice in writing of such denial, which notice shall set forth (i) the specific reason(s) for the denial; (ii) specific reference to pertinent Plan provisions on which the denial is based; (iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such materials or information are necessary; and (iv) an explanation of the Plan's claim review procedure.

- (c) Within 60 days after receipt of the notice of denial described above, the claimant may request a review of such denial by filing a notice of appeal in writing with the Benefit Claims Appeal Committee (the "Benefits Appeal Committee"). Such notice must set forth all relevant factors upon which the appeal is based. The Benefits Appeal Committee shall decide the issues raised by the appeal, either with or without holding a hearing, and shall issue to the claimant a written notice setting forth its decision and the reasons for the decision. The Benefits Appeal Committee's decision shall be made not more than 60 days after it has received the claimant's request for review, unless the Benefits Appeal Committee determines that special circumstances require an extension of time and so notifies the claimant, in which case a decision shall be made not more than 120 days after it has received the request for review. The Benefits Appeal Committee shall have the greatest discretion permitted by law in making decisions pursuant to this Section 16. All interpretations, determinations, and decisions of the Benefits Appeal Committee in respect of any claim shall be conclusive and binding upon all persons having or claiming to have any interest or right under the Plan.

## **Appendix B**

This Appendix B sets forth the United Technologies Corporation Pension Replacement Plan, as in effect on December 31, 2004 ("Prior Replacement Plan"), and as modified thereafter from time to time in a manner that does not constitute a "material modification" for purposes of Section 409A. Amounts that were earned and vested (within the meaning of Section 409A) prior to January 1, 2005, and any subsequent increases in these amounts that are permitted to be treated as grandfathered benefits under Section 409A, are generally subject to and shall continue to be governed by the terms of this Prior Replacement Plan.

### **UNITED TECHNOLOGIES CORPORATION PENSION REPLACEMENT PLAN AS AMENDED AND RESTATED EFFECTIVE JANUARY 1, 1996**

#### **1. INTRODUCTION & PURPOSE**

The United Technologies Corporation Pension Replacement Plan (the "Replacement Plan") is maintained as an unfunded plan solely for the purpose of providing retirement benefits in excess of the retirement and survivor benefits that may be paid from the United Technologies Corporation Employee Retirement Plan (or any other tax-qualified defined benefit retirement plan sponsored by the Corporation) (the "Qualified Retirement Plan") and the United Technologies Corporation Pension Preservation Plan as a result of any reduction in a Participant's compensation that would otherwise be utilized in computing accrued benefits under such Plans where the reduction results from participation in the Corporation's Deferred Compensation Plan.

The capitalized terms used herein shall have the meanings given to them by the United Technologies Corporation Employee Retirement Plan unless the context clearly indicates otherwise.

#### **2. EFFECTIVE DATE**

The Replacement Plan became effective on April 1, 1985 as the United Technologies Corporation Supplemental Plan, which was subsequently renamed the United Technologies Corporation Pension Replacement Plan. This amendment and restatement of the Replacement Plan shall be effective January 1, 1996, except to the extent otherwise specifically provided herein.

#### **3. ELIGIBILITY**

An employee of United Technologies Corporation (the "Corporation") or an affiliate thereof who is a Participant in the Qualified Retirement Plan and the Pension Preservation Plan (if applicable) shall be eligible to participate in the Replacement Plan if and to the extent the Participant's Accrued Benefit under the Qualified Retirement Plan or the Pension Preservation Plan is reduced as a result of participation in the United Technologies Corporation Deferred Compensation Plan or other similar deferred compensation arrangement if the Corporation authorizes the replacement of pension benefits in such arrangement (the "Deferred Compensation Plan"). In no event shall any person who is not entitled to benefits under the Qualified Retirement Plan be eligible for retirement benefits or survivor benefits under the Replacement Plan. An employee of the Corporation or an affiliate thereof who is eligible for retirement benefits under the Replacement Plan shall be referred to herein as a "Participant."

#### 4. DETERMINATION OF REPLACEMENT PLAN BENEFIT

The amount of the retirement benefit or survivor benefit payable from the Replacement Plan to or in respect of a Participant shall equal the excess, if any, of (a) over (b), where

- (a) equals the retirement benefit or survivor benefit that would be paid to such Participant (or on his or her behalf to his Contingent Annuitant or Beneficiary) under the Qualified Retirement Plan and the Pension Preservation Plan if the provisions of such Plans were administered by taking into account any compensation that was deferred under the Deferred Compensation Plan; and
- (b) equals the retirement benefit or survivor benefit payable to such Participant (or on his or her behalf to his or her Contingent Annuitant or Beneficiary) under the Qualified Retirement Plan and the Pension Preservation Plan.

#### 5. FORM OF PRESERVATION PLAN BENEFIT

- (a) The Plan Administrator shall determine, as of the earlier of the Participant's Retirement Date or the Participant's date of death, that portion of the Participant's total retirement benefit or survivor benefit that is to be paid under the Replacement Plan. The Replacement Plan retirement benefit or survivor benefit shall be paid to the Participant, or on his or her behalf to any Contingent Annuitant or Beneficiary (as designated under the Qualified Retirement Plan), in the form of distribution that applies to the benefit payments made to, or on behalf of, the Participant under the Qualified Retirement Plan unless the Participant has made a timely election to receive his or her Replacement Plan retirement benefit in a single lump-sum payment or in a series of 2 to 10 annual installment payments in accordance with this Section 5.
- (b) If—
  - (i) the Participant qualifies for an Early Retirement Annuity or a Normal Retirement Annuity or satisfies the Rule of 65 under Section 5.4 of the United Technologies Corporation Employee Retirement Plan (or dies after qualifying for an Early Retirement Annuity or a Normal Retirement Annuity or satisfying such Rule of 65, but before the date as of which retirement benefits under the Qualified Retirement Plan are scheduled to begin), and
  - (ii) terminates, or retires from, employment with the Corporation and its affiliates after December 31, 1995,the Participant may elect, in accordance with Section 5(c) hereof, to have his or her Replacement Plan retirement benefit or survivor benefit paid in a lump sum or in annual installments, payable (or commencing) as of the Participant's Retirement Date. Subject to the provisions of Section 5(c) hereof, a Participant may revoke any such election at any time. A Participant shall have no right under the Replacement Plan to have his or her Qualified Retirement Plan benefit paid in a lump sum or in annual installments. Distributions from the Qualified Retirement Plan shall be governed solely by the terms of the Qualified Retirement Plan.
- (c) An election to have a lump-sum or installment distribution paid pursuant to Section 5(b) hereof (or a revocation of any such election) shall be disregarded unless it is filed at least one year before the Participant's Retirement Date (or, if earlier, the first day of the month next following the Participant's date of death), except that
  - (i) If such an election or revocation is filed on or before October 30, 1996, the election or revocation shall be given effect only if the Participant consents to a distribution (or the commencement of distributions) under the Replacement Plan as of a date occurring on or after January 1, 1997; and
  - (ii) If such an election or revocation is filed on or after November 1, 1996, and on or before December 31, 1996, the election or revocation shall be given effect only if the Participant consents to a distribution (or the commencement of distributions) under the Replacement Plan as of a date occurring on or after April 1, 1997.
- (d) If a Participant elects to have his or her Replacement Plan benefit paid in the form of a single lump-sum or annual installment distribution, the Actuarially Equivalent present value of the Replacement Plan retirement benefit or survivor benefit shall be determined using the 1983 Group Annuity Mortality Table and an interest assumption equal to the average yield for tax-free municipal bonds of 10-year maturities, averaged over the prior 5 calendar years. For purposes of computing this interest assumption, the Actuary shall utilize the Lehman Bros. Municipal Bond Index, averaging the published yield for 10-year maturities (credit quality AA or above) on the last business day of the year over the most recent 5 consecutive full calendar year period. This rate shall be adjusted annually at the beginning of each calendar year.



- (e) The payment of a lump sum or annual installment distribution in accordance with this Section 5 shall be in full satisfaction of all of the Corporation's obligations with respect to the Participant under the Replacement Plan.

## 6. DEATH BENEFITS

A Participant who has made an election to receive Replacement Plan benefits in a lump sum or annual installments in accordance with Section 5 herein and such election is effective as of the date of the Participant's death shall have survivor benefits paid to his or her Replacement Plan Beneficiary as follows. If death occurs prior to age 55, the Replacement Plan benefits shall be paid in a lump sum payment as of the date the Participant would have attained his or her 55th birthday. If death occurs after retirement but before all annual installments have been paid, the remaining installments will be paid to his or her Beneficiary as scheduled unless the estate of the Participant is the Beneficiary in which case the commuted value of the remaining payments will be paid in a lump sum.

If no election to receive Replacement Plan benefits in a lump sum or installments is in effect as of the date of death, any survivor benefits will be paid in accordance with the distribution option in effect and to the Beneficiary or Contingent Annuitant designated under the Qualified Retirement Plan.

## 7. FUNDING

The Replacement Plan shall be maintained as an unfunded Plan that is not intended to meet the qualification requirements of Section 401 of the Code. Except in the event of a Change in Control of the Corporation (as described in Section 7 hereof), all benefits under the Replacement Plan shall be payable solely from the general assets of the Corporation. In this regard, the rights of each Participant, Contingent Annuitant and Beneficiary under the Replacement Plan with respect to his or her Preservation Plan retirement benefit or survivor benefit shall be those of a general unsecured creditor of the Corporation. No Participant, Contingent Annuitant or Beneficiary hereunder shall be entitled to receive any benefits payable under the Replacement Plan from the assets of the Qualified Retirement Plan, nor shall the Corporation undertake to set aside assets in trust or otherwise segregate assets to fund its obligations under the Replacement Plan except as provided in Section 7 hereof.

## 8. CHANGE OF CONTROL

In the event of a Change of Control of the Corporation, the Corporation shall immediately fully fund the value of all Accrued Benefits under the Replacement Plan, determined by the Actuary as of the date of the Change of Control. The required proceeds will be contributed to the United Technologies Corporation Pension Replacement Plan Retirement Security Trust. In addition, if the United Technologies Corporation Board of Directors Committee on Compensation and Executive Development takes any action under the United Technologies Corporation Long Term Incentive Plan (the "LTIP") including, without limitation, the accelerated vesting or other adjustment to outstanding LTIP awards in anticipation of (i) a Change of Control (ii) an event, which if consummated, would constitute a Change of Control or (iii) any other significant change pertaining to the ownership of the Corporation, the Corporation shall then also immediately fund the United Technologies Corporation Pension Replacement Plan Retirement Security Trust. For purposes of this Section 7, "Change of Control" shall have the meaning given to that term under the LTIP.

## 9. NONASSIGNABILITY

No Participant, Contingent Annuitant or Beneficiary or any other person shall have the right to sell, assign, transfer, pledge, or otherwise encumber any interest in the Replacement Plan. All Replacement Plan benefits are unassignable and non-transferable and shall not be subject to attachment or seizure for the payment of any debts, judgments or other obligations. No Replacement Plan interest shall be transferred by operation of law in the event of the bankruptcy or insolvency of a Participant, Contingent Annuitant, or Beneficiary.

## 10. NO CONTRACT OF EMPLOYMENT

Participation in the Replacement Plan shall not be construed to constitute a direct or indirect contract of employment between the Corporation and the Participant. Nothing in the Replacement Plan shall be deemed to give a Participant the right to be retained in the service of the Corporation for any length of time. Participants, Contingent Annuitants and Beneficiaries shall have no rights against the Corporation resulting from participation in the Replacement Plan other than as specifically provided herein.

## 11. OPERATION AND ADMINISTRATION

The Replacement Plan shall be administered by the Pension Administration and Investment Committee of United Technologies Corporation (the "Committee"). The Committee shall have the right to delegate its responsibilities hereunder to sub-committees and individuals. Any question of administration or interpretation arising under the Replacement Plan shall be determined by the Committee (or its delegate) in its full discretion, and its decision shall be final and binding upon all parties.

## 12. TAXES/WITHHOLDING

The Corporation shall have the right to withhold taxes from Replacement Plan benefit payments to the extent it reasonably determines such withholding to be required by law.

## 13. GOVERNING LAW

The Replacement Plan shall be construed, administered and enforced in accordance with the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and to the extent not preempted thereby, the laws of the State of Connecticut (disregarding its choice-of-law rules).

## 14. AMENDMENT AND DISCONTINUANCE

The Corporation expects to continue the Replacement Plan indefinitely, but reserves the right, by action of the Committee, to amend or discontinue the Replacement Plan at any time, provided, however, that no such action shall decrease any benefits accrued under the Replacement Plan as of the date of such action. Although the benefits accrued under the Replacement Plan are not subject to the restrictions imposed by Section 204(g) of ERISA, the proviso in the preceding sentence shall be construed in a manner consistent with Section 204(g) of ERISA. As a result, the proviso referred to in the preceding sentence imposes restrictions identical with the restrictions that would be imposed on the Replacement Plan if the Replacement Plan were subject to Section 204 (g) of ERISA.

## 15. SUCCESSORS

The provisions of the Replacement Plan shall bind and inure to the benefit of the Corporation, and its successors and assigns. The term successors shall include any corporate or other business entity that by merger, consolidation, purchase or otherwise acquires all or substantially all of the business and assets of the Corporation, and successors of any such Corporation or other entity.

## 16. BENEFIT CLAIMS PROCEDURE

- (a) The Plan Administrator shall establish and communicate procedures for Participants to obtain forms required to effect elections and designations under the Plan. The Plan Administrator may establish a telephonic communication system to facilitate the administration of the Plan and to provide information to Participants, provided that any estimate of a Participant's current or projected accrued benefit shall in no event be binding on the Plan Administrator in the event of any discrepancy between such estimate and a Participant's actual Accrued Benefit, which, in all cases, shall control. Upon notification of the death of any Participant while in the employment of the Employer, the Plan Administrator may initiate any claim on behalf of the Spouse, Contingent Annuitant, or Beneficiary.
- (b) If a claim is denied, the Plan Administrator or its designated agent shall give the claimant notice in writing of such denial, which notice shall set forth (i) the specific reason(s) for the denial; (ii) specific reference to pertinent Plan provisions on which the denial is based; (iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such materials or information are necessary; and (iv) an explanation of the Plan's claim review procedure.
- (c) Within 60 days after receipt of the notice of denial described above, the claimant may request a review of such denial by filing a notice of appeal in writing with the Benefit Claims Appeal Committee (the "Benefits Appeal Committee"). Such notice must set forth all relevant factors upon which the appeal is based. The Benefits Appeal Committee shall decide the issues raised by the appeal, either with or without holding a hearing, and shall issue to the claimant a written notice setting forth its decision and the reasons for the decision. The

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Benefits Appeal Committee's decision shall be made not more than 60 days after it has received the claimant's request for review, unless the Benefits Appeal Committee determines that special circumstances require an extension of time and so notifies the claimant, in which case a decision shall be made not more than 120 days after it has received the request for review. The Benefits Appeal Committee shall have the greatest discretion permitted by law in making decisions pursuant to this Section 16. All interpretations, determinations, and decisions of the Benefits Appeal Committee in respect of any claim shall be conclusive and binding upon all persons having or claiming to have any interest or right under the Plan.

**UTC BOARD OF DIRECTORS  
DEFERRED STOCK UNIT PLAN**

**Deferred Restricted Stock Unit Award  
[INSERT NAME OF DIRECTOR]**

Under the UTC Board of Directors Deferred Stock Unit Plan, each Non-Employee Director of the Company receives, as of the date of election to the Board, a non-recurring award of deferred restricted stock units having a grant date value of \$100,000, based on the closing price of UTC common stock on that date (the "Units"). This award is intended to promote a closer identity of interests between Non-Employee Directors and shareowners by providing Non-Employee Directors with an equity-based interest in the Company's future performance.

The Units are subject to a restriction on transferability and may not be sold, assigned, pledged or transferred while such restriction remains in effect. However, once vested, you are the owner of such Units on the records of the Company. Your Unit balance will be credited with additional Units equivalent in value to the dividend paid on the corresponding number of shares of UTC Common Stock. The dividend equivalent Units will vest immediately but will otherwise be subject to the same transfer restrictions applicable to the initial Units.

The Units will vest in increments of 20 percent per year. The effective date of the grant of your Units will be \_\_\_\_\_. The first 20 percent will vest on the date of UTC's next Annual Shareowner Meeting. An additional 20 percent will vest on the date of UTC's Annual Meeting each succeeding year while you continue on the Board. At the time you retire or resign from the Board, your vested Units will be payable in cash in a lump sum. You may, however, elect to receive the value of your vested units following retirement or resignation in 10 or 15 annual installments by checking one of the two boxes below:

- 15 annual installments
- 10 annual installments

If you make or alter such election after you join the Board, you must do so at least one year prior to retiring or resigning from the Board, and your lump sum or installments will begin five years from the date the award would otherwise be scheduled for payment.

Any Units not vested as of the date you resign or retire from the Board will be forfeited without payment of any compensation to you. However, in the event of a "change of control" or a "restructuring event" as defined by the United Technologies Corporation 2005 Long Term Incentive Plan, or upon your death or your resignation from the Board due to disability, or if you retire or resign to accept full-time employment in public or charitable service, all Units that have not previously vested will immediately vest and be payable in cash. Please note, however, that the restriction on transferability continues in effect on vested Units while you remain a Director of UTC. Accordingly, by your acceptance of the Units, you agree that your vested Units will not be transferred by you prior to your retirement or resignation as a Director of UTC.

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**Deferred Restricted Stock Unit Award  
(Continued)**

**Recognition of Ordinary Income Under U.S. Tax Law**

For federal income tax purposes, you will be required to include in your income the amount of any cash paid to you following your departure from the Board. Additional Units credited as a result of dividend payments are likewise not included in your income until they are distributed to you.

The foregoing is only a brief summary of the federal income tax consequences of the Units. You are urged to consult your tax advisor for advice regarding your individual circumstances. UTC will report and withhold such income as required by state, federal or other applicable laws.

**[Please confirm your agreement by faxing a signed and dated copy of this award statement to (860) 660-0250 . ]**

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Date

**Please Return to:** Office of the Corporate Secretary  
United Technologies Corporation  
Fax: (860) 660-0250

UNITED TECHNOLOGIES CORPORATION  
COMPANY AUTOMATIC CONTRIBUTION EXCESS PLAN

January 1, 2010

**ARTICLE I – PREAMBLE**

United Technologies Corporation (the “Corporation”) hereby establishes the United Technologies Corporation Company Automatic Contribution Excess Plan (“CACEP” or the “Plan”) effective January 1, 2010 for the benefit of certain employees covered by the Company Automatic Feature (the “CAF”) of the United Technologies Corporation Employee Savings Plan (the “Qualified Savings Plan”). The purpose of the CACEP is to provide for the accrual of benefits which are supplemental to CAF benefits payable under the Qualified Savings Plan. CACEP benefits are accrued with respect to compensation that is not taken into account under the Qualified Savings Plan due to compensation limitations imposed by Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the “IRS Compensation Limit”) or due to the Participant’s elective deferral of compensation.

**ARTICLE II – DEFINITIONS**

Unless otherwise indicated, capitalized terms herein shall have the same meaning ascribed under the Qualified Savings Plan.

*Beneficiary* means the person, persons or entity designated on an electronic or written form by the Participant to receive the value of his or her Plan Account in the event of the Participant’s death in accordance with the terms of this Plan. If the Participant fails to designate a Beneficiary, or the Beneficiary (and any contingent Beneficiary) does not survive the Participant, the value of the Participant’s Plan Account will be paid to the estate of the Participant.

*Benefit Reduction Contribution* means a Contribution by the Corporation to the Participant’s Plan Account to restore the reduction in the Company Automatic Contribution credited to a Participant’s Plan Account as a result of the reduction of such Participant’s Eligible Compensation due to an elective deferral of compensation by the Participant under the United Technologies Deferred Compensation Plan.

*Code* means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto. Reference to any section of the Internal Revenue Code shall include any final regulations or other applicable guidance.

*Committee* means the United Technologies Corporation Deferred Compensation Committee, which is responsible for the administration of the Plan. The Corporation’s Pension Administration Committee shall appoint the Committee’s members.

*Company Automatic Contribution* or *Contribution* means the age-graded Contribution credited to the Plan by the Corporation on behalf of the Participant in accordance with Article V.

*Corporation* means the United Technologies Corporation.

*Default Investment Option* means the Investment Fund designated by the Plan or selected by the Committee on behalf of all Participants at the time they first become eligible to participate in the Plan. The Default Investment Option shall be established annually and shall be the Credited Interest Fund, unless otherwise determined at the sole discretion of the Committee.

*Disability* means permanent and total disability as determined under the Corporation’s long-term disability plan applicable to the Participant, or if there is no such plan applicable to the Participant, “Disability” means a determination of total disability by the Social Security Administration; provided that, in either case, the Participant’s condition also qualifies as a “Disability” for purposes of Section 409A(a)(2)(C) of the Code.

*Election Form* means the form provided by the Committee to Participants electronically or in paper form for the purpose of specifying the method of distribution and/or the percentage allocation among the Investment Funds with respect to a Participant’s Plan Account.

*Eligible Compensation* means Pensionable Earnings in excess of the IRS Compensation Limit for any Plan Year.

*Employee* means an employee of the Corporation and or of certain subsidiaries and affiliates of the Corporation, but excluding any employee who is included in a different tax qualified savings plan or is not eligible to participate in the Qualified Savings Plan pursuant to the terms of a collective bargaining agreement between employee representatives and a UTC Company (a "Represented Employee") unless such employee representatives and the UTC Company agree that the Represented Employees in such unit shall be eligible to participate in the Plan.

*Investment Fund* means a hypothetical fund that tracks the value of an investment option offered under the Qualified Savings Plan or the UTC Deferred Compensation Plan. Investment Funds offered under the SRP may be changed from time to time by the Committee and shall be valued in the manner set forth in Section 6.4. As of the effective date of this Plan, Investment Funds will include: the Credited Interest Fund as offered under the UTC Deferred Compensation Plan, and the following investment options offered under the Qualified Savings Plan; the Vanguard 500 Index Fund; Global Index Fund, US Value Index Fund; US Growth Index Fund; US Midcap Index Fund; US Small Company Index Fund; and International Equity Fund, or such other investment options as may be established or changed by the Committee from time to time. The value of Participants' Accounts shall be adjusted to replicate the performance of the applicable Investment Funds. Amounts credited to any Investment Fund do not result in the investment in actual assets corresponding to the Investment Fund.

*IRS Compensation Limit* means the limitation imposed by Section 401(a)(17) of the Internal Revenue Code of 1986, as amended.

*Participant* means an eligible Employee (i) who is a Participant in the Qualified Savings Plan; (ii) who qualifies for the CAF of the Qualified Savings Plan; and (iii) whose annual Pensionable Earnings for a Plan Year exceed the limit of IRC Section 401(a)(17).

*Pensionable Earnings* means the total compensation paid with respect to a Plan Year by a UTC Company to a Participant for services rendered to a UTC Company, before any Tax-Deferred Contribution Election or any election under Section 125 of the Code, including performance related awards, but excluding: other awards; foreign service premiums and allowances; long-term incentive compensation; stock option benefits; reimbursements or other payments related to relocation expenses; contributions to employee benefit plans including reimbursements or payments in lieu thereof, amounts credited to a Participant under a non-qualified deferred compensation plan; severance pay; and pay in lieu of vacation

*Plan* means the United Technologies Corporation Company Automatic Contribution Excess Plan, as amended from time to time.

*Plan Account* means an account maintained on behalf of a Participant for the purpose of crediting Company Automatic Contributions.

*Plan Year* means the calendar year.

*Separation from Service* means a Participant's termination of employment with all UTC Companies, other than by reason of death. A Separation from Service will be deemed to occur where the Participant and the UTC Company that employs the Participant reasonably anticipate that the bona fide level of services the Participant will perform (whether as an employee or as an independent contractor) for UTC Companies will be permanently reduced to a level that is less than thirty-seven and a half percent (37.5%) of the average level of bona fide services the Participant performed during the immediately preceding 36 months (or the entire period the Participant has provided services if the Participant has been providing services to UTC Companies for less than 36 months). A Participant shall not be considered to have had a Separation from Service as a result of a transfer from one UTC Company to another UTC Company.

*Specified Employee* means each of the fifty (50) highest-paid officers and other executives of the Corporation and its Subsidiaries, effective annually as of April 1<sup>st</sup>, based on wages subject to federal income tax withholding, and amounts that are excluded from taxable income by the employee's election to make pre-tax contributions under a cafeteria plan, section 401(k) plan, or similar plan, determined for the preceding calendar year as provided in Treas. Reg. § 1.415(c)-2(d)(3). The term includes both U.S. and non-U.S. employees, and the compensation used to determine whether an employee is among the fifty (50) highest-paid officers and other executives shall be determined by treating non-U.S. compensation as if it had been earned in the U.S. by a U.S. citizen.

*UTC Company* means United Technologies Corporation or any entity controlled by or under common control with United Technologies Corporation within the meaning of Section 414(b) or (c) of the Code (but substituting "at least 20 percent" for "at least 80 percent" as the control threshold used in applying Sections 414(b) and (c)).



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## **ARTICLE III - ELIGIBILITY AND ENROLLMENT**

### **Section 3.1 - Eligibility**

Each Employee of a UTC Company who is a Participant in the Qualified Savings Plan and who qualifies for the CAF of the Qualified Savings Plan shall be eligible to participate in this Plan, if and to the extent, such Employee's annual Pensionable Earnings for a Plan Year are in excess of the IRS Compensation Limit. In no event shall any person who is not entitled to CAF benefits under the Qualified Savings Plan be eligible for benefits under this Plan.

### **Section 3.2 - Enrollment**

An eligible Participant will automatically be enrolled in the Plan within thirty (30) days of the pay date for which such Participant's annual Pensionable Earnings exceed the IRS Compensation Limit ("Initial Enrollment Period").

## **ARTICLE IV - PARTICIPANT ELECTIONS AND DESIGNATIONS**

### **Section 4.1 - Distribution Election**

A Participant must, on or before the election deadline established by the Committee, make an electronic or written election on the Election Form provided by the Committee to have the Participant's Plan Account distributed in a lump sum or in two to fifteen annual installments. If no distribution election is made with respect to a Participant's Plan Account, the distribution will be in a lump sum. In addition, any Benefit Reduction Contribution or Company Automatic Contribution based on compensation that a Participant earns after the Participant becomes eligible to participate in the Plan, but before the Participant makes a valid distribution election, shall be paid in a lump sum, or as otherwise provided in a change in distribution election made pursuant to Section 4.4.

### **Section 4.2 - Election Date**

An electronic or written Election Form must be completed and submitted to the Committee during the Initial Enrollment Period, or such date as the Committee may specify. Except as provided below in Section 4.4 (Change in Distribution Election), the choices reflected on the Participant's Election Form shall be irrevocable on the election deadline.

### **Section 4.3 - Investment Fund Allocations**

A Participant's Plan Account will be allocated to the Default Investment Option at the time a Participant first becomes eligible to participate in the Plan. Participants will be able to reallocate their existing Plan Account among the available Investment Funds as permitted by the Committee, generally twice per year in June and November. Such reallocations shall be in whole percentages and, unless otherwise specified by the Committee, shall be effective the first business day of July or the first business day of January, as applicable.

### **Section 4.4 - Change in Distribution Election**

A Participant may make a one-time irrevocable election to change the form of distribution for a Plan Account. A change to the form of distribution must meet all of the following requirements:

- (a) The new election must be made at least twelve months prior to the date on which payments will commence under the current election and/or date of termination following attainment of age 50 (and the new election shall be ineffective if the payment commencement date under the current election occurs within twelve months after the date of the new election);
- (b) The new election will not take effect until at least twelve months after the date when the new election is submitted in a manner acceptable to the Committee; and
- (c) The new payment commencement date must be five years later than the date on which payments would commence under the current election.

### **Section 4.5 - Investment Fund Allocation at Separation from Service**

At Separation from Service, a Participant may reallocate his or her existing Plan Accounts to the Credited Interest Fund as permitted by the Committee, with respect to the period of time following the Separation from Service date and prior to the actual distribution date provided under Article VII.

## **Section 4.6 - Designation of Beneficiary**

Each Participant shall designate a Beneficiary for his or her Plan Account on an electronic or written form provided by the Committee. A Participant may change such designation on an electronic or written form acceptable to the Committee and will be effective on the date received by the Committee. Designations received after the date of the Participant's death will not be effective. In the event that no Beneficiary designation is filed with the Committee before the Participant's death, or if the Beneficiary (and any contingent Beneficiary) does not survive the Participant, the value of the Participant's Plan Account will be paid to the estate of the Participant. If a Participant designates the Participant's spouse as the Participant's Beneficiary, that designation shall not be revoked or otherwise altered or affected by any: (a) change in the marital status of the Participant; (b) agreement between the Participant and such spouse; or (c) judicial decree (such as a divorce decree) affecting any rights that the Participant and such spouse might have as a result of their marriage, separation, or divorce; it being the intent of the Plan that any change in the designation of a Beneficiary hereunder may be made by the Participant only in accordance with the procedures set forth in this Section 4.6. In the event of the death of a Participant, distributions shall be made in accordance with Section 7.6.

## **ARTICLE V - COMPANY AUTOMATIC CONTRIBUTIONS**

### **Section 5.1 - Contribution Amount**

The Corporation will credit an age-graded Company Automatic Contribution to the Plan on behalf of each eligible Participant under the Plan. The Contribution shall be a percentage of the Participant's Eligible Compensation based on the Participant's age as of December 31 of the current Plan Year for which the Contribution is credited. The applicable percentages shall be as follows:

<u>Age as of December 31</u>	<u>Applicable Percentage</u>
Under 30	3%
30-34	3.5%
35-39	4%
40-44	4.5%
45-49	5%
50+	5.5%

### **Section 5.2 - Eligibility for Contribution**

Eligibility for Contribution shall be determined annually. A Participant shall be eligible for a Company Automatic Contribution for a Plan Year, if and to the extent, such Participant's annual Pensionable Earnings for the Plan Year are in excess of the IRS Compensation Limit.

Participants shall be immediately eligible to receive an allocation of Company Automatic Contributions for a Plan Year at the time such Participant's annual Pensionable Earnings for the Plan Year are in excess of the IRS Compensation Limit and CAF contributions cease under the Qualified Savings Plan for the Plan Year.

### **Section 5.3 - Timing of Contribution**

Allocation of Company Automatic Contributions shall generally be made to each Participant's Plan Account on or immediately following each pay period, but no less frequently than once with respect to each Plan Year. The Corporation may in its sole discretion credit additional amounts to Participants' Plan Accounts.

### **Section 5.4 - Vesting of Contributions**

A Participant shall be vested in the value of Contributions credited to his or her Plan Account upon the first to occur of the following: participation in the Plan for two years; completion of three years of "Continuous Service" (as defined in the UTC Employee Retirement Plan as in effect on January 1, 2008), attainment of age 65, the death or disability of the Participant while employed by a UTC Company, the layoff of a Participant from a UTC Company due to lack of work, or the Participant's entrance into the military service before completing two years of Plan participation. For purposes of this Section 5.4, a Participant's date of disability shall be the first day of the fifth month (or such other month as may from time to time be applicable under the federal Social Security Act) prior to the month for which a Participant first receives a disability benefit under the Social Security Act.

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### **Section 5.5 - Annual Contribution Limitation**

In no event shall the Company Automatic Contribution to any Participant's Plan Account for any calendar year exceed 25% of annual earnings for such calendar year.

## **ARTICLE VI - PLAN ACCOUNTS**

### **Section 6.1 - Accounts**

A Plan Account will be established for each Participant. Company Automatic Contributions shall be allocated or reallocated among Investment Funds in accordance with the Plan terms and each Participant's instructions in the manner set forth in Section 4.3.

### **Section 6.2 - Valuation of Credited Interest Fund**

Company Automatic Contributions allocated to the Credited Interest Fund will be credited daily with a rate of interest equal to the average interest rate on 10-Year Treasury Bonds as of the last business day of each month from January through October in the calendar year prior to the calendar year in which the interest is credited, plus 1%. The Credited Interest rate shall in no event exceed 120% of the applicable federal rate as published by the IRS.

### **Section 6.3 - Valuation of Investment Funds**

Company Automatic Contributions allocated to Investment Funds will be converted to the applicable Investment Fund units based on the closing share price of that Investment Fund as of date the Contribution is credited to the Participant's applicable Investment Fund. The value of the units of an Investment Fund will fluctuate on each business day based on the performance of the applicable Investment Fund.

### **Section 6.4 - Crediting of Benefit Reduction Contribution**

At the end of each Plan Year, the Committee will determine whether a Participant is eligible to receive a Benefit Reduction Contribution, and will credit any applicable Benefit Reduction Contribution to the affected Participant's Plan Account as of the last business day of the Plan Year. Any such amounts will be allocated on a pro-rata basis to the Participant's Investment Funds in accordance with the Participant's Default Investment Option or current investment allocation election in effect for that Plan Year.

### **Section 6.5 - Reports to Participants**

The Committee will provide or make available detailed information to Participants regarding the credited value of Plan Accounts, distribution elections, Beneficiary designations, and Investment Fund allocations, not less than once per year. Such information may be provided via electronic media as determined by the Committee.

## **ARTICLE VII - DISTRIBUTION OF PLAN ACCOUNT**

### **Section 7.1 - Timing of Plan Distributions**

Except as provided in Section 4.4 (concerning the five-year delay following a Change in Distribution Election), Section 7.4 (concerning Separation from Service before Attaining Age Fifty), and Section 7.5 (concerning distributions to Specified Employees), the value of a Participant's Plan Account will be distributed (or begin to be distributed) to the Participant in April of the calendar year following the calendar year of the Participant's Separation from Service.

### **Section 7.2 - Method of Distribution**

Except as provided in Section 7.4 (concerning Separation from Service before Attaining Age Fifty) or in the following sentence (concerning Company Automatic Contributions and Benefit Reduction Contributions based on compensation earned before the Participant's benefit distribution election), a Plan Account will be distributed to the Participant in a single lump-sum payment, or in a series of annual installment payments, in accordance with the Participant's election on file. As provided in Section 4.1, any Benefit Reduction Contribution or Company Automatic Contribution based on compensation that a Participant earns after the Participant becomes eligible to participate in the Plan, but before the Participant makes a

valid distribution election, shall be paid in a lump sum, or as otherwise provided in a change in distribution election made pursuant to Section 4.4. Annual installment distributions shall be payable to the Participant beginning as of the payment commencement date and continuing as of each anniversary of the payment commencement date thereafter until all installments have been paid. To determine the amount of each installment, the value of the Participant's Plan Account on the payment date will be multiplied by a fraction, the numerator of which is one and the denominator of which is the remaining number of scheduled installments.

### **Section 7.3 - Form of Distribution**

Plan Account distributions will be made in cash.

### **Section 7.4 - Separation from Service before Attaining Age Fifty**

If a Participant's Separation from Service occurs before the Participant attains age fifty (50), the full value of the Participant's Plan Account will be distributed to the Participant in a lump-sum payment in April of the calendar year following the calendar year of the Participant's Separation from Service (or, if the Participant is a Specified Employee at the time of his or her Separation from Service, on the date provided in Section 7.5, below, if later) regardless of the distribution option elected and regardless of any change in the distribution election.

If a Participant is re-employed following a Separation from Service, the Participant's age at the time of the Participant's first Separation from Service will determine how the Participant's Plan Accounts at the time of the first Separation from Service are distributed. If the Participant accumulates any additional contributions after the Participant is re-hired, the Plan shall separately account for the additional contributions (and related investment gains or losses), and the Participant's age at the time of the Participant's second Separation from Service will determine how the additional amounts are distributed.

### **Section 7.5 - Separation from Service of Specified Employees**

Distributions to Specified Employees will not be made or commence earlier than the first day of the seventh month following the date of Separation from Service. All Plan Accounts shall continue to accrue hypothetical investment gains and losses as provided in Article VI until the distribution date.

### **Section 7.6 - Distribution in the Event of Death**

In the event of the death of a Participant before the Participant's Plan Account has been fully distributed, the full remaining value of the Participant's Plan Account will be distributed to the designated Beneficiary or the Participant's estate in a lump sum on the first business day of the third month following the Participant's death.

### **Section 7.7 - Accelerated Distribution in the Case of an Unforeseeable Emergency**

- (a) **Unforeseeable Emergency.** The Committee may, upon a Participant's written application, agree to an accelerated distribution of some or all of the value of a Participant's Plan Account upon the occurrence of an unforeseeable emergency. An "unforeseeable emergency" is a severe financial hardship to the Participant resulting from (1) an illness or accident of the Participant, the Participant's spouse, the Participant's Beneficiary, or the Participant's dependent (as defined in IRC Section 152, without regard to Section 152(b)(1), (b)(2), and (d)(1)(B)); (2) loss of the Participant's property due to casualty; or (3) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. Whether a Participant is faced with an unforeseeable emergency permitting a distribution is to be determined based on the relevant facts and circumstances of each case. Acceleration will not be granted if the emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, or by liquidation of the Participant's assets (to the extent the liquidation of such assets would not cause severe financial hardship).
- (b) **Amount of Distribution Permitted Upon an Unforeseeable Emergency.** Distributions on account of an unforeseeable emergency, as defined in Section 7.7(a), shall be limited to the amount reasonably necessary to satisfy the emergency need. Such amount may include amounts necessary to pay any Federal, state, local, or foreign income taxes or penalties reasonably anticipated to result from the distribution.
- (c) The Committee will determine from which Investment Funds hardship distributions will be made. Any Participant who is an officer or director of the Corporation within the meaning of Section 16 of the Securities Exchange Act of 1934 is not eligible for distributions on account of unforeseeable emergency.

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## **Section 7.8 - Disability**

In the event of the Disability of a Participant that qualifies as a "Separation from Service" for purposes of Section 409A of the Code, the Participant's Plan Accounts will be distributed in accordance with the Participant's elections on file.

## **Section 7.9 Administrative Adjustments in Payment Date**

A payment is treated as being made on the date when it is due under the Plan if the payment is made on the due date specified by the Plan, or on a later date that is either (a) in the same calendar year (for a payment whose specified due date is on or before September 30), or (b) by the 15th day of the third calendar month following the date specified by the Plan (for a payment whose specified due date is on or after October 1). A payment also is treated as being made on the date when it is due under the Plan if the payment is made not more than 30 days before the due date specified by the Plan. In no event will a payment to a Specified Employee be made or commence earlier than the first day of the seventh month following the date of Separation from Service. A Participant may not, directly or indirectly, designate the taxable year of a payment made in reliance on the administrative rules in this Section 7.9.

## **ARTICLE VIII - AMENDMENT AND TERMINATION OF PLAN**

### **Section 8.1 - Amendment**

The Corporation may, at any time, amend the Plan in whole or in part, provided that no amendment may decrease the value of any Plan Accounts as of the date of such amendment. In the event of any change in law or regulation relating to the Plan and the tax treatment of Plan Accounts, the Plan shall, without further action by the Committee, be deemed to be amended to comply with any such change in law or regulation effective as of the first date necessary to prevent the taxation, constructive receipt or deemed distribution of Plan Accounts prior to the date Plan Accounts would be distributed under the provisions of Article VII.

### **Section 8.2 - Plan Suspension and Termination**

- (a) The Corporation's Pension Administration Committee, may, at any time, suspend or terminate the Plan if, in its sole judgment, the continuance of the Plan, the tax, accounting, or other effects thereof, or potential payments thereunder would not be in the best interest of the Corporation or for any other reason.
- (b) In the event of the suspension of the Plan, no additional contributions shall be made under the Plan. All previous contributions shall be distributed in accordance with the otherwise applicable provisions of the Plan and the applicable elections on file.
- (c) Upon the termination of the Plan with respect to all Participants, and the termination of all arrangements sponsored by the Corporation or its affiliates that would be aggregated with the Plan under Section 409A of the Code ("Section 409A"), the Corporation shall have the right, in its sole discretion, and notwithstanding any elections made by the Participant, to pay the Participant's Plan Account in a lump sum, to the extent permitted under Section 409A. All payments that may be made pursuant to this Section 8.2(c) shall be made no earlier than the thirteenth month and no later than the twenty-fourth month after the termination of the Plan. The Corporation may not accelerate payments pursuant to this Section 8.2(c) if the termination of the Plan is proximate to a downturn in the Corporation's financial health within the meaning of Treas. Reg. section 1.409A-3(j)(4)(ix)(C)(1). If the Corporation exercises its discretion to accelerate payments under this Section 8.2(c), it shall not adopt any new arrangement that would have been aggregated with the Plan under Section 409A within three years following the date of the Plan's termination.

### **Section 8.3 - No Consent Required**

The consent of any Participant, Beneficiary, or other person shall not be required with respect to any amendment, suspension, or termination of the Plan.

## **ARTICLE IX - GENERAL PROVISIONS**

### **Section 9.1 - Unsecured General Creditor**

The Corporation's obligations under the Plan constitute an unfunded and unsecured promise to pay money in the future. Participants' and Beneficiaries' rights under the Plan are solely those of a general unsecured creditor of the Corporation. No assets will be placed in trust, set aside or otherwise segregated to fund or offset liabilities in respect of the Plan or Participants' Plan Accounts.

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## **Section 9.2 - Nonassignability**

No Participant or Beneficiary or any other person shall have the right to sell, assign, transfer, pledge, or otherwise encumber any interest in the Plan. All Plan Accounts and the rights to all payments are unassignable and non-transferable. Plan Accounts or payment hereunder, prior to actual payment, will not be subject to attachment or seizure for the payment of any debts, judgments or other obligations. Plan Accounts or other Plan benefit will not be transferred by operation of law in the event of a Participant's or any Beneficiary's bankruptcy or insolvency.

## **Section 9.3 - No Contract of Employment**

Participation in the Plan shall not be construed to constitute a direct or indirect contract of employment between any UTC Company and any Participant. Participants and Beneficiaries will have no rights against any UTC Company resulting from participation in the Plan other than as specifically provided herein. Nothing in the Plan shall be deemed to give a Participant the right to be retained in the service of any UTC Company for any length of time or to interfere with the right of any UTC Company to terminate a Participant's employment.

## **Section 9.4 - Governing Law**

The provisions of the Plan will be construed and interpreted according to the laws of the State of Connecticut, to the extent not preempted by federal law.

## **Section 9.5 - Validity**

If any provision of the Plan is held to be illegal or invalid for any reason, the remaining provisions of the Plan will be construed and enforced as if such illegal and invalid provision had never been inserted herein.

## **Section 9.6 - Notice**

Any notice or filing required or permitted to be given to the Committee under the Plan shall be sufficient if sent by first-class mail, to the United Technologies Corporation Deferred Compensation Committee, 1 Financial Plaza, Hartford, Connecticut 06101, Attn: Director, Compensation, MS-504. Any notice or filing required or permitted to be given to any Participant or Beneficiary under the Plan shall be sufficient if provided either electronically, hand-delivered, or mailed to the address (or email address, as the case may be) of the Participant or Beneficiary then listed on the records of the Corporation. Any such notice will be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or email system.

## **Section 9.7 - Successors**

The provisions of the Plan shall bind and inure to the benefit of the Corporation and its successors and assigns. The term successors as used herein shall include any corporate or other business entity, which by merger, consolidation, purchase or otherwise acquires all or substantially all of the business and assets of the Corporation, and successors of any such corporation or other business entity.

## **Section 9.8 - Incompetence**

If the Committee determines, upon evidence satisfactory to the Committee, that any Participant or Beneficiary to whom a benefit is payable under the Plan is unable to care for his or her affairs because of illness or accident, any payment due (unless prior claim therefore shall have been made by a duly authorized guardian or other legal representative) may be paid, upon appropriate indemnification of the Committee and the Corporation, to the spouse of the Participant or other person deemed by the Committee to have incurred expenses for the benefit of and on behalf of such Participant or Beneficiary. Any such payment from a Participant's Plan Account shall be a complete discharge of any liability under the Plan with respect to the amount so paid.

## **Section 9.9 - Section 409A Compliance**

To the extent that rights or payments under this Plan are subject to Section 409A of the Internal Revenue Code, the Plan shall be construed and administered in compliance with the conditions of Section 409A and regulations and other guidance issued pursuant to Section 409A for deferral of income taxation until the time the compensation is paid. Any

distribution election that would not comply with Section 409A of the Code shall not be effective for purposes of this Plan. To the extent that a provision of this Plan does not comply with Section 409A of the Code, such provision shall be void and without effect. The Corporation does not warrant that the Plan will comply with Section 409A of the Code with respect to any Participant or with respect to any payment. In no event shall any UTC Company; any director, officer, or employee of a UTC Company (other than the Participant); or any member of the Committee be liable for any additional tax, interest, or penalty incurred by a Participant or Beneficiary as a result of the Plan's failure to satisfy the requirements of Section 409A of the Code, or as a result of the Plan's failure to satisfy any other requirements of applicable tax laws.

### **Section 9.10 Withholding Taxes**

The Committee may make any appropriate arrangements to deduct from all Contributions, vested Plan Accounts and distributions under the Plan any taxes that the Committee reasonably determines to be required by law to be withheld from such credits and payments.

## **ARTICLE X - ADMINISTRATION AND CLAIMS**

### **Section 10.1 - Plan Administration**

The Committee shall be solely responsible for the administration and operation of the Plan. The Committee shall have full and exclusive authority and discretion to interpret the provisions of the Plan and to establish such administrative procedures as it deems necessary and appropriate to carry out the purposes of the Plan.

Any person claiming a benefit, requesting an interpretation or ruling under the Plan, or requesting information under the Plan shall present the request in writing to the Committee at United Technologies Corporation, 1 Financial Plaza, Hartford, Connecticut 06101, Attn: Deferred Compensation Committee. The Committee shall respond in writing as soon as practicable.

### **Section 10.2 - Claim Procedures**

A Participant or Beneficiary who believes that he or she has been denied a benefit to which he or she is entitled under the Plan (referred to in this Section 10.2 as a "Claimant") may file a written request with the Committee setting forth the claim. The Committee shall consider and resolve the claim as set forth below.

- (a) Upon receipt of a claim, the Committee shall advise the Claimant that a response will be forthcoming within 90 days. The Committee may, however, extend the response period for up to an additional 90 days for reasonable cause, and shall notify the Claimant of the reason for the extension and the expected response date. The Committee shall respond to the claim within the specified period.
- (b) If the claim is denied in whole or part, the Committee shall provide the Claimant with a written decision, using language calculated to be understood by the Claimant, setting forth (1) the specific reason or reasons for such denial; (2) the specific reference to relevant provisions of this Plan on which such denial is based; (3) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation why such material or such information is necessary; (4) appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; (5) the time limits for requesting a review of the claim; and (6) the Claimant's right to bring an action for benefits under Section 502(a) of ERISA.
- (c) Within 60 days after the Claimant's receipt of the written decision denying the claim in whole or in part, the Claimant may request in writing that the Committee review the determination. The Claimant or his or her duly authorized representative may, but need not, review the relevant documents and submit issues and comment in writing for consideration by the Committee. If the Claimant does not request a review of the initial determination within such 60-day period, the Claimant shall be barred from challenging the determination.
- (d) Within 60 days after the Committee receives a request for review, it will review the initial determination. If special circumstances require that the 60-day time period be extended, the Committee will so notify the Claimant and will render the decision as soon as possible, but no later than 120 days after receipt of the request for review.
- (e) All decisions on review shall be final and binding with respect to all concerned parties. The decision on review shall set forth, in a manner calculated to be understood by the Claimant, (1) the specific reasons for the decision, including references to the relevant Plan provisions upon which the decision is based; (2) the Claimant's right to receive, upon request and free of charge, reasonable access to and copies of all documents, records, and other information, relevant to his or her benefits; and (3) the Claimant's right to bring an action for benefits under Section 502(a) of ERISA.

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**CERTAIN REGULATORY MATTERS**

The Plan is subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Because the Plan is an unfunded plan maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees, the Plan is exempt from most of ERISA's requirements. Although the Plan is subject to Part 1 (Reporting and Disclosure) and Part 5 (Administration and Enforcement) of Title I, Subtitle B of ERISA, the Department of Labor has issued a regulation that exempts the Plan from most of ERISA's reporting and disclosure requirements.

**TO WHOM SHOULD QUESTIONS CONCERNING THE PLAN BE DIRECTED?**

All questions concerning the operation of the Plan (including information concerning the administrators of the Plan) should be directed to:

Director, Compensation  
United Technologies Corporation  
1 Financial Plaza, MS 504  
Hartford, Connecticut 06101  
Telephone: 860-728-6381



UNITED TECHNOLOGIES CORPORATION  
SAVINGS RESTORATION PLAN

January 1, 2010

**ARTICLE I - PREAMBLE**

United Technologies Corporation (the "Corporation") hereby establishes the United Technologies Corporation Savings Restoration Plan ("SRP" or the "Plan") effective January 1, 2010 for the benefit of eligible employees of the Corporation and certain subsidiaries and affiliates of the Corporation (the "Employees"). The purpose of the SRP is to offer Employees the opportunity to defer a portion of their compensation in excess of the limitation imposed by Section 401(a)(17) of the Internal Revenue Code of 1986, as amended (the "IRS Compensation Limit") and to accrue benefits which are not provided under the United Technologies Corporation Employee Savings Plan (the "Qualified Savings Plan") due to limitations imposed by Section 415 of the Internal Revenue Code or the IRS Compensation Limit.

The SRP shall constitute a "parallel excess plan" within the meaning of the New York Stock Exchange listing requirements. All or substantially all Employees who participate in the Qualified Savings Plan whose annual pensionable earnings are in excess of the IRS Compensation Limit are eligible to participate in the SRP under substantially similar terms and conditions as the Qualified Savings Plan, except for the elimination of specified limitations on contributions and benefits under the IRC. The SRP shall be administered and construed to effectuate the foregoing intent.

**ARTICLE II - DEFINITIONS**

Unless otherwise indicated, capitalized terms herein shall have the same meaning ascribed under the Qualified Savings Plan.

*Beneficiary* means the person, persons or entity designated on an electronic or written form by the Participant to receive the value of his or her Plan Accounts in the event of the Participant's death in accordance with the terms of this Plan. If the Participant fails to designate a Beneficiary, or the Beneficiary (and any contingent Beneficiary) does not survive the Participant, the value of the Participant's Plan Accounts will be paid to the estate of the Participant.

*Code* means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto. Reference to any section of the Internal Revenue Code shall include any final regulations or other applicable guidance.

*Committee* means the United Technologies Corporation Deferred Compensation Committee, which is responsible for the administration of the Plan. The Corporation's Pension Administration Committee shall appoint the Committee's members.

*Corporation* means the United Technologies Corporation.

*Deferral Period* means the period prior to the receipt of Eligible Compensation deferred hereunder.

*"Disability"* means permanent and total disability as determined under the Corporation's long-term disability plan applicable to the Participant, or if there is no such plan applicable to the Participant, "Disability" means a determination of total disability by the Social Security Administration; provided that, in either case, the Participant's condition also qualifies as a "disability" for purposes of Section 409A(a)(2)(C) of the Code.

*Election Form* means the enrollment form provided by the Committee to Participants electronically or in paper form for the purpose of deferring Eligible Compensation under the Plan. Each Participant's Election Form must specify the percentage of Eligible Compensation to be deferred with respect to the following calendar year; the percentage allocation among the Investment Funds with respect to the Participant Contribution Account; and if not previously elected for the Plan Accounts, the method of distribution.

*Eligible Compensation* means Pensionable Earnings in excess of the IRS Compensation Limit for any Plan Year.

*Employee* means an employee of the Corporation or of certain subsidiaries and affiliates of the Corporation, but excluding any employee who is included in a different tax qualified savings plan or is not eligible to participate in the Qualified Savings Plan pursuant to the terms of a collective bargaining agreement between employee representatives and a UTC Company (a "Represented Employee") unless such employee representatives and the UTC Company agree that the Represented Employees in such unit shall be eligible to participate in the Plan.

*Investment Fund* means a hypothetical fund that tracks the value of an investment option offered under the Qualified Savings Plan or the UTC Deferred Compensation Plan. Investment Funds offered under the SRP may be changed from time to time by the Committee and shall be valued in the manner set forth in Section 6.4. As of the effective date of this Plan, Investment Funds will include: the Credited Interest Fund as offered under the UTC Deferred Compensation Plan, and the following investment options offered under the Qualified Savings Plan: the Vanguard 500 Index Fund; the UTC Stock Unit Fund; Global Index Fund, US Value Index Fund; US Growth Index Fund; US Midcap Index Fund; US Small Company Index Fund; and International Equity Fund; or such other investment options as may be established or changed by the Committee from time to time. The value of Participants' Accounts shall be adjusted to replicate the performance of the applicable Investment Funds. Amounts credited to any Investment Fund do not result in the investment in actual assets corresponding to the Investment Fund.

*IRS Compensation Limit* means the limitation imposed by Section 401(a)(17) of the Internal Revenue Code of 1986, as amended.

*Participant* means an eligible Employee who is a participant in the Qualified Savings Plan, whose annual Pensionable Earnings are in excess of the limit of IRC Section 401(a)(17) or whose Corporation matching contribution is otherwise limited by the Code, and who elects to defer Eligible Compensation under the Plan.

*Participant Contribution Account* means a Plan Account maintained on behalf of a Participant who defers Eligible Compensation under this Plan.

*Pensionable Earnings* means the total compensation paid with respect to a Plan Year by a UTC Company to a Participant for services rendered to a UTC Company, before any Tax-Deferred Contribution Election or any election under Section 125 of the Code, including performance related awards, but excluding: other awards; foreign service premiums and allowances; long-term incentive compensation; stock option benefits; reimbursements or other payments related to relocation expenses; contributions to employee benefit plans including reimbursements or payments in lieu thereof, amounts credited to a Participant under a non-qualified deferred compensation plan; severance pay; and pay in lieu of vacation.

*Performance-based Compensation* means performance-based compensation as defined in Treas. Reg. §1.409A-1(e).

*Plan* means the United Technologies Corporation Savings Restoration Plan, as amended from time to time.

*Plan Accounts* means the Participant Contribution Account and the UTC Contribution Account maintained on behalf of a Participant.

*Plan Year* means the calendar year.

*Separation from Service* means a Participant's termination of employment with all UTC Companies, other than by reason of death. A Separation from Service will be deemed to occur where the Participant and the UTC Company that employs the Participant reasonably anticipate that the bona fide level of services the Participant will perform (whether as an employee or as an independent contractor) for UTC Companies will be permanently reduced to a level that is less than thirty-seven and a half percent (37.5%) of the average level of bona fide services the Participant performed during the immediately preceding 36 months (or the entire period the Participant has provided services if the Participant has been providing services to the UTC Companies for less than 36 months). A Participant shall not be considered to have had a Separation from Service as a result of a transfer from one UTC Company to another UTC Company.

*Specified Employee* means each of the fifty (50) highest-paid officers and other executives of the Corporation and its Subsidiaries, effective annually as of April 1<sup>st</sup>, based on wages subject to federal income tax withholding, and amounts that are excluded from taxable income by the employee's election to make pre-tax contributions under a cafeteria plan, section 401(k) plan, or similar plan, determined for the preceding calendar year as provided in Treas. Reg. § 1.415(c)-2(d)(3). The term includes both U.S. and non-U.S. employees, and the compensation used to determine whether an employee is among the fifty (50) highest-paid officers and other executives shall be determined by treating non-U.S. compensation as if it had been earned in the U.S. by a U.S. citizen.

*UTC Common Stock* means the common stock of United Technologies Corporation.

*UTC Company* means United Technologies Corporation or any entity controlled by or under common control with United Technologies Corporation within the meaning of Section 414(b) or (c) of the Code (but substituting "at least 20 percent" for "at least 80 percent" as the control threshold used in applying Sections 414(b) and (c)).

*UTC Contribution* means the amount credited to a Participant's UTC Contribution Account in accordance with the formula set forth in Article V.

*UTC Contribution Account* means a Plan Account maintained on behalf of a Participant for the purpose of crediting UTC Contributions.

### **ARTICLE III - ELIGIBILITY AND PARTICIPATION**

#### **Section 3.1 - Eligibility**

- (a) Eligibility to Make Employee Contributions. Employees who are participants in the Qualified Savings Plan shall be eligible to participate in the SRP if and to the extent such Employee's annual Pensionable Earnings are in excess of the limit of IRC Section 401(a)(17).
- (b) Eligibility for UTC Contributions. An Employee who is eligible to participate in the SRP and has completed one year of "Continuous Service" (as defined in the UTC Employee Retirement Plan as in effect on January 1, 2008) shall be eligible to receive UTC Contributions in accordance with Article V of the Plan.

#### **Section 3.2 - Participation**

With respect to any calendar year for which the Committee offers the opportunity to defer Eligible Compensation, each eligible Participant may elect to participate in the Plan by timely filing with the Committee an Election Form, properly completed in accordance with Section 4.1. Participation in the Plan is entirely voluntary.

### **ARTICLE IV - PARTICIPANT ELECTIONS AND DESIGNATIONS**

#### **Section 4.1 - Election**

An eligible Participant may, on or before the election deadline established by the Committee, make an electronic or written election on the Election Form provided by the Committee to defer Eligible Compensation for the immediately following calendar year.

#### **Section 4.2 - Election Amount**

An eligible Participant must designate in the Election Form the percentage of Eligible Compensation that will be deferred under the Plan, in a whole percentage between one and six percent.

#### **Section 4.3 - Election Date**

To defer Eligible Compensation under the Plan, an electronic or written Election Form must be completed and submitted to the Committee no later than the December 31 immediately preceding the calendar year to which the election applies, or such earlier date as the Committee may specify. To the extent an election is made to defer Eligible Compensation that includes an incentive compensation payment that qualifies as Performance-based Compensation as defined in Treas. Reg. §1.409A-1(e)), with respect to services to be performed in the current calendar year and otherwise payable in the immediately following calendar year, such election must be submitted to the Committee no later than the June 30 of the current calendar year, or such earlier date as the Committee may specify. In all other cases, the deferral election must be submitted by December 31 preceding the calendar year in which the Eligible Compensation is earned or such earlier date as the Committee may specify.

A deferral election shall be effective only if the individual making the election is still an eligible Participant at the election deadline. Except as provided below in Section 4.6 (Change in Election), the choices reflected on the Participant's Election Form shall be irrevocable on the election deadline. An eligible Employee must timely submit an election by the election deadline to be eligible to participate in the Plan. Once an election is made to defer Eligible Compensation, the election will be deemed an evergreen election and will be applied to future Plan years, unless the election is revised or cancelled during a subsequent annual enrollment period.

#### **Section 4.4 - Distribution Election**

At the time the Participant first elects to defer Eligible Compensation under this Plan, the Participant must at that time elect the method of distribution of the Participant's Plan Accounts. Distribution options include a lump sum or two to fifteen annual installments. If no distribution election is made with respect to a Participant's Plan Accounts, the distribution will be in a lump sum.

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#### **Section 4.5 - Investment Fund Allocations**

When completing the Election Form, the Participant must allocate the amount to be deferred, in whole percentages, among the available Investment Funds. To the extent that the Participant fails to make an effective allocation among the available Investment Funds, the deferral shall be allocated entirely to the Credited Interest Fund.

Participants may reallocate their existing Plan Accounts among the available Investment Funds as permitted by the Committee, generally twice per year in June and November. Such reallocations shall be in whole percentages and, unless otherwise specified by the Committee, shall be effective the first business day of July or the first business day of January, as applicable.

#### **Section 4.6 - Change in Election**

A Participant may make a one-time irrevocable election to change the form of distribution for the Plan Accounts. A change to the form of distribution must meet all of the following requirements:

- (a) The new election must be made at least twelve months prior to the date on which payments will commence under the current election and/or date of termination following attainment of age 50 (and the new election shall be ineffective if the payment commencement date under the current election occurs within twelve months after the date of the new election);
- (b) The new election will not take effect until at least twelve months after the date when the new election is submitted in a manner acceptable to the Committee; and
- (c) The new payment commencement date must be five years later than the date on which payments would commence under the current election.

#### **Section 4.7 - Investment Fund Allocation at Separation from Service**

Notwithstanding Section 5.3 (Form of Contribution), at Separation from Service, a Participant may reallocate his or her existing Plan Accounts to the Credited Interest Fund as permitted by the Committee, with respect to the period of time following the Separation from Service date and prior to the actual distribution date provided under Article VII.

#### **Section 4.8 - Designation of Beneficiary**

Each Participant shall designate a Beneficiary for his or her Plan Account on an electronic or written form provided by the Committee. A Participant may change such designation on an electronic or written form acceptable to the Committee and will be effective on the date received by the Committee. Designations received after the date of the Participant's death will not be effective. In the event that no Beneficiary designation is filed with the Committee before the Participant's death, or if the Beneficiary (and any contingent Beneficiary) does not survive the Participant, the value of all Plan Accounts hereunder will be paid to the estate of the Participant. If a Participant designates the Participant's spouse as the Participant's Beneficiary, that designation shall not be revoked or otherwise altered or affected by any: (a) change in the marital status of the Participant; (b) agreement between the Participant and such spouse; or (c) judicial decree (such as a divorce decree) affecting any rights that the Participant and such spouse might have as a result of their marriage, separation, or divorce; it being the intent of the Plan that any change in the designation of a Beneficiary hereunder may be made by the Participant only in accordance with the procedures set forth in this Section 4.8. In the event of the death of a Participant, distributions shall be made in accordance with Section 7.6.

### **ARTICLE V - UTC CONTRIBUTIONS**

#### **Section 5.1 - Contribution Amount**

The Corporation will credit a sixty percent (60%) matching contribution to the Plan on up to six percent (6%) of each Participant's Eligible Compensation deferred under the Plan.

#### **Section 5.2 - Eligibility for Contribution**

No Participant shall receive an allocation of UTC Contributions until such Participant has met the participation requirements of Section 3.1(b) of the Plan.

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### **Section 5.3 - Form of Contribution**

The UTC Contribution shall be provided in the form of hypothetical shares or units of UTC Common Stock. Participants may not exchange amounts credited to their UTC Contribution Account to other investment options. In no event shall the UTC Contribution to any Participant's UTC Contribution Accounts for any calendar year exceed 25% of annual earnings for such calendar year.

### **Section 5.4 - Timing of Contribution**

Allocation of UTC Contributions and Participant deferrals shall generally be made to each Participant's UTC Contribution Account on or immediately following each pay period, but no less frequently than once with respect to each Plan Year. The Corporation may in its sole discretion credit additional amounts to Participants' UTC Contribution Accounts.

### **Section 5.5 - Vesting of Contributions**

A Participant is always 100% vested in his or her deferrals into the Plan and associated earnings. A Participant shall be vested in the value of UTC Contributions credited to his or her Plan Account upon the first to occur of the following: participation in the Plan for two years; completion of three years of "Continuous Service" (as defined in the UTC Employee Retirement Plan as in effect on January 1, 2008), attainment of age 65, the death or disability of the Participant while employed by a UTC Company, the layoff of a Participant from a UTC Company due to lack of work, or the Participant's entrance into the military service before completing two years of Plan participation. For purposes of this Section 5.5, a Participant's date of disability shall be the first day of the fifth month (or such other month as may from time to time be applicable under the federal Social Security Act) prior to the month for which a Participant first receives a disability benefit under the Social Security Act.

## **ARTICLE VI - PLAN ACCOUNTS**

### **Section 6.1 - Accounts**

A Participant Contribution Account and a UTC Contribution Account will be established for each Participant.

- (a) Participant Contribution Accounts. Participant Contribution Accounts shall be allocated or reallocated among Investment Funds in accordance with the Plan terms and each Participant's instructions in the manner set forth in Section 4.5. Participant Contribution Accounts shall be credited with hypothetical investment fund shares or units on the applicable pay date on which Eligible Compensation would otherwise have been paid. Participant Contribution Accounts will be credited daily with investment earnings and losses, including dividends and capital gains, where applicable, in accordance with the Plan terms and a Participant's investment elections.
- (b) UTC Contribution Accounts. UTC Contribution Accounts shall be credited with hypothetical shares or units of UTC Common Stock ("UTC Deferred Stock Units"), in the manner set forth in Article V. UTC Deferred Stock Units may not be exchanged for any other Investment Funds. UTC Contribution Accounts will be credited daily with investment earnings and losses, including dividends, associated with UTC Common Stock.

### **Section 6.2 - Valuation of Credited Interest Fund**

Deferred amounts allocated to the Credited Interest Fund will be credited daily with a rate of interest equal to the average interest rate on 10-Year Treasury Bonds as of the last business day of each month from January through October in the calendar year prior to the calendar year in which the interest is credited, plus 1%. The Credited Interest rate shall in no event exceed 120% of the applicable federal rate as published by the IRS.

### **Section 6.3 - Valuation of UTC Stock Unit Fund**

Deferred compensation allocated to the UTC Stock Unit Fund will be converted to UTC Deferred Stock Units, including fractional Stock Units. A UTC Deferred Stock Unit is equal to the closing price of one share of UTC Common Stock as reported on the composite tape of the New York Stock Exchange. The number of UTC Deferred Stock Units will be calculated by dividing the amount of Eligible Compensation deferred by the closing price of UTC Common Stock on the date when the deferred amount is credited to the Participant's UTC Stock Unit Fund. UTC Deferred Stock Units will be credited with dividend equivalent payments equal to the Corporation's declared dividend on UTC Common Stock (if any). Such dividend equivalent payments will be converted to additional UTC Deferred Stock Units and fractional units using the closing price of UTC Common Stock as of the date such dividends are credited to the Participant's UTC Stock Unit Fund.

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## **Section 6.4 - Valuation of Investment Funds**

Deferred compensation allocated to Investment Funds will be converted to the applicable Investment Fund units based on the closing share price of that Investment Fund as of the date the deferred amount is credited to the Participant's applicable Investment Fund. The value of the units of an Investment Fund will fluctuate on each business day based on the performance of the applicable Investment Fund.

## **Section 6.5 - Allocation to Accounts**

During the year of deferral, deferred amounts will be allocated to the Participant's Participant Contribution Account and Investment Funds as of the date the deferred amounts would otherwise have been paid to the Participant.

## **Section 6.6 - Reports to Participants**

The Committee will provide or make available detailed information to Participants regarding the credited value of Plan Accounts, distribution elections, Beneficiary designations, and Investment Fund allocations, not less than once per year. Such information may be provided via electronic media as determined by the Committee.

## **ARTICLE VII - DISTRIBUTION OF ACCOUNTS**

### **Section 7.1 - Timing of Plan Distributions**

Except as provided in Section 4.6 (concerning the five-year delay following a Change in Election), Section 7.4 (concerning Separation from Service before Attaining Age Fifty), and Section 7.5 (concerning distributions to Specified Employees), the value of a Participant's Plan Accounts will be distributed (or begin to be distributed) to the Participant in April of the calendar year following the calendar year of the Participant's Separation from Service.

### **Section 7.2 - Method of Distribution**

Except as provided in Section 7.4 (concerning Separation from Service before Attaining Age Fifty), Plan Accounts will be distributed to the Participant in a single lump-sum payment, or in a series of annual installment payments, in accordance with the Participant's election on file. Annual installment distributions shall be payable to the Participant beginning as of the payment commencement date and continuing as of each anniversary of the payment commencement date thereafter until all installments have been paid. To determine the amount of each installment, the value of the Participant's Plan Accounts on the payment date will be multiplied by a fraction, the numerator of which is one and the denominator of which is the remaining number of scheduled installments.

### **Section 7.3 - Form of Distribution**

Participant Contribution Account distributions will be made in cash and UTC Contribution Account distributions will be made in UTC Common Stock.

### **Section 7.4 - Separation from Service before Attaining Age Fifty**

If a Participant's Separation from Service occurs before the Participant attains age fifty (50), the full value of the Participant's Plan Accounts will be distributed to the Participant in a lump-sum payment in April of the calendar year following the calendar year of the Participant's Separation from Service (or, if the Participant is a Specified Employee at the time of his or her Separation from Service, on the date provided in Section 7.5, below, if later) regardless of the distribution option elected and regardless of any change in the distribution election.

If a Participant is re-employed following a Separation from Service, the Participant's age at the time of the Participant's first Separation from Service will determine how the Participant's Plan Accounts at the time of the first Separation from Service are distributed. If the Participant accumulates any additional deferrals after the Participant is re-hired, the Plan shall separately account for the additional deferrals (and related investment gains or losses), and the Participant's age at the time of the Participant's second Separation from Service will determine how the additional amounts are distributed.

### **Section 7.5 - Separation from Service of Specified Employees**

Distributions to Specified Employees will not be made or commence earlier than the first day of the seventh month following the date of Separation from Service. All Plan Accounts shall continue to accrue hypothetical investment gains and losses as provided in Article VI until the distribution date.

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## **Section 7.6 - Distribution in the Event of Death**

In the event of the death of a Participant before the Participant's Plan Account has been fully distributed, the full remaining value of the Participant's Plan Accounts will be distributed to the designated Beneficiary or the Participant's estate in a lump sum on the first business day of the third month following the Participant's death.

## **Section 7.7 - Accelerated Distribution in the Case of an Unforeseeable Emergency**

- (a) Unforeseeable Emergency. The Committee may, upon a Participant's written application, agree to an accelerated distribution of some or all of the value of a Participant's Plan Accounts upon the occurrence of an unforeseeable emergency. An "unforeseeable emergency" is a severe financial hardship to the Participant resulting from (1) an illness or accident of the Participant, the Participant's spouse, the Participant's Beneficiary, or the Participant's dependent (as defined in IRC Section 152, without regard to Section 152(b)(1), (b)(2), and (d)(1)(B)); (2) loss of the Participant's property due to casualty; or (3) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. Whether a Participant is faced with an unforeseeable emergency permitting a distribution is to be determined based on the relevant facts and circumstances of each case. Acceleration will not be granted if the emergency is or may be relieved through reimbursement or compensation from insurance or otherwise, by liquidation of the Participant's assets (to the extent the liquidation of such assets would not cause severe financial hardship), or by cessation of deferrals under the Plan.
- (b) Amount of Distribution Permitted Upon an Unforeseeable Emergency. Distributions on account of an unforeseeable emergency, as defined in Section 7.7(a), shall be limited to the amount reasonably necessary to satisfy the emergency need. Such amount may include amounts necessary to pay any Federal, state, local, or foreign income taxes or penalties reasonably anticipated to result from the distribution.
- (c) The Committee will determine from which Investment Funds hardship distributions will be made. Any Participant who is an officer or director of the Corporation within the meaning of Section 16 of the Securities Exchange Act of 1934 is not eligible for distributions on account of unforeseeable emergency.

## **Section 7.8 - Disability**

In the event of the Disability of a Participant that qualifies as a "Separation from Service" for purposes of Section 409A of the Code, the Participant's Plan Accounts will be distributed in accordance with the Participant's elections on file.

## **Section 7.9 - Administrative Adjustments in Payment Date**

A payment is treated as being made on the date when it is due under the Plan if the payment is made on the due date specified by the Plan, or on a later date that is either (a) in the same calendar year (for a payment whose specified due date is on or before September 30), or (b) by the 15th day of the third calendar month following the date specified by the Plan (for a payment whose specified due date is on or after October 1). A payment also is treated as being made on the date when it is due under the Plan if the payment is made not more than 30 days before the due date specified by the Plan. In no event will a payment to a Specified Employee be made or commence earlier than the first day of the seventh month following the date of Separation from Service. A Participant may not, directly or indirectly, designate the taxable year of a payment made in reliance on the administrative rules in this Section 7.9.

## **ARTICLE VIII - AMENDMENT AND TERMINATION OF PLAN**

### **Section 8.1 - Amendment**

The Corporation may, at any time, amend the Plan in whole or in part, provided that no amendment may decrease the value of any Plan Accounts as of the date of such amendment. In the event of any change in law or regulation relating to the Plan and the tax treatment of Plan Accounts, the Plan shall, without further action by the Committee, be deemed to be amended to comply with any such change in law or regulation effective as of the first date necessary to prevent the taxation, constructive receipt or deemed distribution of Plan Accounts prior to the date Plan Accounts would be distributed under the provisions of Article VII.

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## **Section 8.2 - Plan Suspension and Termination**

- (a) The Corporation's Pension Administration Committee, may, at any time, suspend or terminate the Plan with respect to new or existing Election Forms if, in its sole judgment, the continuance of the Plan, the tax, accounting, or other effects thereof, or potential payments thereunder would not be in the best interest of the Corporation or for any other reason.
- (b) In the event of the suspension of the Plan, no additional deferrals or UTC Contributions shall be made under the Plan. All previous deferrals and UTC Contributions shall accumulate and be distributed in accordance with the otherwise applicable provisions of the Plan and the applicable elections on file.
- (c) Upon the termination of the Plan with respect to all Participants, and the termination of all arrangements sponsored by the Corporation or its affiliates that would be aggregated with the Plan under Section 409A of the Code ("Section 409A"), the Corporation shall have the right, in its sole discretion, and notwithstanding any elections made by the Participant, to pay the Participant's Plan Accounts in a lump sum, to the extent permitted under Section 409A. All payments that may be made pursuant to this Section 8.2(c) shall be made no earlier than the thirteenth month and no later than the twenty-fourth month after the termination of the Plan. The Corporation may not accelerate payments pursuant to this Section 8.2(c) if the termination of the Plan is proximate to a downturn in the Corporation's financial health within the meaning of Treas. Reg. section 1.409A-3(j)(4)(ix)(C)(1). If the Corporation exercises its discretion to accelerate payments under this Section 8.2(c), it shall not adopt any new arrangement that would have been aggregated with the Plan under Section 409A within three years following the date of the Plan's termination.

## **Section 8.3 - No Consent Required**

The consent of any Participant, Beneficiary, or other person shall not be required with respect to any amendment, suspension, or termination of the Plan.

## **ARTICLE IX - GENERAL PROVISIONS**

### **Section 9.1 - Unsecured General Creditor**

The Corporation's obligations under the Plan constitute an unfunded and unsecured promise to pay money or deliver shares in the future. Participants' and Beneficiaries' rights under the Plan are solely those of a general unsecured creditor of the Corporation. No assets will be placed in trust, set aside or otherwise segregated to fund or offset liabilities in respect of the Plan or Participants' Plan Accounts.

### **Section 9.2 - Nonassignability**

No Participant or Beneficiary or any other person shall have the right to sell, assign, transfer, pledge, or otherwise encumber any interest in the Plan. All Plan Accounts and the rights to all payments are unassignable and non-transferable. Plan Accounts or payment hereunder, prior to actual payment, will not be subject to attachment or seizure for the payment of any debts, judgments or other obligations. Plan Accounts or other Plan benefit will not be transferred by operation of law in the event of a Participant's or any Beneficiary's bankruptcy or insolvency.

### **Section 9.3 - No Contract of Employment**

Participation in the Plan shall not be construed to constitute a direct or indirect contract of employment between any UTC Company and any Participant. Participants and Beneficiaries will have no rights against any UTC Company resulting from participation in the Plan other than as specifically provided herein. Nothing in the Plan shall be deemed to give a Participant the right to be retained in the service of any UTC Company for any length of time or to interfere with the right of any UTC Company to terminate a Participant's employment prior to the end of any Deferral Period.

### **Section 9.4 - Governing Law**

The provisions of the Plan will be construed and interpreted according to the laws of the State of Connecticut, to the extent not preempted by federal law.

### **Section 9.5 - Validity**

If any provision of the Plan is held to be illegal or invalid for any reason, the remaining provisions of the Plan will be construed and enforced as if such illegal and invalid provision had never been inserted herein.



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### **Section 9.6 - Notice**

Any notice or filing required or permitted to be given to the Committee under the Plan shall be sufficient if sent by first-class mail, to the United Technologies Corporation Deferred Compensation Committee, 1 Financial Plaza, Hartford, Connecticut 06101, Attn: Director, Compensation, MS-504. Any notice or filing required or permitted to be given to any Participant or Beneficiary under the Plan shall be sufficient if provided either electronically, hand-delivered, or mailed to the address (or email address, as the case may be) of the Participant or Beneficiary then listed on the records of the Corporation. Any such notice will be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark or email system.

### **Section 9.7 - Successors**

The provisions of the Plan shall bind and inure to the benefit of the Corporation and its successors and assigns. The term successors as used herein shall include any corporate or other business entity, which by merger, consolidation, purchase or otherwise acquires all or substantially all of the business and assets of the Corporation, and successors of any such corporation or other business entity.

### **Section 9.8 - Incompetence**

If the Committee determines, upon evidence satisfactory to the Committee, that any Participant or Beneficiary to whom a benefit is payable under the Plan is unable to care for his or her affairs because of illness or accident, any payment due (unless prior claim therefore shall have been made by a duly authorized guardian or other legal representative) may be paid, upon appropriate indemnification of the Committee and the Corporation, to the spouse of the Participant or other person deemed by the Committee to have incurred expenses for the benefit of and on behalf of such Participant or Beneficiary. Any such payment from a Participant's Plan Accounts shall be a complete discharge of any liability under the Plan with respect to the amount so paid.

### **Section 9.9 - Section 409A Compliance**

To the extent that rights or payments under this Plan are subject to Section 409A of the Internal Revenue Code, the Plan shall be construed and administered in compliance with the conditions of Section 409A and regulations and other guidance issued pursuant to Section 409A for deferral of income taxation until the time the compensation is paid. Any distribution election that would not comply with Section 409A of the Code shall not be effective for purposes of this Plan. To the extent that a provision of this Plan does not comply with Section 409A of the Code, such provision shall be void and without effect. The Corporation does not warrant that the Plan will comply with Section 409A of the Code with respect to any Participant or with respect to any payment. In no event shall any UTC Company; any director, officer, or employee of a UTC Company (other than the Participant); or any member of the Committee be liable for any additional tax, interest, or penalty incurred by a Participant or Beneficiary as a result of the Plan's failure to satisfy the requirements of Section 409A of the Code, or as a result of the Plan's failure to satisfy any other requirements of applicable tax laws.

### **Section 9.10 - Withholding Taxes**

The Committee may make any appropriate arrangements to deduct from all deferrals, Contributions, vested Plan Accounts, and distributions under the Plan any taxes that the Committee reasonably determines to be required by law to be withheld from such credits and payments.

## **ARTICLE X - ADMINISTRATION AND CLAIMS**

### **Section 10.1 - Plan Administration**

The Committee shall be solely responsible for the administration and operation of the Plan. The Committee shall have full and exclusive authority and discretion to interpret the provisions of the Plan and to establish such administrative procedures as it deems necessary and appropriate to carry out the purposes of the Plan.

Any person claiming a benefit, requesting an interpretation or ruling under the Plan, or requesting information under the Plan shall present the request in writing to the Committee at United Technologies Corporation, 1 Financial Plaza, Hartford, Connecticut 06101, Attn: Deferred Compensation Committee. The Committee shall respond in writing as soon as practicable.

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## **Section 10.2 - Claim Procedures**

A Participant or Beneficiary who believes that he or she has been denied a benefit to which he or she is entitled under the Plan (referred to in this Section 10.2 as a "Claimant") may file a written request with the Committee setting forth the claim. The Committee shall consider and resolve the claim as set forth below.

- (a) Upon receipt of a claim, the Committee shall advise the Claimant that a response will be forthcoming within 90 days. The Committee may, however, extend the response period for up to an additional 90 days for reasonable cause, and shall notify the Claimant of the reason for the extension and the expected response date. The Committee shall respond to the claim within the specified period.
- (b) If the claim is denied in whole or part, the Committee shall provide the Claimant with a written decision, using language calculated to be understood by the Claimant, setting forth (1) the specific reason or reasons for such denial; (2) the specific reference to relevant provisions of this Plan on which such denial is based; (3) a description of any additional material or information necessary for the Claimant to perfect his or her claim and an explanation why such material or such information is necessary; (4) appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; (5) the time limits for requesting a review of the claim; and (6) the Claimant's right to bring an action for benefits under Section 502(a) of ERISA.
- (c) Within 60 days after the Claimant's receipt of the written decision denying the claim in whole or in part, the Claimant may request in writing that the Committee review the determination. The Claimant or his or her duly authorized representative may, but need not, review the relevant documents and submit issues and comment in writing for consideration by the Committee. If the Claimant does not request a review of the initial determination within such 60-day period, the Claimant shall be barred from challenging the determination.
- (d) Within 60 days after the Committee receives a request for review, it will review the initial determination. If special circumstances require that the 60-day time period be extended, the Committee will so notify the Claimant and will render the decision as soon as possible, but no later than 120 days after receipt of the request for review.
- (e) All decisions on review shall be final and binding with respect to all concerned parties. The decision on review shall set forth, in a manner calculated to be understood by the Claimant, (1) the specific reasons for the decision, including references to the relevant Plan provisions upon which the decision is based; (2) the Claimant's right to receive, upon request and free of charge, reasonable access to and copies of all documents, records, and other information, relevant to his or her benefits; and (3) the Claimant's right to bring an action for benefits under Section 502(a) of ERISA.

## **CERTAIN REGULATORY MATTERS**

The Plan is subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Because the Plan is an unfunded plan maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees, the Plan is exempt from most of ERISA's requirements. Although the Plan is subject to Part 1 (Reporting and Disclosure) and Part 5 (Administration and Enforcement) of Title I, Subtitle B of ERISA, the Department of Labor has issued a regulation that exempts the Plan from most of ERISA's reporting and disclosure requirements.

## **TO WHOM SHOULD QUESTIONS CONCERNING THE PLAN BE DIRECTED?**

All questions concerning the operation of the Plan (including information concerning the administrators of the Plan) should be directed to:

Director, Compensation  
United Technologies Corporation  
1 Financial Plaza, MS 504  
Hartford, Connecticut 06101  
Telephone: 860-728-6381

**UNITED TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES**

**STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS**

<u>(in millions of dollars, except per share amounts)</u>	<u>Full year</u>				
	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net income attributable to common shareowners <sup>1</sup>	\$ 3,829	\$ 4,689	\$ 4,224	\$ 3,732	\$ 3,069
Basic earnings for period	<u>\$ 3,829</u>	<u>\$ 4,689</u>	<u>\$ 4,224</u>	<u>\$ 3,732</u>	<u>\$ 3,069</u>
Diluted earnings for period	<u>\$ 3,829</u>	<u>\$ 4,689</u>	<u>\$ 4,224</u>	<u>\$ 3,732</u>	<u>\$ 3,069</u>
Basic average number of shares outstanding during the period (thousands)	<u>917,400</u>	<u>937,800</u>	<u>963,900</u>	<u>980,000</u>	<u>991,200</u>
Stock awards (thousands)	<u>11,400</u>	<u>18,600</u>	<u>24,900</u>	<u>25,700</u>	<u>23,300</u>
Diluted average number of shares outstanding during the period (thousands)	<u>928,800</u>	<u>956,400</u>	<u>988,800</u>	<u>1,005,700</u>	<u>1,014,500</u>
Basic earnings per common share	\$ 4.17	\$ 5.00	\$ 4.38	\$ 3.81	\$ 3.10
Diluted earnings per common share	\$ 4.12	\$ 4.90	\$ 4.27	\$ 3.71	\$ 3.03

- 1 As of January 1, 2009, we adopted the provisions under the Consolidation Topic of the FASB ASC as it relates to the accounting and reporting standards for noncontrolling interests in consolidated subsidiaries as reported in consolidated financial statements. These provisions require that the amount of net income attributable to the noncontrolling interests be included in consolidated net income on the face of the Consolidated Statement of Operations. Earnings per share has not been affected as a result of the adoption of the provisions under this Topic. Additional information pertaining to the accounting for noncontrolling interests is included in Note 9 to the Consolidated Financial Statements in our 2009 Annual Report.

**UNITED TECHNOLOGIES CORPORATION  
AND SUBSIDIARIES**

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

<u>(in millions of dollars)</u>	<u>2009</u>	<u>2008</u>	<u>Full year 2007</u>	<u>2006</u>	<u>2005</u>
<b>Fixed Charges:</b>					
Interest expense <sup>1</sup>	\$ 705	\$ 689	\$ 666	\$ 606	\$ 498
Interest capitalized	18	19	16	19	16
One-third of rents <sup>2</sup>	154	168	146	96	100
<b>Total fixed charges</b>	<b><u>\$ 877</u></b>	<b><u>\$ 876</u></b>	<b><u>\$ 828</u></b>	<b><u>\$ 721</u></b>	<b><u>\$ 614</u></b>
<b>Earnings:</b>					
Income before income taxes	\$5,760	\$6,936	\$6,384	\$5,492	\$4,684
Fixed charges per above	877	876	828	721	614
Less: capitalized interest	(18)	(19)	(16)	(19)	(16)
	<u>859</u>	<u>857</u>	<u>812</u>	<u>702</u>	<u>598</u>
Amortization of interest capitalized	17	9	8	8	10
<b>Total earnings</b>	<b><u>\$6,636</u></b>	<b><u>\$7,802</u></b>	<b><u>\$7,204</u></b>	<b><u>\$6,202</u></b>	<b><u>\$5,292</u></b>
<b>Ratio of earnings to fixed charges</b>	<b><u>7.57</u></b>	<b><u>8.91</u></b>	<b><u>8.70</u></b>	<b><u>8.60</u></b>	<b><u>8.62</u></b>

- 1 Pursuant to the guidance in the Income Taxes Topic of the FASB ASC, interest related to unrecognized tax benefits recorded was approximately \$21 million, \$39 million, \$56 million, \$38 million and \$25 million for the years 2009, 2008, 2007, 2006 and 2005, respectively. The ratio of earnings to fixed charges would have been 7.75, 9.32, 9.33, 9.08 and 8.98 for the years 2009, 2008, 2007, 2006 and 2005, respectively, if such interest were excluded from the calculation.
- 2 Reasonable approximation of the interest factor.

## Five-Year Summary

<i>(in millions, except per share amounts)</i>	2009	2008	2007	2006	2005
<b>For the year</b>					
Revenues <sup>1</sup>	\$ 52,920	\$ 59,757	\$ 55,716	\$ 48,651	\$ 43,414
Research and development	1,558	1,771	1,678	1,529	1,367
Restructuring and other costs	830	357	166	288	267
Net income <sup>2</sup>	4,179	5,053	4,548	3,998	3,336
Income attributable to common shareowners before cumulative effect of a change in accounting principle <sup>3</sup>	3,829	4,689	4,224	3,732	3,164
Net income attributable to common shareowners <sup>2</sup>	3,829	4,689	4,224	3,732	3,069
Earnings per share:					
Basic:					
Income attributable to common shareowners before cumulative effect of a change in accounting principle <sup>3</sup>	4.17	5.00	4.38	3.81	3.19
Cumulative effect of a change in accounting principle <sup>3</sup>	—	—	—	—	(.09)
Net income attributable to common shareowners	4.17	5.00	4.38	3.81	3.10
Diluted:					
Income attributable to common shareowners before cumulative effect of a change in accounting principle <sup>3</sup>	4.12	4.90	4.27	3.71	3.12
Cumulative effect of a change in accounting principle <sup>3</sup>	—	—	—	—	(.09)
Net income attributable to common shareowners	4.12	4.90	4.27	3.71	3.03
Cash dividends per common share	1.54	1.35	1.17	1.02	.88
Average number of shares of Common Stock outstanding:					
Basic	917	938	964	980	991
Diluted	929	956	989	1,006	1,014
Cash flow from operations	5,353	6,161	5,330	4,803	4,334
Capital expenditures	826	1,216	1,153	954	929
Acquisitions, including debt assumed	703	1,448	2,336	1,049	4,583
Repurchase of Common Stock	1,100	3,160	2,001	2,068	1,181
Dividends paid on Common Stock <sup>4</sup>	1,356	1,210	1,080	951	832
<b>At year end</b>					
Working capital	\$ 5,281	\$ 4,665	\$ 4,602	\$ 3,636	\$ 1,861
Total assets <sup>1,5</sup>	55,762	56,837	54,888	47,382	46,159
Long-term debt, including current portion <sup>6</sup>	9,490	10,453	8,063	7,074	6,628
Total debt <sup>6</sup>	9,744	11,476	9,148	7,931	8,240
Debt to total capitalization <sup>2,5,6</sup>	32%	41%	29%	30%	32%
Total equity <sup>2,5,6</sup>	20,999	16,681	22,064	18,133	17,769
Number of employees	206,700	223,100	225,600	214,500	218,200

- During 2005, we acquired Kidde, which in conjunction with Chubb (acquired during 2003) forms the UTC Fire & Security segment.
- During 2005, a 2-for-1 split of our common stock was effected in the form of a share dividend.

**Note 1** During 2009, we adopted the provisions of the Collaborative Arrangements Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) which requires that participants in a collaborative arrangement report costs incurred and revenues generated from such transactions on a gross basis and in the appropriate lines in each company's financial statements. The provisions of this Topic were applied retrospectively to all periods presented.

**Note 2** During 2009, we adopted the provisions under the Consolidation Topic of the FASB ASC as it relates to the accounting and reporting standards for noncontrolling interests (previously referred to as minority interests) in consolidated subsidiaries as reported in consolidated financial statements. These provisions require that the carrying value of noncontrolling interests be removed from the mezzanine section of the balance sheet and reclassified as equity, and that consolidated net income be recast to include net income attributable to the noncontrolling interests. The provisions of this Topic were applied retrospectively to all periods presented.

**Note 3** During 2005, we adopted accounting standards related to Asset Retirement and Environmental Obligations and the accounting for Share-Based Payments.

**Note 4** Excludes dividends paid on Employee Stock Ownership Plan Common Stock.

**Note 5** During 2006, we adopted the accounting related to Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans which resulted in an approximately \$1.8 billion non-cash charge to equity and a \$2.4 billion non-cash reduction to total assets. In addition, we early-adopted the measurement date provisions of this standard effective January 1, 2007, which increased shareowners' equity by approximately \$425 million and decreased long-term liabilities by approximately \$620 million.

**Note 6** The increase in the 2008 debt to total capitalization ratio reflects unrealized losses of approximately \$4.2 billion, net of taxes, associated with the effect of market conditions on our pension plans, and the 2008 debt issuances totaling \$2.25 billion. The decrease in the 2009 debt to total capitalization ratio, as compared to 2008, reflects the reversal of unrealized losses in our pension plans of approximately \$1.1 billion, the beneficial impact of foreign exchange rate movement of approximately \$1.0 billion, and the reduction of approximately \$1.7 billion of total debt.

## Management's Discussion and Analysis

### 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." Certain reclassifications have been made to the prior year amounts to conform to the current year presentation of noncontrolling interests and collaborative arrangements as required by the Consolidation and Collaborative Arrangements Topics, respectively, of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC). See discussion in Notes 9 and 15, respectively, to the Consolidated Financial Statements. The 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. The aerospace businesses serve commercial and government aerospace customers in both the original equipment and aftermarket parts and services markets. In addition, a portion of these businesses serve customers in certain industrial markets. Our consolidated revenues were derived from the commercial and aerospace businesses as follows (revenues from Hamilton Sundstrand's and Pratt & Whitney's industrial markets are included in "commercial and industrial"):

	2009	2008	2007
Commercial and industrial	58%	61%	62%
Military aerospace and space	21%	17%	16%
Commercial aerospace	21%	22%	22%
	100%	100%	100%

In 2009, approximately 58% of our consolidated sales were original equipment and 42% were aftermarket parts and services, while in 2008 the amounts were 60% and 40%, respectively. The amounts in 2007 were 59% and 41%, respectively. The overall shift in composition noted in the table above largely reflects the decline in commercial revenues resulting from the adverse economic environment and foreign currency translation impact, accompanied by significant growth in military helicopter deliveries as discussed more fully below.

As worldwide businesses, our operations can be affected by industrial, economic and political factors on both a regional and global level. To limit the impact of any one industry or the economy of any single country on our consolidated operating

results, our strategy has been, and continues to be, the maintenance of a balanced and diversified portfolio of businesses. Our businesses include both commercial and aerospace operations, original equipment manufacturing (OEM) businesses with extensive related aftermarket parts and services businesses as noted above, as well as the combination of shorter cycles in our commercial businesses, particularly Carrier, and longer cycles in our aerospace businesses. Our customers include companies in the private sector and governments, and our businesses reflect extensive geographic diversification that has evolved with the continued globalization of world economies. The composition of total revenues from outside the United States, including U.S. export sales, in dollars and as a percentage of total segment revenues, has been as follows:

<i>(in millions of dollars)</i>	2009	2008	2007	2009	2008	2007
Europe	\$12,269	\$15,180	\$13,917	23%	25%	25%
Asia Pacific	7,138	8,212	7,991	13%	14%	14%
Other Non-U.S.	5,040	6,619	5,783	10%	11%	10%
U.S. Exports	6,996	7,262	6,492	13%	12%	12%
International segment revenues	\$31,443	\$37,273	\$34,183	59%	62%	61%

As part of our growth strategy, we invest in businesses in certain countries that carry high levels of currency, political and/or economic risk, such as Argentina, Brazil, China, India, Russia, South Africa and countries in the Middle East. At December 31, 2009, our investment in any one of these countries did not exceed 5% of consolidated shareholders' equity.

The global economic turmoil that began in 2008 continued throughout 2009 with U.S. unemployment near record highs, severely diminished liquidity and credit availability, and global gross domestic product (GDP) contraction. Most airlines incurred significant losses as both revenue passenger miles (RPM) and average ticket prices declined, while weaker corporate profits contributed to a substantial decline in business jet production. The overall recessionary conditions had a significant adverse impact on the domestic and many international housing markets as well as the worldwide commercial construction markets. As a result of these poor market conditions, 2009 total revenues declined 11%, when compared with 2008, including a 7% organic revenue decline. The decline in organic revenues reflects lower volumes across all business units with the exception of Sikorsky, which continued to experience the benefits of strong government spending and helicopter demand.

In recognition of global economic challenges and expected volume declines, we announced a significant restructuring initiative in early 2009 designed to reduce structural and overhead costs across all of our businesses in order to partially mitigate the adverse volume impact, in addition to better positioning us for a

resumption of earnings growth expected in 2010. Restructuring charges in 2009 totaled \$830 million and included costs related to headcount reductions of approximately 14,600 employees. Segment operating margin declined 30 basis points year-over-year, from 13.4% in 2008 to 13.1% in 2009. This year-over-year decrease includes the net adverse impact of approximately 80 basis points of restructuring charges and one-time items. Excluding the significant restructuring charges and one-time items, segment operating margin reflects the benefits from an intensive focus on cost reduction and savings realized from actions taken in 2009.

Although there were signs that the challenging and difficult end market environments in which our businesses operated over the past year were beginning to stabilize in the second half of 2009, there is still considerable uncertainty as to the shape and length of any economic recovery. Emerging markets have started to show some indications of recovery, particularly China, India and Brazil, although this recovery reflects, in part, the effects of significant government intervention and stimulus initiatives in those markets. In the U.S., both the financial and housing markets have shown recent signs of stability, but unemployment remains high with both consumer spending and confidence remaining weak. The general lack of global credit, stemming in part from the regulatory pressure on financial institutions to solidify their internal financial positions, is continuing to have an adverse impact on the commercial construction markets with growth in China and the emerging markets partially offsetting the declines in the U.S. and Europe.

Consistent with prior years, our backlog includes both short cycle orders that are expected to be realized in the near term, as well as longer cycle orders that are expected to be recognized over a period of years. With the good conversion of backlog into revenues in 2009, and the amortization profile of the long cycle backlog, we are expecting only flat to slight organic revenue growth in 2010 as compared with 2009. Further, any growth would likely be weighted towards the second half of 2010 and would be dependent upon further recovery in order rates. However, as noted previously, earnings growth is expected to resume in 2010 due to both lower restructuring costs and the savings generated from the restructuring actions we undertook in 2009, and our continued focus on cost containment and operational efficiencies.

As discussed below in "Results of Operations," operating profit in both 2009 and 2008 benefited from gains related to several business divestiture activities and from certain pretax interest adjustments. Our earnings growth strategy contemplates earnings from organic revenue growth, including growth from new product development and product improvements, and incremental earnings from our investments in acquisitions. We

invested \$703 million and \$1.4 billion (including debt assumed of \$0 and \$196 million, respectively) in the acquisition of businesses across the entire Company in 2009 and 2008, respectively. Acquisitions in both 2009 and 2008 consisted principally of a number of small acquisitions in both our aerospace and commercial businesses.

In November 2009, we entered into an agreement with General Electric Company (GE) to purchase the GE Security business for approximately \$1.8 billion. Subject to regulatory approvals and the satisfaction of customary closing conditions, the closing is anticipated to take place early in the second quarter of 2010. GE Security, part of GE Technology Infrastructure, supplies security and fire safety technologies for commercial and residential applications through a broad product portfolio that includes fire detection and life safety systems, intrusion alarms, video surveillance and access control systems. We intend to incorporate the GE Security business within the existing UTC Fire & Security segment, which will significantly enhance UTC Fire & Security's geographic diversity with GE Security's strong North American presence and increased product and technology offerings.

As a result of the January 1, 2009 adoption of the provisions of the Business Combination Topic of the FASB ASC, both acquisition and restructuring costs associated with a business combination are now expensed subsequent to the acquisition date. Depending upon the nature and level of acquisition activity in 2010, earnings could be adversely impacted due to acquisition and restructuring actions initiated in connection with the integration of the acquisitions.

In December 2009, we agreed to acquire a 49.5% equity stake in Clipper Windpower Plc (Clipper), a California-based wind turbine manufacturer that trades on the AIM London Stock Exchange. This investment is intended to expand our power generation portfolio and allow us to enter the wind power segment by leveraging our expertise in blade technology, turbines and gearbox design. The total cost was £166 million (approximately \$270 million) for the purchase of 84.3 million newly issued shares and 21.8 million shares from existing shareowners. We completed the acquisition of this investment on January 12, 2010 and will account for it under the equity method of accounting. Pursuant to our agreement with Clipper, we are prohibited from acquiring additional shares of Clipper within two years of the closing date that would result in an equity stake in excess of 49.9% without prior approval of Clipper.

For additional discussion of acquisitions and restructuring, see "Liquidity and Financial Condition," "Restructuring and Other Costs" and Notes 2 and 12 to the Consolidated Financial Statements.



## Results of Operations

### Revenues

<i>(in millions of dollars)</i>	2009	2008	2007
Sales	\$52,425	\$59,119	\$54,876
Other income, net	495	638	840
Total revenues	\$52,920	\$59,757	\$55,716

The 11% decline in consolidated revenues in 2009, as compared with 2008, reflects organic revenue contraction (7%), the adverse impact from foreign currency translation (3%) and the impact of net divestitures (1%) resulting from the portfolio rationalization efforts undertaken, principally at Carrier. As discussed in "Business Overview," the organic decline in revenue reflects volume decreases at most of our businesses resulting from the challenging global economic conditions experienced during 2009. The depressed residential housing and commercial construction markets drove volume declines across all of our commercial businesses, while declines in aerospace aftermarket revenues at both Pratt & Whitney and Hamilton Sundstrand, coupled with the adverse impact from a depressed business jet market, led to an overall decline in aerospace revenues. Record aircraft deliveries at Sikorsky helped to partially mitigate the effect of other aerospace volume losses.

The consolidated revenue increase of \$4.0 billion or 7% in 2008 reflected organic revenue growth (5%), growth from net acquisitions (1%), and the favorable impact of foreign currency translation (1%) resulting from the weakness of the U.S. dollar relative to other currencies, particularly the Euro, experienced for most of 2008. All segments, except for Carrier, experienced organic revenue growth in 2008. Organic growth was led by the aerospace businesses which benefited from the general strength of the commercial aerospace OEM, regional and business jet markets, and demand for military helicopters. Commercial aerospace aftermarket growth rates moderated due to declines in large commercial spares orders resulting from the airlines' consolidation and continued reductions of capacity in response to market conditions. Commercial aerospace OEM growth reflected strong production levels at the airframe manufacturers, while military OEM revenue growth was driven largely by government demand for military helicopters. In the commercial businesses, revenue growth at Otis reflected increases in Europe and North America, led by new equipment sales generated from the strong backlog entering 2008. At Carrier, significantly lower unit shipments of U.S. residential product due to the continued weakness in the North American residential market, and lower customer demand for commercial refrigeration products as a result of weak economic conditions contributed to a decline in organic revenues. UTC Fire & Security revenues increased largely on the strength of fire safety sales in the oil & gas and marine industries as well as growth in Asia.

The decrease in other income in 2009, as compared with 2008, largely reflects the absence of gains from the sale of marketable securities, lower royalty and interest income across the businesses, lower net year-over-year gains on various fixed asset disposals, lower joint venture equity income at Carrier, and lower net year-over-year gains generated from business divestiture activity. These decreases were partially offset by lower net hedging costs on our cash management activities in 2009. Other income in 2009 includes an approximately \$60 million gain at Carrier resulting from the contribution of a majority of its U.S. residential sales and distribution businesses into the new venture with Watsco, as well as a \$52 million gain recognized at Otis on the re-measurement to fair value of an interest in a joint venture, and \$17 million of favorable pretax interest income adjustments pertaining to global tax examination activity related primarily to the completion of our review of the 2004 to 2005 Internal Revenue Service (IRS) audit report.

The decrease in other income in 2008, as compared with 2007, was largely related to the absence of certain gains reflected in 2007. Other income in 2008 included gains generated during 2008 from business divestiture activity, including a \$67 million gain at Carrier from the contribution of a business into a new venture operating in the Middle East and the Commonwealth of Independent States, an approximately \$37 million non-cash gain recognized on the sale of a partial investment at Pratt & Whitney and a gain of approximately \$25 million related to a disposal of a business at Hamilton Sundstrand. Also, other income in 2008 reflected a \$38 million gain from the sale of marketable securities and an approximately \$12 million favorable pre-tax interest adjustment related to the settlement of disputed adjustments from the 2000 through 2003 examination with the Appeals Division of the Internal Revenue Service (IRS). These gains were partially offset by the adverse impact of increased hedging costs on our cash management activities of approximately \$80 million. The balance of other income was comprised of interest and joint venture income, royalties, and other miscellaneous operating activities. Other income for 2007 included approximately \$150 million in gains resulting from the sale of marketable securities, an approximately \$80 million gain recognized on the sale of land by Otis, gains of approximately \$83 million on the disposal of certain non-core businesses, and approximately \$28 million in pre-tax interest income relating to a re-evaluation of our tax liabilities and contingencies based on global tax examination activity during 2007, including completion of our review of the 2000 through 2003 IRS audit report and our related protest filing.

### Gross Margin

<i>(in millions of dollars)</i>	2009	2008	2007
Gross margin	\$13,564	\$15,482	\$13,997
Percentage of sales	25.9%	26.2%	25.5%

The 2009 year-over-year decrease in gross margin (product and service sales less the cost of product and services sold) as a percentage of sales of 30 basis points primarily reflects higher year-over-year restructuring charges (50 basis points). Continued focus on cost reduction, savings from previously initiated restructuring actions, net operational efficiencies, margin growth experienced at Otis from lower commodity prices and the continued shift toward higher margin contractual maintenance sales offset the adverse impacts of lower sales volumes, particularly in our higher margin aerospace aftermarket and transport refrigeration businesses.

The improvement in gross margin as a percentage of sales of 70 basis points in 2008 was due largely to the benefit from higher volumes, savings from previously initiated restructuring actions and net operational efficiencies (approximately 60 basis points combined). The absence of the 2007 EU Fine, net of reserves (approximately 40 basis points) was partially offset by the adverse impact of higher commodity costs, net of pricing (approximately 20 basis points) and increased restructuring costs (approximately 10 basis points) contributing to the remainder of the year-over-year change.

### Research and Development

<i>(in millions of dollars)</i>	2009	2008	2007
Company-funded	\$1,558	\$1,771	\$1,678
Percentage of sales	3.0%	3.0%	3.1%
Customer-funded	\$2,095	\$2,008	\$1,872
Percentage of sales	4.0%	3.4%	3.4%

The decrease in company-funded research and development in 2009, compared with 2008, principally reflects lower expenditures at Pratt & Whitney and Hamilton Sundstrand resulting from shifts in the timing of program development activities, lower requirements on key development programs, and the continued focus on cost reduction. The decrease at Pratt & Whitney was driven largely by the timing of program development activities, while the decrease at Hamilton Sundstrand primarily reflects lower expenditures on the Boeing 787-8 program with the first flight having taken place in December 2009. The increase in company-funded research and development in 2008, compared with 2007, was led by continued investments in Pratt & Whitney's next generation product family including the PurePower™ PW1000G (PurePower) engine, which features Geared Turbofan (GTF) technology. General increases across the businesses comprised the remainder of the year-over-year increase. Company-funded research and development spending is subject to the variable nature of program development schedules.

The increase in customer-funded research and development in 2009, compared with 2008, largely reflects increases on various

commercial and space programs at Hamilton Sundstrand, and higher development spending on the CH-53K program at Sikorsky, partially offset by reduced expenditures at Pratt & Whitney on the Joint Strike Fighter development program as it nears completion. The increase in customer-funded research and development spending in 2008, as compared with 2007, relates largely to increased engineering effort in the J-2X propulsion program at Pratt & Whitney Rocketdyne as well as various space programs at Hamilton Sundstrand, while development spending on the Joint Strike Fighter program across the company decreased.

Company-funded research and development spending for 2010 is expected to increase by approximately \$100 million from 2009 levels as a result of shifts in timing of program development activities, primarily in the aerospace businesses.

### Selling, General and Administrative

<i>(in millions of dollars)</i>	2009	2008	2007
Selling, general and administrative	\$ 6,036	\$ 6,724	\$ 6,109
Percentage of sales	11.5%	11.4%	11.1%

The decrease in selling, general and administrative expenses in 2009, as compared with 2008, is due primarily to a continued focus on cost reduction and the impact from restructuring and cost saving initiatives undertaken in 2008 and 2009 in anticipation of adverse economic conditions. As a percentage of sales, selling, general and administrative expenses increased 10 basis points reflecting higher restructuring costs (approximately 30 basis points). The benefit from cost reduction actions in such areas as travel, employee attrition, employee salary related reductions, and the favorable impact of foreign exchange more than offset the adverse impact of the higher restructuring costs.

Increases in selling, general and administrative expenses in 2008 were due primarily to general increases across the businesses in support of higher volumes and the adverse impact of foreign currency translation. The increase in 2008 was further impacted by the effect of increased restructuring charges undertaken in anticipation of the tougher economic climate experienced in 2009, resulting in a 30 basis point increase in selling, general and administrative expenses as a percentage of sales from 2007 to 2008.

### Interest Expense

<i>(in millions of dollars)</i>	2009	2008	2007
Interest expense	\$ 705	\$ 689	\$ 666
Average interest rate during the year			
Short-term borrowings	3.1%	5.6%	6.2%
Total debt	5.8%	5.9%	6.2%

The increase in interest expense in 2009, as compared with 2008, is primarily attributable to higher interest charges related to our deferred compensation plan. Increased interest expense resulting from the issuances of \$1.25 billion and \$1.0 billion of long-term debt in December and May 2008, respectively, was partially offset by lower interest expense resulting from the redemption of \$933 million in notes that were due in 2009 and to the lower cost associated with our commercial paper borrowings. The redemptions and repayments as well as the lower cost of borrowing noted above resulted in a decline in the average interest rate in 2009 as compared with 2008.

Interest expense increased in 2008, as compared with 2007, primarily as a result of the issuances of \$1.0 billion of long-term debt in December 2007, bearing interest at 5.375%, and \$1.0 billion of long-term debt in May 2008, as noted above. This increase was partially offset by lower interest charges related to our deferred compensation plan and lower interest accrued on unrecognized tax benefits. The issuance of \$1.25 billion of long-term debt in December 2008 noted above did not have a significant impact to interest expense in 2008. The average interest rate for commercial paper decreased in 2008 as compared to 2007 generating the decrease in the average short-term borrowing rate. The overall average interest rate declined as the long-term debt issuances noted above were at interest rates lower than existing outstanding obligations.

The weighted-average interest rate applicable to debt outstanding at December 31, 2009 was 4.8% for short-term borrowings and 6.1% for total debt as compared to 5.3% and 5.9%, respectively, at December 31, 2008. The three month LIBOR rate as of December 31, 2009, 2008 and 2007 was 0.3%, 1.4% and 4.7%, respectively.

### Income Taxes

	2009	2008	2007
Effective income tax rate	27.4%	27.1%	28.8%

The effective tax rates for 2009, 2008 and 2007 reflect tax benefits associated with lower tax rates on international earnings, which we intend to permanently reinvest outside the United States. The 2009 effective tax rate increased as compared to 2008 due to the absence of certain discrete items which had a net favorable impact in 2008. The 2009 effective tax rate reflects approximately \$38 million of tax expense reductions relating to re-evaluation of our liabilities and contingencies based on global examination activity during the year including the IRS's completion of 2004 and 2005 examination fieldwork and our related protest filing. As a result of the global examination activity, we recognized approximately \$18 million of associated pre-tax interest income adjustments during 2009.

The 2008 effective tax rate reflects approximately \$62 million of tax expense reductions, principally relating to re-evaluation of our liabilities and contingencies based upon resolution of disputed tax matters with the Appeals Division of the IRS for tax years 2000 through 2003.

The 2007 effective tax rate reflects approximately \$80 million of tax expense reductions, principally relating to re-evaluation of our liabilities and contingencies based upon global examination activity, including the IRS's completion of 2000 through 2003 examination fieldwork and our related protest filing, and development of claims for research and development tax credits. Principal adverse tax impacts to the 2007 effective tax rate related to the previously disclosed EU Fine and enacted tax law changes outside the United States.

We expect our effective income tax rate in 2010 to be approximately 29%, before the impacts of any discrete events.

For additional discussion of income taxes, see "Critical Accounting Estimates – Income Taxes" and Note 10 to the Consolidated Financial Statements.

### Net Income and Earnings Per Share

(in millions of dollars, except per share amounts)	2009	2008	2007
Net income	\$4,179	\$5,053	\$4,548
Less: Noncontrolling interest in subsidiaries' earnings	350	364	324
Net income attributable to common shareowners	\$3,829	\$4,689	\$4,224
Diluted earnings per share	\$ 4.12	\$ 4.90	\$ 4.27

In addition to the decline in net income associated with the overall decline in revenues in 2009, the general strength of the U.S. dollar against certain currencies, such as the Euro, through most of 2009 as compared with 2008 generated an adverse foreign currency impact on our operational results of \$.22 per share in 2009. This year-over-year impact includes a net \$.10 per share adverse impact from both foreign currency translation and hedging at P&WC. At P&WC, the strength of the U.S. dollar in 2009 generated positive foreign currency translation impact as the majority of P&WC's revenues 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. Due to the increase in the strength of the Canadian dollar to the U.S. dollar in early 2008, the hedges previously entered into generated an adverse foreign exchange impact as the U.S. dollar strengthened. As a result of hedging programs currently in place, P&WC's 2010 full year operating results will include a beneficial impact of foreign currency translation, net of



hedging, of approximately \$100 million. In 2008 and 2007, foreign currency translation had a favorable impact of \$.06 and \$.09 per share, respectively. For additional discussion of foreign currency exposure, see "Market Risk and Risk Management – Foreign Currency Exposures." Diluted earnings per share for 2009 were also favorably impacted by approximately \$.03 per share as a result of the shares repurchased since January 1, 2009 under our share repurchase program.

### Restructuring and Other Costs

We recorded net pre-tax restructuring and other costs totaling \$830 million in 2009 and \$357 million in 2008 for new and ongoing restructuring actions. We recorded these charges in the segments as follows:

<i>(in millions of dollars)</i>	2009	2008
Otis	\$158	\$ 21
Carrier	210	140
UTC Fire & Security	112	63
Pratt & Whitney	190	116
Hamilton Sundstrand	88	16
Sikorsky	7	—
Eliminations and other	62	1
General corporate expenses	3	—
<b>Total</b>	<b>\$830</b>	<b>\$357</b>

The 2009 charges include \$420 million in cost of sales, \$364 million in selling, general and administrative expenses and \$46 million in other income and, as described below, primarily relate to actions initiated during 2009 and 2008. Restructuring costs reflected in Eliminations and other largely reflect curtailment charges required under our domestic pension plan due to the significant headcount reductions associated with the various restructuring actions. The 2008 charges include \$148 million in cost of sales, \$205 million in selling, general and administrative expenses and \$4 million in other income. The 2008 charges relate principally to actions initiated during 2008 and, to a lesser extent, residual trailing costs related to certain earlier actions.

Restructuring actions are an essential component of our operating margin improvement efforts and relate to both existing operations and those recently acquired. As a result of the severity of the global economic downturn, the level of restructuring initiated in 2009 was significantly in excess of that incurred in prior years. These actions were initiated to help mitigate the impact of the global economic downturn and better position us for a resumption of earnings growth expected in 2010. When completed, these actions will result in global employment reductions, primarily in overhead and selling, general and administrative functions of approximately 14,600. We have also acquired certain businesses at beneficial values in past years,

such as Kidde and Initial Electronic Security Group (IESG), with the expectation of restructuring the underlying cost structure in order to bring operating margins up to expected levels. Restructuring actions focus on streamlining costs through workforce reductions, the consolidation of manufacturing, sales and service facilities, and the transfer of work to more cost-effective locations. For acquisitions prior to January 1, 2009, the costs of restructuring actions at the acquired company contemplated at the date of acquisition are recorded under purchase accounting and actions initiated subsequently are recorded through operating results. However, effective January 1, 2009 under the Business Combinations Topic of the FASB ASC, restructuring costs associated with a business combination are expensed. We expect to incur approximately \$350 million of restructuring costs in 2010, including approximately \$100 million of trailing costs related to prior actions, associated with our continuing cost reduction efforts and to the integration of acquisitions. Although no specific plans for significant actions have been finalized at this time, we continue to closely monitor the economic environment and may undertake further restructuring actions to keep our cost structure aligned with the demands of the prevailing market conditions.

**2009 Actions** . During 2009, we initiated restructuring actions relating to ongoing cost reduction efforts, including workforce reductions, the consolidation of field operations and the consolidation of repair and overhaul operations. We recorded net pre-tax restructuring and other charges totaling \$802 million as follows: Otis \$157 million, Carrier \$205 million, UTC Fire & Security \$103 million, Pratt & Whitney \$174 million, Hamilton Sundstrand \$90 million, Sikorsky \$7 million, Eliminations and other \$63 million and General corporate expenses \$3 million. The charges included \$389 million in cost of sales, \$368 million in selling, general and administrative expenses and \$45 million in other income. Those costs included \$680 million for severance and related employee termination costs, \$69 million for asset write-downs and \$53 million for facility exit and lease termination costs.

We expect the 2009 actions to result in net workforce reductions of approximately 14,600 hourly and salaried employees, the exiting of approximately 4.5 million net square feet of facilities and the disposal of assets associated with the exited facilities. As of December 31, 2009, we have completed net workforce reductions of approximately 11,100 employees, and 1.1 million net square feet of facilities have been exited. We are targeting the majority of the remaining workforce and facility related cost reduction actions for completion during 2010 and 2011. Approximately 60% of the total pre-tax charge will require cash payments, which we will fund with cash generated from operations. During 2009, we had cash outflows of approximately \$324 million related to the 2009 actions. We expect to incur

additional restructuring and other charges of \$97 million to complete these actions. We expect recurring pre-tax savings to increase over the two-year period subsequent to initiating the actions to approximately \$700 million annually, of which approximately \$280 million was realized in 2009.

On September 21, 2009, Pratt & Whitney announced plans to close a repair facility and an engine overhaul facility in Connecticut. For additional information concerning litigation related to Pratt & Whitney's decision to close these two facilities, see Part I, Item 3, "Legal Proceedings" in our Form 10-K.

**2008 Actions .** During 2009, we recorded net pre-tax restructuring and other charges and reversals of \$26 million for actions initiated in 2008. The 2008 actions relate to ongoing cost reduction efforts, including selling, general and administrative reductions and the consolidation of manufacturing facilities. We recorded the charges (reversals) in 2009 as follows: Otis \$1 million, Carrier \$5 million, UTC Fire & Security \$9 million, Pratt & Whitney \$16 million, Hamilton Sundstrand (\$4 million) and Eliminations and other (\$1 million). The charges and (reversals) included \$29 million in cost of sales, (\$4 million) in selling, general and administrative expenses and \$1 million in other income. Those costs and reversals included \$6 million for severance and related employee

termination costs, \$1 million for asset write-downs and \$19 million for facility exit and lease termination costs.

We expect the 2008 actions to result in net workforce reductions of approximately 6,200 hourly and salaried employees, the exiting of approximately 1.2 million net square feet of facilities and the disposal of assets associated with the exited facilities. As of December 31, 2009, we have completed net workforce reductions of approximately 6,100 employees and exited 700,000 net square feet of facilities. We are targeting the majority of the remaining workforce and all facility related cost reduction actions for completion during 2010. Approximately 65% of the total pre-tax charge will require cash payments, which we will fund with cash generated from operations. During 2009, we had cash outflows of approximately \$109 million related to the 2008 actions. We expect to incur additional restructuring and related charges of \$2 million to complete these actions. We expect recurring pre-tax savings to increase over the two-year period subsequent to initiating the actions to approximately \$400 million annually.

For additional discussion of restructuring, see Note 12 to the Consolidated Financial Statements.

## Segment Review

<i>(in millions of dollars)</i>	Revenues			Operating Profits			Operating Profit Margin		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Otis	\$11,779	\$12,949	\$11,885	\$2,447	\$2,477	\$2,321	20.8%	19.1%	19.5%
Carrier	11,413	14,944	14,644	740	1,316	1,381	6.5%	8.8%	9.4%
UTC Fire & Security	5,531	6,462	5,754	493	542	443	8.9%	8.4%	7.7%
Pratt & Whitney	12,577	14,041	13,086	1,835	2,122	2,011	14.6%	15.1%	15.4%
Hamilton Sundstrand	5,599	6,207	5,636	857	1,099	967	15.3%	17.7%	17.2%
Sikorsky	6,318	5,368	4,789	608	478	373	9.6%	8.9%	7.8%
Total segment	53,217	59,971	55,794	6,980	8,034	7,496	13.1%	13.4%	13.4%
Eliminations and other	(297)	(214)	(78)	(167)	(1)	(60)			
General corporate expenses	—	—	—	(348)	(408)	(386)			
Consolidated	\$52,920	\$59,757	\$55,716	\$6,465	\$7,625	\$7,050	12.2%	12.8%	12.7%

## Commercial Businesses

The financial performance of our commercial businesses can be 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, tightening of credit markets and other global and political factors. Carrier's financial performance can also be influenced by production and utilization of transport equipment, and for its residential business, weather conditions. Geographic and industry

diversity across the commercial businesses help to balance the impact of such factors on our consolidated operating results; however, the weak underlying global economic conditions across all markets in 2009 continued to adversely impact the commercial businesses to varying degrees with the most significant effects experienced at Carrier. A stronger U.S. dollar as compared to 2008, weak commercial construction, and weak demand in end markets have all posed operating challenges. While year-over-year order rates have largely stabilized at the end of 2009, with some improvement in the rates of decline compared to those

experienced earlier in the year, the commercial construction market globally is expected to remain weak in 2010.

In 2009, 70% of total commercial business revenues were generated outside the United States, as compared to 72% in 2008. The following table shows revenues generated outside the United States for each of the commercial business segments:

	2009	2008
Otis	80%	80%
Carrier	55%	60%
UTC Fire & Security	82%	83%

**Otis** is the world's largest elevator and escalator manufacturing, installation and service company. Otis designs, manufactures, sells and installs a wide range of passenger and freight elevators for low-, medium- and high-speed applications, as well as a broad line of escalators and moving walkways. In addition to new equipment, Otis provides modernization products to upgrade elevators and escalators as well as maintenance services for both its products and those of other manufacturers. Otis serves customers in the commercial and residential property industries around the world. Otis sells directly to the end customer and, to a limited extent, through sales representatives and distributors.

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

	2009		2008	
	Revenues	Operating Profits	Revenues	Operating Profits
Organic revenue/ Operational operating profit	(6)%	6%	7%	9%
Foreign currency translation	(4)%	(4)%	3%	5%
Acquisitions and divestitures, net	1%	—	—	—
Restructuring	—	(6)%	—	—
Other	—	3%	(1)%	(7)%
Total % Change	(9)%	(1)%	9%	7%

#### 2009 Compared with 2008

Otis's revenues decreased \$1,170 million (9%) in 2009, as compared with 2008. The organic revenue decline was attributable to a decrease in new equipment sales as difficult economic conditions adversely impacted global construction. New equipment orders declined 31% versus the prior year, which contributed to lower new equipment sales across all geographic regions. Otis's operating profits decreased \$30 million (1%) in 2009, as compared with 2008. Operational profit improvement resulted from increased volume and improved margins in the contractual maintenance business, lower commodity costs and the benefits from aggressive cost reduction initiatives. The 3% increase contributed by "Other" in 2009 reflects a gain recognized in the second quarter of 2009 on the re-measurement to fair value of a previously held equity interest in a joint venture resulting from

the purchase of a controlling interest, and the absence of provisions for certain accounting issues discovered at a subsidiary in Brazil in late 2008.

#### 2008 Compared with 2007

Otis's revenues increased \$1,064 million (9%) in 2008, as compared with 2007. Organic revenue growth reflected increased new equipment and service volume, aided by the strong new equipment backlog entering 2008, as well as higher modernization and repair sales in North America and Europe, the latter benefiting from changes to elevator safety laws in France and Spain. The 1% decrease in "Other" reflects the absence of gains on the sale of land and a non-core business recorded in 2007. Otis's operating profits increased \$156 million (7%) in 2008, as compared with 2007. Operational profit improvement resulted from higher volumes, product cost reductions and improved field installation efficiencies as partially offset by higher commodity and labor costs. The 7% decrease contributed by "Other" in 2008, as compared to the same period of the prior year, reflects the absence in 2008 of gains realized on the sale of land and a non-core business in 2007 (combined 5%) and by provisions for certain accounting issues (2%) discovered at a subsidiary in Brazil in late 2008. Otis concluded its investigation into the Brazilian matter in early 2009.

**Carrier** is the world's largest provider of HVAC and refrigeration solutions, including controls for residential, commercial, industrial and transportation applications. Carrier also provides installation, retrofit and aftermarket services for the products it sells and those of other manufacturers in the HVAC and refrigeration industries. In 2009, as part of its business transformation strategy, Carrier completed divestitures of several lower-margin businesses, acquired several higher-margin service businesses, and formed ventures in parts of the U.S., Europe, the Middle East and Australia. This included the acquisition of StrionAir, a leading air purification technology company, Logical Automation, a leading building automation controls company, and the formation of Carrier Enterprise, LLC, a venture with Watsco, Inc., to distribute Carrier, Bryant, Payne and Totaline residential and light commercial HVAC products in the U.S. sunbelt region and selected territories in the Caribbean and Latin America. Carrier also integrated into its operations UTC Power's micro-turbine-based combined cooling, heating and power systems business. Carrier's products and services are sold under Carrier and other brand names to building contractors and owners, homeowners, transportation companies, retail stores and food service companies. Carrier sells directly to the end customer and through manufacturers' representatives, distributors, wholesalers, dealers and retail outlets. Certain of Carrier's HVAC businesses are seasonal and can be impacted by weather. Carrier customarily offers its customers incentives to purchase products to ensure an adequate supply of its products in the distribution channels.

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

	2009		2008	
	Revenues	Operating	Revenues	Operating
		Profits		Profits
Organic revenue/ Operational operating profit	(16)%	(34)%	(1)%	(5)%
Foreign currency translation	(3)%	(1)%	2%	4%
Acquisitions and divestitures, net	(5)%	(3)%	1%	1%
Restructuring	—	(5)%	—	(8)%
Other	—	(1)%	—	3%
<b>Total % Change</b>	<b>(24)%</b>	<b>(44)%</b>	<b>2%</b>	<b>(5)%</b>

#### *2009 Compared with 2008*

Carrier's revenues decreased \$3,531 million (24%) in 2009, as compared with 2008. The decline in organic revenues is a result of continued weak market conditions across all businesses, particularly the higher-margin transport refrigeration business where organic revenues declined 37% in 2009. Carrier's operating profits decreased \$576 million (44%) in 2009 compared with 2008 as almost all businesses experienced earnings declines due to unfavorable market conditions. The operational profit decrease was primarily due to the volume decline (57%), especially in our higher margin businesses, the adverse cost impact from worldwide currency shifts (5%), and lower equity income from a joint venture in Japan (2%). These adverse impacts were partially offset by the favorable impact from aggressive cost reduction and restructuring actions, and lower net commodity costs (net combined 30%). The 1% decrease in "Other" primarily reflects lower gains from net acquisition and divestiture activities. The decrease contributed by "Acquisitions and divestitures, net" for both revenues and operating profits reflects the net year-over-year operational impact from acquisitions and divestitures completed in the preceding twelve months, including the transaction with Watsco, Inc.

#### *2008 Compared with 2007*

Carrier's revenues increased \$300 million (2%) in 2008, as compared with 2007. The decline in organic revenue was due to weak end markets in the Refrigeration business and a decline in the Residential and Light Commercial Systems business in North America resulting from the continued weakness in the U.S. housing market. These decreases more than offset growth in the Building Systems and Services business while the Residential and Light Commercial International business was essentially flat. The year-over-year impact from a gain generated on the contribution of a business into a new venture operating in the Middle East and the Commonwealth of Independent States was essentially offset by the absence of a gain in 2007 on the disposition of Carrier's Fincoil-teollisuus Oy (Fincoil) heat exchanger business. Carrier's operating profits decreased \$65 million (5%) in 2008, as compared with 2007. The operational profit decrease primarily reflects the adverse impact of higher commodity costs, net of pricing of approximately \$71 million. Profit growth in Building

Systems and Services, product cost reductions, and benefits from prior restructuring actions, were more than offset by lower earnings in the Refrigeration and Residential and Light Commercial Systems International businesses and the adverse impact of higher costs on cross border transactions (4%), as a result of significant currency shifts experienced during the year. The 3% increase contributed by "Other" primarily reflects the absence of the adverse impact of a 2007 settlement of a gas furnace litigation matter. A gain generated in 2008 from the contribution of a business to a new venture (5%) was mostly offset by the absence of a gain (4%) recorded in 2007 on the disposition of Fincoil.

**UTC Fire & Security** is a global provider of security and fire safety products and services. We created the UTC Fire & Security segment in the second quarter of 2005 upon acquiring Kidde and adding the Kidde industrial, retail and commercial fire safety businesses to the former Chubb segment. UTC Fire & Security provides electronic security products such as intruder alarms, access control systems and video surveillance systems and designs and manufactures a wide range of fire safety products including specialty hazard detection and fixed suppression products, portable fire extinguishers and other firefighting equipment. Services provided to the electronic security and fire safety industries include systems integration, installation, maintenance and inspection services. UTC Fire & Security also provides monitoring, response and security personnel services, including cash-in-transit security, to complement its electronic security and fire safety businesses. In November 2009, we entered into an agreement with GE to purchase the GE Security business. Subject to regulatory approvals and the satisfaction of customary closing conditions, the closing is anticipated to take place early in the second quarter of 2010. GE Security, part of GE Technology Infrastructure, supplies security and fire safety technologies for commercial and residential applications through a broad product portfolio that includes fire detection and life safety systems, intrusion alarms, video surveillance and access control systems. We intend to incorporate the GE Security business within the UTC Fire & Security segment, which will significantly enhance UTC Fire & Security's geographic diversity with GE Security's strong North American presence and increased product and technology offerings. UTC Fire & Security products and services are used by governments, financial institutions, architects, building owners and developers, security and fire consultants and other end-users requiring a high level of security and fire protection for their businesses and residences. In 2009, we also completed the acquisition of GST Holdings Limited (GST), a fire alarm provider in China. With the acquisition of the remaining 71% of the outstanding shares of GST, UTC Fire & Security further strengthened its presence in the Chinese fire safety industry. UTC Fire & Security provides its products and services under Chubb, Kidde and other brand names and sells



directly to the customer as well as through manufacturer representatives, distributors, dealers and U.S. retail distribution.

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

	2009		2008	
	Revenues	Operating Profits	Revenues	Operating Profits
Organic revenue/ Operational operating profit	(7)%	4%	3%	18%
Foreign currency translation	(6)%	(9)%	—	(1)%
Acquisitions and divestitures, net	(1)%	4%	9%	11%
Restructuring	—	(9)%	—	(5)%
Other	—	1%	—	(1)%
<b>Total % Change</b>	<b>(14)%</b>	<b>(9)%</b>	<b>12%</b>	<b>22%</b>

#### *2009 Compared with 2008*

UTC Fire & Security's revenues decreased \$931 million (14%) in 2009, as compared with 2008. Organic revenue contraction (7%) was primarily caused by declines in both the Americas and United Kingdom Fire Safety and Electronic Security businesses. UTC Fire & Security's operating profits decreased \$49 million (9%) in 2009, as compared with 2008. The operational profit improvement (4%) was due principally to the integration of field operations, the benefits of net cost reductions from previous restructuring actions, and the integration and continuing productivity and cost control initiatives which, combined, more than offset the impact of the lower revenues. The increase contributed by acquisitions and divestitures reflects the net year-over-year impact from acquisition and divestitures completed in the preceding twelve months, including the third quarter of 2009 acquisition of additional shares of GST, a fire alarm system provider in China.

#### *2008 Compared with 2007*

UTC Fire & Security's revenues increased \$708 million (12%) in 2008, as compared with 2007. Organic revenue growth (3%) was primarily contributed by the North American and European Fire Safety businesses (2%) due to strength in the oil & gas and marine industries and in Asia. UTC Fire & Security's operating profits increased \$99 million (22%) in 2008, as compared with 2007. The operational profit improvement (18%) was due principally to increased sales volume, the benefits of net cost reductions from previous restructuring and integration and continuing productivity initiatives.

#### **Aerospace Businesses**

The financial performance of Pratt & Whitney, Hamilton Sundstrand and Sikorsky is directly tied to the economic conditions of the commercial aerospace and defense industries. In particular, Pratt & Whitney experiences intense competition for new commercial airframe/engine combinations. Engine suppliers

may offer substantial discounts and other financial incentives, performance and operating cost guarantees, participation in financing arrangements and maintenance agreements. At times, the aerospace businesses also enter into firm fixed-price development contracts, which may require the company to bear cost overruns related to unforeseen technical and design challenges that arise during the development stage of the program. Customer selections of engines and components can also have a significant impact on later sales of parts and service. Predicted traffic levels, load factors, worldwide airline profits, general economic activity and global defense spending have been reliable indicators for new aircraft and aftermarket orders within the aerospace industry. Spare part sales and aftermarket service trends are affected by many factors, including usage, technological improvements, pricing, regulatory changes and the retirement of older aircraft. Performance in the general aviation sector is closely tied to the overall health of the economy and is positively correlated to corporate profits.

The weak global economic conditions and reduced air travel experienced by the global aerospace industry in 2009 imposed a difficult operating environment and resulted in significant losses for most airlines. As a result, airframers have seen lower levels of orders for aircraft compared to 2008. Due to the weak demand for business and general aviation aircraft, as corporations have cut back on discretionary spending, business jet OEMs experienced lower order levels. Accordingly, business jet OEMs made downward revisions to their production schedules, resulting in additional pressure on P&WC. These factors have led to a 21% decrease in 2009 year-over-year engine shipments at P&WC, with continued declines expected in 2010. In an effort to combat the impact of the economic environment experienced in 2009, airlines slashed ticket prices to lure travelers, reduced capacity by idling some aircraft, retired older and less fuel efficient aircraft, and have delayed orders and deliveries of new planes. Continued weak passenger and cargo traffic, capacity reductions, lower aircraft utilization, and cash conservation measures at some airlines have led to a corresponding decrease in commercial aerospace aftermarket volume at both Pratt & Whitney and Hamilton Sundstrand, and accordingly, consolidated commercial aerospace aftermarket revenue declined 13% in 2009 as compared to 2008. This includes an approximately 25% decline in Pratt & Whitney commercial spares sales in 2009, as compared with 2008. We expect commercial aerospace aftermarket revenues will grow in 2010, although at a moderate rate.

While we have seen improving comparable airline traffic trends in the second half of 2009, full year 2009 airline traffic contracted approximately 3% compared to being essentially flat in 2008. Although we project airline traffic growth in 2010, lower business



and first class travel are expected to continue to put significant pressure on airline profitability. As a result, airlines are expected to continue to remain in a cash conservation mode. Our expectation is that the 2010 airframer production rates will be slightly lower than 2009 levels as a result of the pressure on airline profitability and financing issues facing both the airlines and the business jet market.

The contraction in the global liquidity markets has adversely impacted the ability of commercial customers to obtain financing for helicopters. During 2009, there were several cancellations of commercial orders and total commercial helicopter deliveries were down approximately 20%. However, strong government military spending is continuing to drive military helicopter demand and, as a result, Sikorsky's military backlog remains very strong. Across all segments, military OEM volume increased 20% in 2009, as compared with 2008, led by Sikorsky. As a result of the strong military helicopter demand and our existing backlogs, we expect further growth in helicopter deliveries in 2010. Total sales to the U.S. government of \$9.3 billion, \$8.0 billion, and \$7.5 billion in 2009, 2008, and 2007, respectively, were 18% of total UTC sales in 2009 and 14% in both 2008 and 2007. The defense portion of our aerospace business is affected by changes in market demand and the global political environment. Our participation in long-term production and development programs for the U.S. government has contributed positively to our results in 2009 and is expected to continue to benefit results in 2010.

**Pratt & Whitney** is among the world's leading suppliers of aircraft engines for the commercial, military, business jet and general aviation markets. Pratt & Whitney's Global Services organization provides maintenance, repair and overhaul services, including the sale of spare parts, as well as fleet management services for large commercial engines. Pratt & Whitney produces families of engines for wide and narrow body aircraft in the commercial and military markets. Pratt & Whitney also sells engines for industrial applications and space propulsion systems. P&WC is a world leader in the production of engines powering business, regional, light jet, utility and military aircraft and helicopters. Pratt & Whitney Rocketdyne (PWR) is a leader in the design, development and manufacture of sophisticated aerospace propulsion systems for military and commercial applications, including the U.S. space shuttle program. Pratt & Whitney's products are sold principally to aircraft manufacturers, airlines and other aircraft operators, aircraft leasing companies, space launch vehicle providers and U.S. and foreign governments. Pratt & Whitney's products and services must adhere to strict regulatory and market driven safety and performance standards. The frequently changing nature of these standards, along with the long duration of aircraft engine

programs, creates uncertainty regarding engine program profitability. The vast majority of sales are made directly to the end customer and, to a limited extent, through independent distributors and foreign sales representatives.

Both Mitsubishi Heavy Industries Ltd. (MHI) and Bombardier selected Pratt & Whitney's PurePower engine to exclusively power their new aircraft. Both the Mitsubishi Regional Jet and the Bombardier C Series family of passenger aircraft are scheduled to enter service in 2013. Irkut Corporation selected the PurePower to power their planned new MC-21 single aisle aircraft. The PurePower engine family, featuring Geared Turbofan (GTF) technology targets a significant reduction in fuel burn and noise levels with lower environmental emissions and operating costs than current production of advanced turbofan engines. Ground and flight testing for the PurePower demonstrator engine was successfully completed in 2009. The success of these aircraft and the PurePower engine is dependent upon many factors including technological challenges, aircraft demand, and regulatory approval. Based on these factors, additional investment in the PurePower program will be required, with potential additional investment in the underlying aircraft programs being dependent on successful launch by the air-framers and other conditions.

In view of the risks and costs associated with developing new engines, Pratt & Whitney has entered into collaboration agreements in which revenues, costs and risks are shared. At December 31, 2009, the interests of participants in Pratt & Whitney-directed jet engine programs ranged from 14% to 48%. In addition, Pratt & Whitney has interests in other engine programs, including a 33% interest in the International Aero Engines (IAE) collaboration that sells and supports V2500® engines for the Airbus A320 family of aircraft. At December 31, 2009, a portion of Pratt & Whitney's interest in IAE (equivalent to 4% of the overall IAE collaboration) was held by other participants. Pratt & Whitney also has a 50% interest in the Engine Alliance (EA), a joint venture with GE Aviation, undertaken to develop, market and manufacture the GP7000 engine for the Airbus A380 aircraft. At December 31, 2009, 40% of Pratt & Whitney's 50% interest in the EA was held by other participants. During 2009, we also entered into collaboration arrangements for the above mentioned PurePower engine programs. Effective January 1, 2009, we have adopted the Collaborative Arrangements Topic of the FASB ASC, which requires that participants in a collaborative arrangement report costs incurred and revenues generated from the arrangement on a gross basis in the appropriate line items in each company's financial statements. For additional discussion, see Note 15 to the Consolidated Financial Statements.

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

	2009		2008	
	Revenues	Operating Profits	Revenues	Operating Profits
Organic revenue */ Operational operating profit *	(8)%	(5)%	7%	13%
Foreign currency (including P&WC net hedging) *	(2)%	(6)%	—	(3)%
Restructuring	—	(3)%	—	(3)%
Other	—	—	—	(1)%
<b>Total % Change</b>	<b>(10)%</b>	<b>(14)%</b>	<b>7%</b>	<b>6%</b>

\* As discussed further in the "Business Overview" and "Results of Operations" sections of Management's Discussion and Analysis of Financial Condition and Results of Operations, for Pratt & Whitney only, the transactional impact of foreign exchange hedging at P&WC has been netted against the translational foreign exchange impact for presentation purposes in the above table. For all other segments, these foreign exchange transactional impacts are included within the organic revenue/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.

#### 2009 Compared with 2008

Pratt & Whitney's revenues decreased \$1,464 million (10%) in 2009, as compared with 2008. The decrease is primarily attributable to decreased engine shipments and lower aftermarket volume at P&WC (4%), lower commercial spares and aftermarket volume (4%), and the adverse impact of net hedging activity (2%). Pratt & Whitney's operating profits decreased \$287 million (14%) in 2009, as compared with 2008. The operational decline (5%) was primarily driven by lower aftermarket volumes and decreased engine shipments in the large commercial engine business (9%) and at P&WC (5%), partially offset by the favorable impact of lower research and development spending (6%) and the profit contribution from higher military engine volumes (2%).

#### 2008 Compared with 2007

Pratt & Whitney's revenues increased \$955 million (7%) in 2008, as compared with 2007. This increase is primarily attributable to higher engine deliveries at P&WC (4%), increased commercial engine revenue and aftermarket services volume, partially offset by commercial spares (net combined 1%), and increased volume at Pratt & Whitney Power Systems (1%). Increased volume at PWR (1%) was offset by lower military engine volumes. Pratt & Whitney's operating profits increased \$111 million (6%) in 2008, as compared with 2007. The operational profit increase (13%) is primarily attributable to the profit contributions from higher engine deliveries and favorable engine mix at P&WC (7%) and increased volume at PWR (2%). The majority of the remainder of the operational profit increase reflects the favorable impact of commercial engine mix, a commercial engine program adjustment, and lower net commodity costs (combined 3%). The 1% decrease in "Other" reflects the absence of the favorable impact of a contract termination in 2007 (3%) partially offset by a gain in 2008 from the sale of a partial investment (2%).

Hamilton Sundstrand is among the world's leading suppliers of technologically advanced aerospace and industrial products and aftermarket services for diversified industries worldwide. Hamilton Sundstrand's aerospace products, such as power generation, management and distribution systems, flight systems, engine control systems, environmental control systems, fire protection and detection systems, auxiliary power units and propeller systems, serve commercial, military, regional, business and general aviation, as well as military ground vehicle, space and undersea applications. In 2009, UTC completed the transition of the program management of UTC Power's space and defense fuel cell power plant business to Hamilton Sundstrand's energy, space and defense business. Aftermarket services include spare parts, overhaul and repair, engineering and technical support and fleet maintenance programs. Hamilton Sundstrand sells aerospace products to airframe manufacturers, the U.S. and foreign governments, aircraft operators and independent distributors. Hamilton Sundstrand's principal industrial products, such as air compressors, metering pumps and fluid handling equipment, serve industries involved with chemical and hydrocarbon processing, oil and gas production, water and wastewater treatment and construction. Hamilton Sundstrand sells these products under the Sullair, Sundyne, Milton Roy and other brand names directly to end users, and through manufacturer representatives and distributors.

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

	2009		2008	
	Revenues	Operating Profits	Revenues	Operating Profits
Organic revenue/ Operational operating profit	(7)%	(11)%	9%	7%
Foreign currency translation	(1)%	(1)%	1%	1%
Acquisitions and divestitures, net	(2)%	(1)%	(1)%	—
Restructuring	—	(7)%	—	1%
Other	—	(2)%	1%	5%
<b>Total % Change</b>	<b>(10)%</b>	<b>(22)%</b>	<b>10%</b>	<b>14%</b>

#### 2009 Compared with 2008

Hamilton Sundstrand's revenues decreased \$608 million (10%) in 2009, as compared with 2008. The organic revenue decline reflects lower volumes in both the industrial (4%) and aerospace (3%) businesses. The decrease within aerospace was primarily attributable to aftermarket volume declines. Hamilton Sundstrand's operating profits decreased \$242 million (22%) in 2009, as compared with 2008. The decrease in operational profit reflects declines in the aerospace (13%) and industrial (4%) businesses, partially offset by lower year-over-year research and development costs (6%). The 2% decrease in "Other" primarily reflects the net year-over-year impact of gains recognized in 2008 relating to divestiture activities.

### 2008 Compared with 2007

Hamilton Sundstrand's revenues increased \$571 million (10%) in 2008, as compared with 2007. The organic revenue growth reflects volume growth in both the aerospace (7%) and industrial (2%) businesses. The increase within aerospace was primarily attributable to OEM volume growth. Hamilton Sundstrand's operating profits increased \$132 million (14%) in 2008, as compared with 2007. The increase in operational profit reflects growth in the aerospace (6%) and industrial businesses (2%), partially offset by higher year-over-year research and development costs (1%). The 5% increase contributed by "Other" primarily reflects the favorable impact of gains related to divestiture activity (3%).

**Sikorsky** is one of the world's largest manufacturers of military and commercial helicopters and also provides aftermarket helicopter and aircraft parts and services. Current major production programs at Sikorsky include the UH-60M Black Hawk medium-transport helicopters and HH-60M Medevac helicopters for the U.S. and foreign governments, the S-70 Black Hawk for foreign governments, the MH-60S and MH-60R helicopters for the U.S. Navy, the International Naval Hawk for multiple naval missions, and the S-76 and the S-92 helicopters for commercial operations. The UH-60M helicopter is the latest and most modern in a series of Black Hawk variants that Sikorsky has been delivering to the U.S. Army since 1978 and requires significant additional assembly hours relative to the previous variants. In December 2007, the U.S. government and Sikorsky signed a five-year, multi-service contract for 537 H-60 helicopters to be delivered to the U.S. Army and U.S. Navy, which include the UH-60M, HH-60M, MH-60S and MH-60R aircraft. The contract value for expected deliveries over the five year term is approximately \$8.2 billion and includes options for an additional 263 aircraft, spares, and kits, with the total contract value potentially reaching \$11.6 billion making it the largest contract in UTC and Sikorsky history. Actual production quantities will be determined year by year over the life of the program based on funding allocations set by Congress and Pentagon acquisition priorities. The deliveries of the aircraft are scheduled to be made through 2012. Sikorsky is also developing the CH-53K next generation heavy lift helicopter for the U.S. Marine Corps and the CH-148, a derivative of the H-92 helicopter, a military variant of the S-92 helicopter, for the Canadian government. The latter is being developed under an approximately \$3 billion firm, fixed-price contract that provides for the development, production, and 22-year logistical support of 28 helicopters. This is the largest and most expansive fixed-price development contract in Sikorsky's history. In December 2008, Sikorsky and the Canadian government executed amendments to the contract that revised the delivery schedule and contract specifications. The first test flight was successfully conducted in November 2008 and the contract provides for delivery of the first interim configuration

helicopter in the fourth quarter of 2010. Sikorsky is in discussions with the Canadian government concerning an anticipated delay in completing certain elements of the specification for the interim aircraft. Sikorsky's aftermarket business includes spare parts sales, overhaul and repair services, maintenance contracts, and logistics support programs for helicopters and other aircraft. Sales are made directly by Sikorsky and by its subsidiaries and joint ventures. Sikorsky is increasingly engaging in logistics support programs and partnering with its government and commercial customers to manage and provide maintenance and repair services.

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

	2009		2008	
	Revenues	Operating Profits	Revenues	Operating Profits
Organic revenue/				
Operational operating profit	18%	36%	12%	31%
Acquisitions and divestitures, net	—	—	—	(1)%
Restructuring	—	(1)%	—	(1)%
Other	—	(8)%	—	(1)%
<b>Total % Change</b>	<b>18%</b>	<b>27%</b>	<b>12%</b>	<b>28%</b>

### 2009 Compared with 2008

Sikorsky's revenues increased \$950 million (18%) in 2009, as compared with 2008. The organic revenue increase was primarily driven by higher volumes of military aircraft deliveries partially offset by a reduction in commercial aircraft sales due to a competitive marketplace. Sikorsky's operating profits increased \$130 million (27%) in 2009, as compared with 2008. The operational profit improvement was primarily attributable to increased aircraft deliveries and favorable aircraft mix (41%) within the military market, partially offset by reduced operational profit (10%) within commercial operations due primarily to a competitive marketplace. The remainder of the increase is primarily comprised of favorable contract adjustments. The 8% decrease in "Other" primarily reflects the adverse impact associated with a new union contract.

### 2008 Compared with 2007

Sikorsky's revenues increased \$579 million (12%) in 2008, as compared with 2007. The organic revenue increase was due to the higher volume of military aircraft deliveries and a favorable aircraft mix between military and commercial programs. Sikorsky's operating profits increased \$105 million (28%) in 2008, as compared with 2007. The operational profit improvement was primarily attributable to increased military aircraft deliveries and favorable aircraft mix for both military and commercial programs (combined 42%) partially offset by increased selling, general, and administrative expenses (7%) and research and development (6%).

### Eliminations and other

Eliminations and other reflects the elimination of revenues and operating profit transacted between segments, as well as the operating results of certain smaller businesses such as UTC Power. The revenues reduction of \$214 million in 2008 increased to \$297 million in 2009 largely as a result of the transfer of certain programs from UTC Power to Carrier, Pratt & Whitney and Hamilton Sundstrand. The increase in the operating profit elimination in 2009, as compared with 2008, is primarily attributable to curtailment charges related to the impact of headcount reductions on the domestic pension plans, and to increased inventory reserves and project related reserves recorded at UTC Power.

### General corporate expenses

General corporate expenses declined in 2009 as compared with 2008 as a result of lower corporate office expenses associated with restructuring actions undertaken and a focus on cost reduction efforts during 2009.

### Liquidity and Financial Condition

<i>(in millions of dollars)</i>	2009	2008
Cash and cash equivalents	\$ 4,449	\$ 4,327
Total debt	9,744	11,476
Net debt (total debt less cash and cash equivalents)	5,295	7,149
Total equity <sup>1</sup>	20,999	16,681
Total capitalization (debt plus equity) <sup>1</sup>	30,743	28,157
Net capitalization (debt plus equity less cash and cash equivalents) <sup>1</sup>	26,294	23,830
Debt to total capitalization <sup>1</sup>	32%	41%
Net debt to net capitalization <sup>1</sup>	20%	30%

**Note 1** As of January 1, 2009, we adopted the provisions under the Consolidation Topic of the FASB ASC as it relates to the accounting and reporting standards for noncontrolling interests (previously referred to as minority interests) in consolidated subsidiaries as reported in consolidated financial statements. These provisions require that the carrying value of noncontrolling interests be removed from the mezzanine section of the balance sheet and reclassified as equity. As a result of this adoption, we reclassified noncontrolling interests in the amount of \$918 million from the mezzanine section to equity in the December 31, 2008 consolidated balance sheet. In addition, we adopted the FASB Accounting Standards Update (ASU) for redeemable equity instruments, applicable for all noncontrolling interests with redemption features, such as put options, that are not solely within our control (redeemable noncontrolling interest). The standards require redeemable noncontrolling interest to be reported in the mezzanine equity section of the consolidated balance sheet at the greater of redemption value or initial carrying value. As a result of this adoption, we have classified certain "redeemable noncontrolling interests" in the mezzanine section in the accompanying consolidated balance sheets and have increased them to redemption value, where required, resulting in a \$154 million decrease to equity in the December 31, 2008 consolidated balance sheet. Additional discussion of the accounting for noncontrolling interests is included in Note 9 to the Consolidated Financial Statements.

Our debt to total capitalization and net debt to net capitalization levels improved substantially during 2009. As discussed further below, total debt was reduced by approximately \$1.7 billion, including the repayment of \$933 million of notes that were due in

2009. Additionally, our equity position benefited from the reclassification of noncontrolling interests required by the Consolidations Topic of the FASB ASC, and from the reversal of unrealized losses recorded through Accumulated Other Comprehensive Income (Loss) in Equity. Due to the poor global equity market performance in 2008, we recorded \$6.5 billion of unrealized losses in equity, reflecting approximately \$4.2 billion of pension and postretirement benefit plans losses, resulting from changes in the valuation of pension assets, and approximately \$2 billion of negative foreign currency translation adjustments. During 2009, improvements to the equity markets resulted in the reversal of approximately \$1.1 billion of these losses. Lastly, with the strength of the U.S. dollar during most of 2009, approximately \$1.0 billion of positive foreign currency translation adjustments were recorded through equity.

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 shareholders. 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.

Distress in the financial markets over most of the last two years has had an adverse impact on financial market activities including, among other things, the creation of extreme volatility in security prices, severely diminishing liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. We have assessed the implications of these factors on our current business, are closely monitoring the impact on our customers and suppliers, and have determined that while there has been some impact to working capital, overall there has not been a significant effect on our financial position, results of operations or liquidity during 2009. Our pension plans have not experienced any significant impact on liquidity or counterparty exposure due to the volatility in the credit markets. As a result of losses experienced in the global equity markets in 2008, our domestic pension funds experienced a negative return on assets of approximately 27% in 2008. The negative return on our domestic plans in 2008 combined with a change in discount rate in the prior year increased pension costs by approximately \$225 million in 2009 as compared to 2008. The equity markets improved substantially during the course of 2009, resulting in a 21% positive return on assets for 2009. As a result of the positive returns, additional funding during 2009, and a change to the final average earnings formula (as discussed in "Critical Accounting



Estimates”), pension expense in 2010 is expected to be slightly lower than 2009 levels.

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.

As discussed further below, our strong debt ratings and financial position have historically enabled us to issue long-term debt at favorable market rates, including the \$1.0 billion of long-term debt issuance in May 2008 and \$1.25 billion of long-term debt issuance in December 2008. We used the net proceeds from our December 2008 issuance of \$1.25 billion in long-term debt to repay a portion of our outstanding commercial paper borrowings at that time, as well as a portion of our outstanding borrowings from our multicurrency revolving credit facility. In February 2009, we redeemed the entire \$500 million outstanding principal amount of our LIBOR+.07% floating rate notes that were due June 1, 2009 at a redemption price in U.S. dollars equal to 100% of the principal amount, plus interest accrued. On June 1, 2009, we repaid our \$400 million of 6.500% notes due 2009 which matured on the same date. In December 2009, we redeemed the entire \$33 million outstanding principal amount of our 7.675% ESOP debt that was due December 10, 2009 at a redemption price in U.S. dollars equal to 100% of the principal amount, plus interest accrued.

Our ability to obtain debt financing at comparable risk-based interest rates is partly a function of our existing cash-flow-to-debt and debt-to-capitalization levels as well as our current credit standing. Our credit ratings are reviewed regularly by major debt rating agencies such as Standard and Poor’s, Moody’s Investors Service and Fitch Ratings. In reports published in 2009, Standard and Poor’s affirmed our short-term debt rating as A-1 and our long-term debt rating as A, respectively. Similarly, in 2009, Moody’s Investors Service also affirmed its corporate rating on our short-term debt rating as P-1 and our long-term debt rating as A2. Fitch Ratings also published data in 2009, affirming UTC’s short-term debt rating as F1 and our long-term debt rating as A+. In November 2009 Standard and Poor’s, Moody’s Investors Service and Fitch Ratings all confirmed their respective ratings and stated those ratings would not change as a result of the pending acquisition of GE Security. 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 continued 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.

Most of our cash is denominated in foreign currencies. We manage our worldwide cash requirements by considering 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; however, those balances are generally available without legal restrictions to fund ordinary business operations. We will continue to transfer cash from those subsidiaries to UTC and to other international subsidiaries when it is cost effective to do so.

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.

### Cash Flow from Operating Activities

<i>(in millions of dollars)</i>	2009	2008
Net cash flows provided by operating activities	<b>\$5,353</b>	\$6,161

The decrease in cash generated from operating activities in 2009 as compared with 2008, is due largely to the decline in net income attributable to common shareowners, as a result of lower volumes, and the \$1.3 billion of contributions to our global defined benefit pension plans made in 2009. This impact was partially mitigated through a focused effort at reducing working capital levels. During 2009, working capital was a source of cash of \$1.1 billion, compared to a cash outflow of \$230 million during 2008. The year-over-year improvement was largely attributable to significant reductions in inventory and accounts receivable as partially offset by a decline in accounts payable levels. The declines in sales volumes led to inventory reductions across all businesses except Sikorsky, with a nearly \$450 million year-over-year reduction at Carrier generating the majority of the improvement. The increase at Sikorsky of approximately \$240 million was augmented by a decline in advances of \$168 million and reflects the demands of significant growth that Sikorsky is currently experiencing. Accounts receivable provided approximately \$1 billion of cash in 2009 as compared with a use of cash of approximately \$550 million in 2008. The year-over-year improvement reflects both the decline in volumes as well as a consistently strong focus on collections throughout 2009. Partially offsetting the benefit of reduced inventory and accounts receivable levels was a year-over-year decrease in accounts payable of approximately \$1 billion associated with the corresponding declines in volume and inventory levels.

The funded status of our 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 2009 and 2008 were approximately \$1.3 billion and \$200 million, respectively. We also contributed \$250 million in UTC common stock to these plans during 2008. As of December 31, 2009, the total investment by the defined benefit pension plans in our securities is approximately 4% of total plan assets. We expect to make contributions of approximately \$600 million to our pension plans in 2010, including approximately \$400 million to our domestic plans. Expected contributions to our defined pension plans in 2010 will meet or exceed the current funding requirements.

### Cash Flow from Investing Activities

<i>(in millions of dollars)</i>	2009	2008
Net cash flows used in investing activities	<b>\$(1,104)</b>	<b>\$(2,336)</b>

The year-over-year decrease in the net use of cash flows for investing activities is largely a result of lower capital expenditures of \$390 million and a decrease of \$549 million in acquisitions activity in 2009 as compared with 2008. Capital expenditures have been curtailed across the businesses in line with the volume reductions as a result of the challenging economic climate experienced in 2009.

Customer financing activities was a net use of cash of \$91 million in 2009, compared to a net use of cash of \$147 million for 2008. While we expect that 2010 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 financing and rental commitments of approximately \$909 million and \$1,142 million related to commercial aircraft at December 31, 2009 and 2008, respectively, of which as much as \$116 million may be required to be disbursed during 2010. Refer to Note 4 to the Consolidated Financial Statements for additional discussion of our commercial aerospace industry assets and commitments.

The net investment in businesses in 2009 was \$545 million compared with \$915 million for 2008. The cash investment in businesses across all of our operations in 2009 was \$703 million and primarily consisted of a number of small acquisitions in both our aerospace and commercial businesses, including the acquisition of a controlling interest in GST Holdings Limited (GST), a fire alarm system provider in China. The acquisition of these additional shares in GST was partially funded from cash that was previously restricted. Cash investment in businesses across all of our operations in 2008 was \$1,252 million and primarily consisted of a number of small acquisitions in our commercial businesses. We expect total investments in businesses in 2010 to

approximate \$3 billion, including the recently announced agreement to purchase the GE Security business from GE for approximately \$1.8 billion; however, actual acquisition spending may vary depending upon the timing, availability and appropriate value of acquisition opportunities. Subject to regulatory approvals and the satisfaction of customary closing conditions, the closing of the GE Security acquisition is anticipated to take place early in the second quarter of 2010.

### Cash Flow from Financing Activities

<i>(in millions of dollars)</i>	2009	2008
Net cash flows used in financing activities	<b>\$(4,191)</b>	<b>\$(2,238)</b>

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. At December 31, 2009, we had two committed credit agreements from banks permitting aggregate borrowings of up to \$2.5 billion. One credit commitment is a \$1.5 billion revolving credit agreement. As of December 31, 2009 there were no borrowings under this revolving credit agreement, which expires in October 2011. We also have a \$1.0 billion multicurrency revolving credit agreement that is available for general funding purposes, including acquisitions. During 2009, we repaid approximately \$460 million which had been borrowed under the multicurrency revolving credit agreement as of December 31, 2008. At December 31, 2009, there were no borrowings under this revolving credit agreement, which expires in November 2011. The undrawn portions of both the \$1.5 billion revolving credit agreement and \$1.0 billion multicurrency revolving credit agreement are also available to serve as backup facilities for the issuance of commercial paper. In December 2008, we increased our maximum commercial paper borrowing authority from \$1.5 billion to \$2.5 billion. In addition, at December 31, 2009, approximately \$3.1 billion was available under short-term lines of credit with local banks at our various domestic and international subsidiaries. We had no commercial paper outstanding at December 31, 2009.

In February 2009, we redeemed the entire \$500 million outstanding principal amount of our LIBOR+.07% floating rate notes that were due June 1, 2009 at a redemption price in U.S. dollars equal to 100% of the principal amount, plus interest accrued. On June 1, 2009, we repaid our \$400 million of 6.500% notes due 2009 which matured on the same date. In December 2009, we redeemed the entire \$33 million outstanding principal amount of our 7.675% ESOP debt that was due December 10, 2009 at a redemption price in U.S. dollars equal to 100% of the

principal amount, plus interest accrued. In December 2008 and May 2008, we issued \$1.25 billion and \$1.0 billion, respectively, of long-term debt. The proceeds of the May 2008 issuance were primarily used for general corporate purposes, including financing acquisitions and repurchasing our stock. The proceeds of the December 2008 issuance were primarily used to repay commercial paper borrowings and to repay outstanding borrowings under our multicurrency revolving credit facility described above.

Financing cash outflows for 2009 and 2008 included the repurchase of 19.1 million and 50.4 million shares of our common stock for approximately \$1.1 billion and \$3.2 billion, respectively, under an existing 60 million share repurchase program. 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 December 31, 2009, we had remaining authority to repurchase approximately 9 million shares under the current program. We expect total share repurchases in 2010 to approximate \$1.5 billion; however, total repurchases may vary depending upon various factors including the level of other investing activities.

We paid dividends of \$.385 per share in the first quarter of 2009 for a total of \$339 million, \$.385 per share in the second quarter for a total of \$340 million, \$.385 per share in the third quarter for a total of \$339 million, and \$.385 per share in the fourth quarter for a total of \$338 million. During 2008, \$1,210 million of cash dividends were paid to shareowners.

#### **Critical Accounting Estimates**

Preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Note 1 to the Consolidated Financial Statements describes the significant accounting policies used in preparation of the Consolidated Financial Statements. Management believes 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. The most significant areas involving management judgments and estimates are described below. Actual results in these areas could differ from management's estimates.

*Long-term Contract Accounting* . We utilize percentage of completion accounting on certain of our long-term contracts. The percentage of completion method requires estimates of future revenues and costs over the full term of product and/or service delivery. We also utilize the completed-contract method of accounting on certain lesser value commercial contracts. Under the completed-contract method, sales and cost of sales are recognized when a contract is completed.

Losses, if any, on long-term contracts are provided for when anticipated. We recognize loss provisions on original equipment contracts to the extent that estimated inventoriable manufacturing, engineering, product warranty and product performance guarantee costs, as appropriate, exceed the projected revenue from the products contemplated under the contractual arrangement. For new commitments, we generally record loss provisions at the earlier of contract announcement or contract signing except for certain requirements contracts under which losses are recorded based upon receipt of the purchase order. For existing commitments, anticipated losses on contracts are recognized in the period in which losses become evident. Products contemplated under the contractual arrangement include products purchased under the contract and, in the large commercial engine business, future highly probable sales of replacement parts required by regulation that are expected to be purchased subsequently for incorporation into the original equipment. Revenue projections used in determining contract loss provisions are based upon estimates of the quantity, pricing and timing of future product deliveries. We generally recognize losses on shipment to the extent that inventoriable manufacturing costs, estimated warranty costs and product performance guarantee costs, as appropriate, exceed revenue realized. We measure the extent of progress toward completion on our long-term commercial aerospace equipment and helicopter contracts using units of delivery. In addition, we use the cost-to-cost method for elevator and escalator sales, installation and modernization contracts in the commercial businesses. For long-term aftermarket contracts, we recognize revenue over the contract period in proportion to the costs expected to be incurred in performing services under the contract. Contract accounting also requires estimates of future costs over the performance period of the contract as well as an estimate of award fees and other sources of revenue.

Contract costs are incurred over a period of time, which can be several years, and the estimation of these costs requires management's judgment. The long-term nature of these contracts, the complexity of the products, and the strict safety and performance standards under which they are regulated can affect our ability to estimate costs precisely. As a result, we review and update our cost estimates on significant contracts on a quarterly basis, and no less frequently than annually for all others, or when circumstances change and warrant a modification to a previous estimate. We record adjustments to contract loss provisions in earnings when identified.

*Income Taxes* . The future tax benefit arising from net deductible temporary differences and tax carryforwards is \$3.8 billion at December 31, 2009 and \$5.2 billion at December 31, 2008. Management believes that our earnings during the periods when the temporary differences become deductible will be sufficient to

realize the related future income tax benefits. For those jurisdictions where the expiration date of tax carryforwards or the projected operating results indicate that realization is not likely, a valuation allowance is provided.

In assessing the need for a valuation allowance, we estimate future taxable income, considering the feasibility of ongoing tax planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets can be affected by changes to tax laws, changes to statutory tax rates and future taxable income levels. In the event we were to determine that we would not be able to realize all or a portion of our deferred tax assets in the future, we would reduce such amounts through an increase to tax expense in the period in which that determination is made or when tax law changes are enacted. Conversely, if we were to determine that we would be able to realize our deferred tax assets in the future in excess of the net carrying amounts, we would decrease the recorded valuation allowance through a decrease to tax expense in the period in which that determination is made. Effective with our January 1, 2009 adoption of the provisions of the Business Combinations Topic of the FASB ASC, adjustments for valuation allowances on deferred taxes and acquired tax contingencies associated with a business combination will generally affect income tax expense as opposed to being recorded as an adjustment to goodwill.

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. See Notes 1 and 10 to the Consolidated Financial Statements for further discussion.

*Goodwill and Intangible Assets* . Our investments in businesses in 2009 totaled \$703 million, of which there was no debt assumed. The assets and liabilities of acquired businesses are recorded under the purchase method of accounting at their estimated fair values at the dates of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Intangible assets consist of service portfolios, patents and trademarks, customer relationships and other intangible assets.

Goodwill and intangible assets deemed to have indefinite lives are not amortized, but are subject to annual impairment testing. This testing compares carrying values to fair values and, when appropriate, the carrying value of these assets is reduced to fair value. The identification and measurement of goodwill impairment involves the estimation of the fair value of reporting units. The estimates of fair value of reporting units are based on the best information available as of the date of the assessment, which primarily incorporates management assumptions about expected future cash flows and contemplates other valuation techniques. Future cash flows can be affected by changes in industry or market conditions or the rate and extent to which anticipated synergies or cost savings are realized with newly acquired entities. We completed our assessment of goodwill as of July 1, 2009 and determined that no impairment existed at that date. Although no significant goodwill impairment has been recorded to date, there can be no assurances that future goodwill impairments will not occur. However, a 10% decrease in the estimated fair value of any of our reporting units at the date of our 2009 assessment would not have resulted in a goodwill impairment charge. See Note 2 to the Consolidated Financial Statements for further discussion.

*Product Performance* . We extend performance and operating cost guarantees beyond our normal service and warranty policies for extended periods on some of our products, particularly commercial aircraft engines. Liability under such guarantees is based upon future product performance and durability. In addition, we incur discretionary costs to service our products in connection with product performance issues. We accrue for such costs that are probable and can be reasonably estimated. The costs associated with these product performance and operating cost guarantees require estimates over the full terms of the agreements, and require management to consider factors such as the extent of future maintenance requirements and the future cost of material and labor to perform the services. These cost estimates are largely based upon historical experience. See Note 14 to the Consolidated Financial Statements for further discussion.

*Contracting with the U.S. Government* . Our contracts with the U.S. government are subject to government oversight and audit. 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 have involved substantial amounts. We have made voluntary refunds in those cases we believe appropriate, have settled some allegations and continue to litigate certain cases. In addition, we accrue for liabilities associated with those government contracting matters that are probable and can be reasonably estimated. The inherent uncertainty related to the outcome of these matters can result in amounts materially different from any provisions made with respect to their resolution. See Note 16 to



the Consolidated Financial Statements for further discussion. We recorded sales to the U.S. government of \$9.3 billion, \$8.0 billion, and \$7.5 billion in 2009, 2008, and 2007, respectively.

**Employee Benefit Plans** . We sponsor domestic and foreign defined benefit pension and other postretirement plans. Major assumptions used in the accounting for these employee benefit plans include the discount rate, expected return on plan assets, rate of increase in employee compensation levels, and health care cost increase projections. Assumptions are determined based on company data and appropriate market indicators, and are evaluated each year at December 31. A change in any of these assumptions would have an effect on net periodic pension and postretirement benefit costs reported in the Consolidated Financial Statements.

In the following table, we show the sensitivity of our pension and other postretirement benefit plan liabilities and net periodic cost to a 25 basis point change in the discount rate as of December 31, 2009.

(in millions of dollars)	Change in Discount Rate	Change in Discount Rate
	Increase by 25 bps	Decrease by 25 bps
<b>Pension plans</b>		
Projected benefit obligation	\$ (638)	\$ 660
Net periodic pension cost	(64)	66
<b>Other postretirement benefit plans</b>		
Accumulated postretirement benefit obligation	(13)	14
Net periodic postretirement benefit cost	—	—

Pension expense is also sensitive to changes in the expected long-term rate of asset return. An increase or decrease of 25 basis points in the expected long-term rate of asset return would have decreased or increased 2009 pension expense by approximately \$50 million.

The weighted-average discount rate used to measure pension liabilities and costs is set by reference to UTC specific analysis using each plan's specific cash flows and then compared to high-quality bond indices for reasonableness. Global market interest rates have decreased in 2009 as compared with 2008 and, as a result, the weighted-average discount rate used to measure pension liabilities decreased from 6.1% in 2008 to 5.9% in 2009. In December 2009, we amended the salaried retirement plans (qualified and non-qualified) to change the retirement formula effective January 1, 2015. At that time, final average earnings (FAE) and credited service will stop under the formula applicable for hires before July 1, 2002. Employees hired after 2009 will not be eligible for any defined benefit pension plan and will instead receive an enhanced benefit under the UTC Savings Plan. As a result of the change in discount rate, FAE amendment, additional 2009 funding

and positive asset returns generated in 2009, pension expense in 2010 is expected to be slightly lower than 2009 levels. See Note 11 to the Consolidated Financial Statements for further discussion.

**Inventory Valuation Reserves** . Inventory valuation reserves are established in order to report inventories at the lower of cost or market value on our Consolidated Balance Sheet. The determination of inventory valuation reserves requires management to make estimates and judgments on the future salability of inventories. Valuation reserves for excess, obsolete, and slow-moving inventory are estimated by comparing the inventory levels of individual parts to both future sales forecasts or production requirements and historical usage rates in order to identify inventory where the resale value or replacement value is less than inventoriable cost. Other factors that management considers in determining these reserves include whether individual inventory parts meet current specifications and cannot be substituted for a part currently being sold or used as a service part, overall market conditions, and other inventory management initiatives.

As of December 31, 2009 and 2008 we had \$683 million and \$497 million, respectively, of inventory valuation reserves recorded. Although management believes these reserves are adequate, any abrupt changes in market conditions may require us to record additional inventory valuation reserves.

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

We extend a variety of financial guarantees to third parties in support of unconsolidated affiliates and for potential financing requirements of commercial aerospace customers. We also have obligations arising from sales of certain businesses and assets, including representations and warranties and related indemnities for environmental, health and safety, tax and employment matters. Circumstances that could cause the contingent obligations and liabilities arising from these arrangements to come to fruition are changes in an underlying transaction (e.g., hazardous waste discoveries, etc.), nonperformance under a contract, customer requests for financing, or deterioration in the financial condition of the guaranteed party.

A summary of our consolidated contractual obligations and commitments as of December 31, 2009 is as follows:

(in millions of dollars)	Total	Payments Due by Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt *	\$ 9,490	\$ 1,233	\$1,082	\$ 8	\$ 7,167
Operating leases	1,571	420	568	258	325
Purchase obligations	12,854	7,885	3,827	1,069	73
Other long-term liabilities	5,742	1,274	1,606	1,605	1,257
<b>Total contractual obligations</b>	<b>\$29,657</b>	<b>\$ 10,812</b>	<b>\$7,083</b>	<b>\$2,940</b>	<b>\$ 8,822</b>

\* Principal only; excludes associated interest payments

Purchase obligations include amounts committed under legally enforceable contracts or purchase orders for goods and services with defined terms as to price, quantity, delivery and termination liability. Approximately 31% of the purchase obligations disclosed above represent purchase orders for products to be delivered under firm contracts with the U.S. government for which we have full recourse under normal contract termination clauses.

Other long-term liabilities primarily include those amounts on our December 31, 2009 balance sheet representing obligations under product service and warranty policies, performance and operating cost guarantees, estimated environmental remediation costs and expected contributions under employee benefit programs. The timing of expected cash flows associated with these obligations is based upon management's estimates over the terms of these agreements and is largely based upon historical experience.

The above table does not reflect unrecognized tax benefits of \$793 million, the timing of which is uncertain, except for approximately \$40 million that may become payable during 2010. Refer to Note 10 to the Consolidated Financial Statements for additional discussion on unrecognized tax benefits. In addition, the above table does not include approximately \$600 million of expected contributions to our global pension plans in 2010, including approximately \$400 million to our domestic plans.

## Commercial Commitments

(in millions of dollars)	Committed	Amount of Commitment Expiration per Period			
		Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Commercial aerospace financing and rental commitments	\$ 909	\$ 116	\$ 129	\$ 13	\$ 651
IAE financing arrangements	1,186	247	499	127	313
Unconsolidated subsidiary debt guarantees	243	160	8	—	75
Commercial aerospace financing arrangements	320	1	73	10	236
Commercial customer financing arrangements	229	229	—	—	—
Performance guarantees	39	33	6	—	—
<b>Total commercial commitments</b>	<b>\$ 2,926</b>	<b>\$ 786</b>	<b>\$ 715</b>	<b>\$ 150</b>	<b>\$ 1,275</b>

Refer to Notes 4, 14, and 16 to the Consolidated Financial Statements for additional discussion on contractual and commercial commitments.

## Market Risk and Risk Management

We are exposed to fluctuations in foreign currency exchange rates, interest rates and commodity prices. To manage certain of those exposures, we use derivative instruments, including swaps, forward contracts and options. Derivative instruments utilized by us in our hedging activities are viewed as risk management tools,

involve little complexity and are not used for trading or speculative purposes. We diversify the counterparties used and monitor the concentration of risk to limit our counterparty exposure.

We have evaluated our exposure to changes in foreign currency exchange rates, interest rates and commodity prices in our market risk sensitive instruments, which are primarily cash, debt and derivative instruments, using a value at risk analysis. Based on a 95% confidence level and a one-day holding period, at December 31, 2009, the potential loss in fair value on our market risk sensitive instruments was not material in relation to our financial position, results of operations or cash flows. Our calculated value at risk exposure represents an estimate of reasonably possible net losses based on volatilities and correlations and is not necessarily indicative of actual results. Refer to Notes 1, 8 and 13 to the Consolidated Financial Statements for additional discussion of foreign currency exchange, interest rates and financial instruments.

*Foreign Currency Exposures* . We have a large volume of foreign currency exposures that result from our international sales, purchases, investments, borrowings and other international transactions. International segment revenues, including U.S. export sales, averaged approximately \$34 billion over the last three years. We actively manage foreign currency exposures that are associated with committed foreign currency purchases and sales and other assets and liabilities created in the normal course of business at the operating unit level. More than insignificant exposures that cannot be naturally offset within an operating unit are hedged with foreign currency derivatives. We also have a significant amount of foreign currency net asset exposures. Currently, we do not hold any derivative contracts that hedge our foreign currency net asset exposures but may consider such strategies in the future.

Within aerospace, our revenues are typically denominated in U.S. dollars under accepted industry convention. However, for our non-U.S. based entities, such as P&WC, a substantial portion of their costs are incurred in local currencies. Consequently, there is a foreign currency exchange impact and risk to operational results as U.S. dollars must be converted to local currencies such as the Canadian dollar in order to meet local currency cost obligations. In order to minimize the exposure that exists from changes in the exchange rate of the U.S. dollar against these other currencies, we hedge a certain portion of revenues to secure the rates at which U.S. dollars will be converted. The majority of this hedging activity occurs at P&WC. At P&WC, firm and forecasted sales for both engines and spare parts are hedged at varying amounts up to 24 months on the U.S. dollar revenue exposure as represented by the excess of U.S. dollar revenues over U.S. dollar denominated purchases. Hedging gains and losses resulting from movements in foreign currency exchange rates are partially offset

by the foreign currency translation impacts that are generated on the translation of local currency operating results into U.S. dollars for reporting purposes. While the objective of the hedging program is to minimize the foreign currency exchange impact on operating results, there are typically variances between the hedging gains or losses and the translational impact due to the length of hedging contracts, changes in the revenue profile, volatility in the exchange rates and other such operational considerations.

*Interest Rate Exposures* . Our long-term debt portfolio consists mostly of fixed-rate instruments. From time to time, we may hedge to floating rates using interest rate swaps. The hedges are designated as fair value hedges and the gains and losses on the swaps are reported in interest expense, reflecting that portion of interest expense at a variable rate. We issue commercial paper, which exposes us to changes in interest rates. Currently, we do not hold any derivative contracts that hedge our interest exposures, but may consider such strategies in the future.

*Commodity Price Exposures* . We are exposed to volatility in the prices of raw materials used in some of our products and from time to time we may use forward contracts in limited circumstances to manage some of those exposures. In the future, if hedges are used, gains and losses may affect earnings. There were no significant outstanding commodity hedges as of December 31, 2009.

#### **Environmental Matters**

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. As a result, we have established, and continually update, policies relating to environmental standards of performance for our operations worldwide. We believe that expenditures necessary to comply with the present regulations governing environmental protection will not have a material effect upon our competitive position, results of operations, cash flows or financial condition.

We have identified 582 locations, mostly in the United States, at which we may have some liability for remediating contamination. We have resolved our liability at 242 of these locations. We do not believe that any individual location's exposure will have a material effect on our results of operations. Sites in the investigation, remediation or operation and maintenance stage represent approximately 91% of our accrued environmental liability.

We have been identified as a potentially responsible party under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA or Superfund) at 107 sites. The number of Superfund sites, in and of itself, does not represent a relevant measure of liability because the nature and extent of

environmental concerns vary from site to site and our share of responsibility varies from sole responsibility to very little responsibility. In estimating our liability for remediation, we consider our likely proportionate share of the anticipated remediation expense and the ability of other potentially responsible parties to fulfill their obligations.

At December 31, 2009, we had \$539 million reserved for environmental remediation. Cash outflows for environmental remediation were \$49 million in 2009 and \$46 million in both 2008 and 2007. We estimate that ongoing environmental remediation expenditures in each of the next two years will not exceed approximately \$70 million.

#### **Government Matters**

As described in the "Critical Accounting Estimates – Contracting with the U.S. government," our contracts with the U.S. government are subject to audits. Such audits may recommend that certain contract prices should be reduced to comply with various government regulations. We are also the subject of one or more investigations and legal proceedings initiated by the U.S. government with respect to government contract matters.

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. Both the DOJ and UTC have appealed the decision. 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.

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 government contracts. The DOD claims that Sikorsky's liability is approximately \$83 million (including interest through December 2009). We believe this claim is without merit and Sikorsky filed an appeal in December 2009 with the U.S. Court of Federal Claims.

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.

#### **Other Matters**

Additional discussion of our environmental, U.S. government contract matters, product performance and other contingent liabilities is included in "Critical Accounting Estimates" and Notes 1, 14 and 16 to the Consolidated Financial Statements. For additional discussion of our legal proceedings, see Item 3, "Legal Proceedings," in our Annual Report on Form 10-K for 2009 (2009 Form 10-K).

#### **New Accounting Pronouncements**

In October 2009, the FASB issued ASU No. 2009-13, "Multiple-Deliverable Revenue Arrangements." This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor's multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. We are currently evaluating this new ASU.

In October 2009, the FASB issued ASU No. 2009-14, "Certain Revenue Arrangements That Include Software Elements." This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are "essential to the functionality," and scopes these products out of current software revenue guidance. The new guidance will include factors to help companies determine what software elements are considered "essential to the functionality." The

amendments will now subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. We are currently evaluating this new ASU.

In December 2009, the FASB issued ASU No. 2009-16, "Accounting for Transfers of Financial Assets." This ASU incorporates SFAS No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140" (SFAS 166), issued by the FASB in June 2009, within the FASB ASC. This ASU removes the concept of a qualifying special-purpose entity and establishes a new "participating interest" definition that must be met for transfers of portions of financial assets to be eligible for sale accounting, clarifies and amends the derecognition criteria for a transfer to be accounted for as a sale, and changes the amount that can be recognized as a gain or loss on a transfer accounted for as a sale when beneficial interests are received by the transferor. Enhanced disclosures are also required to provide information about transfers of financial assets and a transferor's continuing involvement with transferred financial assets. This ASU must be applied as of the beginning of an entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. We have evaluated this new ASU and have determined that there are no significant impacts to our financial position or results of operations.

In December 2009, the FASB issued ASU No. 2009-17, "Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities." This ASU incorporates SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" (SFAS 167), issued by the FASB in June 2009, within the FASB ASC. This ASU amends previous accounting related to the Consolidation of Variable Interest Entities to require an enterprise to qualitatively assess the determination of the primary beneficiary of a variable interest entity (VIE) based on whether the entity (1) has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (2) has the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. Also, this ASU requires an ongoing reconsideration of the primary beneficiary, and amends the events that trigger a reassessment of whether an entity is a VIE. Enhanced disclosures are also required to provide information about an enterprise's involvement in a VIE. This ASU will be effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application

is prohibited. We have evaluated this new ASU and have determined that our involvement with variable interest entities is not significant and therefore there are no significant impacts to our financial position or results of operations.

### **Cautionary Note Concerning Factors That May Affect Future Results**

This annual report 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,” “plans,” “strategy,” “prospects,” “estimate,” “project,” “target,” “anticipate,” “guidance” 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 revenues, earnings, cash flow, uses of cash and other measures of financial performance;
- the effect of economic conditions in the United States and globally, including the financial condition of our customers and suppliers;
- new business opportunities;
- restructuring costs and savings;
- the scope, nature or impact of acquisition and divestiture activity including integration of acquired businesses into our existing businesses;
- the development, production and support 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;
- the outcome of contingencies;
- future repurchases of common stock;
- future levels of indebtedness and capital spending;
- future availability of and access to credit markets;
- pension plan assumptions and future contributions; and
- the effect of changes in tax, environmental and other laws and regulations 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. Our Annual Report

on Form 10-K for 2009 includes important information as to these factors that may cause actual results to vary materially from those stated in the forward-looking statements 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 “Risk Factors” and “Legal Proceedings” sections. 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.

### **Management’s Report on Internal Control over Financial Reporting**

The management of UTC is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Management has assessed the effectiveness of UTC’s internal control over financial reporting as of December 31, 2009. In making its assessment, management has utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*. Management concluded that based on its assessment, UTC’s internal control over financial reporting was effective as of December 31, 2009. The effectiveness of UTC’s internal control over financial reporting, as of December 31, 2009, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

**/s/ Louis R. Chênevert**

Louis R. Chênevert  
Chairman & Chief Executive Officer

**/s/ Gregory J. Hayes**

Gregory J. Hayes  
Senior Vice President and Chief Financial Officer

**/s/ Margaret M. Smyth**

Margaret M. Smyth  
Vice President, Controller

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**Report of Independent Registered Public Accounting Firm**

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of changes in equity present fairly, in all material respects, the financial position of United Technologies Corporation and its subsidiaries at December 31, 2009 and December 31, 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Corporation's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in the Notes to the consolidated financial statements, the Corporation changed the manner in which it accounts for defined benefit pension and other postretirement plans and uncertain tax positions in 2007. As discussed in the Notes to the consolidated financial statements, the Corporation

changed the manner in which it discloses fair value, the manner in which it accounts for business combinations, noncontrolling interests and collaborative arrangements, and the manner in which it provides disclosures about derivative and hedging activities, subsequent events, and fair value of financial instruments in 2009.

A corporation's internal control over financial reporting is a process designed 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. A corporation's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the corporation; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the corporation are being made only in accordance with authorizations of management and directors of the corporation; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the corporation's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut  
February 11, 2010

## Consolidated Statement of Operations

(in millions of dollars, except per share amounts)

	2009	2008	2007
<b>Revenues:</b>			
Product sales	\$37,332	\$43,234	\$40,182
Service sales	15,093	15,885	14,694
Other income, net	495	638	840
	<b>52,920</b>	<b>59,757</b>	<b>55,716</b>
<b>Costs and Expenses:</b>			
Cost of products sold	28,905	32,833	30,869
Cost of services sold	9,956	10,804	10,010
Research and development	1,558	1,771	1,678
Selling, general and administrative	6,036	6,724	6,109
Operating profit	6,465	7,625	7,050
Interest	705	689	666
Income before income taxes	5,760	6,936	6,384
Income tax expense	1,581	1,883	1,836
Net income	4,179	5,053	4,548
Less: Noncontrolling interest in subsidiaries' earnings	350	364	324
<b>Net income attributable to common shareowners</b>	<b>\$ 3,829</b>	<b>\$ 4,689</b>	<b>\$ 4,224</b>
<b>Earnings per share of common stock</b>			
Basic	\$ 4.17	\$ 5.00	\$ 4.38
Diluted	\$ 4.12	\$ 4.90	\$ 4.27
Dividends per share of common stock	\$ 1.54	\$ 1.35	\$ 1.17
Average number of shares outstanding:			
Basic shares	917	938	964
Diluted shares	929	956	989

See accompanying Notes to Consolidated Financial Statements



## Consolidated Balance Sheet

(in millions of dollars, except per share amounts – shares in thousands)

	2009	2008
<b>Assets</b>		
Cash and cash equivalents	\$ 4,449	\$ 4,327
Accounts receivable (net of allowance for doubtful accounts of \$390 and \$332)	8,469	9,480
Inventories and contracts in progress, net	7,509	8,340
Future income tax benefits, current	1,689	1,551
Other assets, current	1,078	769
<b>Total Current Assets</b>	<b>23,194</b>	<b>24,467</b>
Customer financing assets	1,047	1,002
Future income tax benefits	2,102	3,633
Fixed assets, net	6,364	6,348
Goodwill	16,298	15,363
Intangible assets	3,538	3,443
Other assets	3,219	2,581
<b>Total Assets</b>	<b>\$ 55,762</b>	<b>\$ 56,837</b>
<b>Liabilities and Equity</b>		
Short-term borrowings	\$ 254	\$ 1,023
Accounts payable	4,634	5,594
Accrued liabilities	11,792	12,069
Long-term debt currently due	1,233	1,116
<b>Total Current Liabilities</b>	<b>17,913</b>	<b>19,802</b>
Long-term debt	8,257	9,337
Future pension and postretirement benefit obligations	4,150	6,574
Other long-term liabilities	4,054	4,198
<b>Total Liabilities</b>	<b>34,374</b>	<b>39,911</b>
Commitments and contingent liabilities (Notes 4 and 16)		
Redeemable noncontrolling interest	389	245
Shareowners' Equity:		
Capital Stock:		
Preferred Stock, \$1 par value; 250,000 shares authorized; None issued or outstanding	—	—
Common Stock, \$1 par value; 4,000,000 shares authorized; 1,381,700 and 1,370,054 shares issued	11,746	11,179
Treasury Stock - 444,958 and 426,113 common shares at cost	(15,408)	(14,316)
Retained earnings	27,396	25,034
Unearned ESOP shares	(181)	(200)
Accumulated other comprehensive income (loss):		
Foreign currency translation	379	(641)
Other	(3,866)	(5,293)
<b>Total Accumulated other comprehensive loss</b>	<b>(3,487)</b>	<b>(5,934)</b>
<b>Total Shareowners' Equity</b>	<b>20,066</b>	<b>15,763</b>
Noncontrolling interest	933	918
<b>Total Equity</b>	<b>20,999</b>	<b>16,681</b>
<b>Total Liabilities and Equity</b>	<b>\$ 55,762</b>	<b>\$ 56,837</b>

See accompanying Notes to Consolidated Financial Statements



## Consolidated Statement of Cash Flows

<i>(in millions of dollars)</i>	2009	2008	2007
<b>Operating Activities:</b>			
Net income attributable to common shareowners	<b>\$ 3,829</b>	\$ 4,689	\$ 4,224
Noncontrolling interest in subsidiaries' earnings	<b>350</b>	364	324
Net income	<b>4,179</b>	5,053	4,548
Adjustments to reconcile net income to net cash flows provided by operating activities:			
Depreciation and amortization	<b>1,258</b>	1,321	1,173
Deferred income tax provision	<b>451</b>	45	58
Stock compensation cost	<b>153</b>	211	198
Change in:			
Accounts receivable	<b>955</b>	(546)	(534)
Inventories and contracts in progress	<b>695</b>	(562)	(1,111)
Other current assets	<b>(3)</b>	35	44
Accounts payable and accrued liabilities	<b>(582)</b>	843	1,633
Global pension contributions	<b>(1,270)</b>	(193)	(182)
Other operating activities, net	<b>(483)</b>	(46)	(497)
Net cash flows provided by operating activities	<b>5,353</b>	6,161	5,330
<b>Investing Activities:</b>			
Capital expenditures	<b>(826)</b>	(1,216)	(1,153)
Increase in customer financing assets	<b>(171)</b>	(285)	(411)
Decrease in customer financing assets	<b>80</b>	138	272
Investments in businesses	<b>(703)</b>	(1,252)	(2,037)
Dispositions of businesses	<b>158</b>	337	298
Other investing activities, net	<b>358</b>	(58)	(151)
Net cash flows used in investing activities	<b>(1,104)</b>	(2,336)	(3,182)
<b>Financing Activities:</b>			
Issuance of long-term debt	<b>37</b>	2,248	1,032
Repayment of long-term debt	<b>(1,012)</b>	(48)	(330)
(Decrease) increase in short-term borrowings, net	<b>(762)</b>	91	191
Common Stock issued under employee stock plans	<b>342</b>	163	415
Dividends paid on Common Stock	<b>(1,356)</b>	(1,210)	(1,080)
Repurchase of Common Stock	<b>(1,100)</b>	(3,160)	(2,001)
Other financing activities, net	<b>(340)</b>	(322)	(182)
Net cash flows used in financing activities	<b>(4,191)</b>	(2,238)	(1,955)
Effect of foreign exchange rate changes on cash and cash equivalents	<b>64</b>	(164)	165
Net increase in cash and cash equivalents	<b>122</b>	1,423	358
Cash and cash equivalents, beginning of year	<b>4,327</b>	2,904	2,546
Cash and cash equivalents, end of year	<b>\$ 4,449</b>	\$ 4,327	\$ 2,904
<b>Supplemental Disclosure of Cash Flow Information:</b>			
Interest paid, net of amounts capitalized	<b>\$ 704</b>	\$ 659	\$ 629
Income taxes paid, net of refunds	<b>\$ 1,396</b>	\$ 1,912	\$ 1,818
<b>Non-cash investing and financing activities include:</b>			
Contributions of UTC Common Stock to domestic defined benefit pension plans of \$0, \$250 and \$150 in 2009, 2008 and 2007, respectively.			

See accompanying Notes to Consolidated Financial Statements

## Consolidated Statement of Changes in Equity

<i>(in millions of dollars)</i>	Common Stock	Treasury Stock
<b>Balance at December 31, 2006</b>	<b>\$ 9,622</b>	<b>\$ (9,413)</b>
Effect of changing pension plan measurement date, net of taxes of \$193 (Note 11)		
Adoption of accounting for uncertainty in income taxes (Note 10)		
Adoption of accounting for redeemable noncontrolling interests (Note 9)		
<b>Opening balance at January 1, 2007, as adjusted</b>	<b>\$ 9,622</b>	<b>\$ (9,413)</b>
Comprehensive income (loss):		
Net income		
Redeemable noncontrolling interest in subsidiaries earnings		
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments		
Change in pension and post-retirement benefit plans, net of income taxes of \$419		
Adjustment for sale of securities, net of tax benefit of \$50		
Unrealized cash flow hedging gain, net of income taxes of \$58		
Total other comprehensive income, net of tax		
Comprehensive income		
Common Stock issued under employee plans (13.8 million shares), net of tax benefit of \$130	863	13
Common Stock contributed to defined benefit pension plans (2.3 million shares)	87	63
Common Stock repurchased (28.3 million shares)		(2,001)
Dividends on Common Stock		
Dividends on ESOP Common Stock		
Dividends attributable to noncontrolling interest		
Redeemable noncontrolling interest accretion		
Other changes in noncontrolling interest		
<b>Balance at December 31, 2007</b>	<b>\$ 10,572</b>	<b>\$ (11,338)</b>
Comprehensive income (loss):		
Net income		
Redeemable noncontrolling interest in subsidiaries earnings		
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments		
Change in pension and post-retirement benefit plans, net of tax benefit of \$2,512		
Adjustment for sale of securities, net of tax benefit of \$41		
Unrealized cash flow hedging loss, net of tax benefit of \$127		
Total other comprehensive income (loss), net of tax		
Comprehensive income (loss)		
Common Stock issued under employee plans (5.7 million shares), net of tax benefit of \$32	525	14
Common Stock contributed to defined benefit pension plans (5.0 million shares)	82	168
Common Stock repurchased (50.4 million shares)		(3,160)
Dividends on Common Stock		
Dividends on ESOP Common Stock		
Dividends attributable to noncontrolling interest		
Redeemable noncontrolling interest accretion		
Other changes in noncontrolling interest		
<b>Balance at December 31, 2008</b>	<b>\$ 11,179</b>	<b>\$ (14,316)</b>
Comprehensive income (loss):		
Net income		
Redeemable noncontrolling interest in subsidiaries earnings		
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustments		
Change in pension and post-retirement benefit plans, net of income taxes of \$569		
Adjustment for sale of securities, net of income taxes of \$66		
Unrealized cash flow hedging gain, net of income taxes of \$106		
Total other comprehensive income (loss), net of tax		
Comprehensive income (loss)		
Common Stock issued under employee plans (11.9 million shares), net of tax benefit of \$50	634	8
Common Stock repurchased (19.1 million shares)		(1,100)
Dividends on Common Stock		
Dividends on ESOP Common Stock		
Dividends attributable to noncontrolling interest		
Redeemable noncontrolling interest accretion		
Purchase of subsidiary shares in noncontrolling interest	(67)	
Acquired noncontrolling interest		
Other changes in noncontrolling interest		
<b>Balance at December 31, 2009</b>	<b>\$ 11,746</b>	<b>\$ (15,408)</b>

See accompanying Notes to Consolidated Financial Statements

## Shareowners' Equity

Retained Earnings	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Equity	Redeemable Noncontrolling Interest
\$ 18,754	\$ (227)	\$ (1,439)	\$ 755	\$ 18,052	\$ 81
(45)		470		425	
(19)				(19)	
(114)				(114)	\$ 114
<b>\$ 18,576</b>	<b>\$ (227)</b>	<b>\$ (969)</b>	<b>\$ 755</b>	<b>\$ 18,344</b>	<b>\$ 195</b>
4,224			324	4,548	
			(14)	(14)	14
		716	44	760	10
		776		776	
		(84)		(84)	
		139		139	
				1,591	
				6,125	
(36)	13			853	
				150	
(1,080)				(2,001)	
(47)				(1,080)	
			(246)	(47)	(23)
(6)				(246)	6
			(28)	(6)	1
				(28)	
<b>\$ 21,631</b>	<b>\$ (214)</b>	<b>\$ 578</b>	<b>\$ 835</b>	<b>\$ 22,064</b>	<b>\$ 203</b>
4,689			364	5,053	
			(19)	(19)	19
		(1,990)	1	(1,989)	38
		(4,153)		(4,153)	
		(59)		(59)	
		(310)		(310)	
				(6,511)	
				(1,477)	
(19)	14			534	
				250	
(1,210)				(3,160)	
(52)				(1,210)	
			(305)	(52)	(20)
(5)				(305)	5
			42	(5)	
				42	
<b>\$ 25,034</b>	<b>\$ (200)</b>	<b>\$ (5,934)</b>	<b>\$ 918</b>	<b>\$ 16,681</b>	<b>\$ 245</b>
3,829			350	4,179	
			(17)	(17)	17
		1,020	8	1,028	(5)
		1,073		1,073	
		99		99	
		255		255	
				2,455	
				6,617	
(43)	19			618	
				(1,100)	
(1,356)				(1,356)	
(59)				(59)	
			(329)	(329)	(17)
(9)				(9)	9
			(25)	(92)	(3)
			36	36	143
			(8)	(8)	
<b>\$ 27,396</b>	<b>\$ (181)</b>	<b>\$ (3,487)</b>	<b>\$ 933</b>	<b>\$ 20,999</b>	<b>\$ 389</b>

## Notes to Consolidated Financial Statements

### Note 1: Summary of Accounting Principles

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. Certain prior year amounts have been reclassified to conform to the current year's presentation.

*Consolidation* . The Consolidated Financial Statements include the accounts of UTC and its controlled subsidiaries. Intercompany transactions have been eliminated.

*Cash and Cash Equivalents* . Cash and cash equivalents includes cash on hand, demand deposits and short-term cash investments that are highly liquid in nature and have original maturities of three months or less.

On occasion, we are required to maintain cash deposits with certain banks in respect to contractual obligations related to acquisitions or divestitures or other legal obligations. As of December 31, 2009 and 2008, the amount of restricted cash was approximately \$43 million and \$310 million, of which approximately \$41 million and \$35 million is included in current assets and \$2 million and \$275 million is included in long-term assets, respectively.

*Accounts Receivable* . Current and long-term accounts receivable include retainage of \$156 million and \$154 million and unbilled receivables of \$902 million and \$852 million as of December 31, 2009 and 2008, respectively.

Retainage represents amounts that, pursuant to the applicable contract, are not due until project completion and acceptance by the customer. Unbilled receivables represent revenues that are not currently billable to the customer under the terms of the contract. These items are expected to be collected in the normal course of business. Long-term accounts receivable are included in other assets in the Consolidated Balance Sheet.

*Marketable Equity Securities* . Equity securities that have a readily determinable fair value and that we do not intend to trade are classified as available for sale and carried at fair value. Unrealized holding gains and losses are recorded as a separate component of shareowners' equity, net of deferred income taxes.

*Inventories and Contracts in Progress* . Inventories and contracts in progress are stated at the lower of cost or estimated realizable value and are primarily based on first-in, first-out (FIFO) or average cost methods; however, certain subsidiaries use the last-in, first-out (LIFO) method. If inventories that were valued using the LIFO method had been valued under the FIFO method, they would have been higher by \$147 million and \$176 million at December 31, 2009 and 2008, respectively. The year-over-year decline largely results from a decrease in inventories associated with the disposition of certain businesses in our Carrier segment.

Costs accumulated against specific contracts or orders are at actual cost. Inventory in excess of requirements for contracts and current or anticipated orders have been reserved as appropriate. Manufacturing costs are allocated to current production and firm contracts.

*Fixed Assets* . Fixed assets are stated at cost. Depreciation is computed over the fixed assets' useful lives using the straight-line method.

*Goodwill and Intangible Assets* . Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. Goodwill and intangible assets deemed to have indefinite lives are not amortized. Goodwill and indefinite-lived intangible assets are subject to annual impairment testing using the guidance and criteria described in the Intangibles – Goodwill and Other Topic of the FASB ASC. This testing compares carrying values to fair values and, when appropriate, the carrying value of these assets is reduced to fair value. During 2009, 2008, and 2007, we were not required to record any impairment on goodwill or indefinite-lived intangibles.

Intangible assets consist of service portfolios, patents and trademarks, customer relationships and other intangible assets. Useful lives of finite lived intangible assets are estimated based upon the nature of the intangible asset and the industry in which the intangible asset is used. Estimated useful lives of service portfolios generally range from 5 to 30 years. Estimated useful lives of patents and finite-lived trademarks range from 3 to 40 years. Estimated useful lives of customer relationships and other assets range from 2 to 32 years. These intangible assets are amortized based on the pattern in which the economic benefits of the intangible assets are consumed. If a pattern of economic benefit cannot be reliably determined, a straight-line amortization method is used.

*Other Long-lived Assets* . We evaluate the potential impairment of other long-lived assets when appropriate. If the carrying value of other long-lived assets exceeds the sum of the undiscounted expected future cash flows, the carrying value is written down to fair value.

*Income Taxes* . 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 expense has also been recognized. We recognize accrued interest related to unrecognized tax benefits in interest expense. Penalties, if incurred, would be recognized as a component of income tax expense.

Effective January 1, 2007 we adopted the provision of the Income Taxes Topic of the FASB ASC as it relates to the accounting for uncertainty in income taxes. As a result of this adoption, we recognized a charge of approximately \$19 million to the January 1, 2007 retained earnings balance. We recognize interest accrued related to unrecognized tax benefits in interest expense. Penalties, if incurred, would be recognized as a component of income tax expense.

*Revenue Recognition* . Sales under government and commercial fixed-price contracts and government fixed-price-incentive contracts are recorded at the time deliveries are made or, in some cases, on a percentage-of-completion basis. Sales under cost-reimbursement contracts are recorded as work is performed.

Sales under elevator and escalator sales, installation and modernization contracts are accounted for under the percentage-of-completion method.

Losses, if any, on contracts are provided for when anticipated. Loss provisions on original equipment contracts are recognized to the extent that estimated inventoriable manufacturing, engineering, product warranty and product performance guarantee costs, as appropriate, exceed the projected revenue from the products contemplated under the contractual arrangement. For new commitments, we generally record loss provisions at the earlier of contract announcement or contract signing except for certain requirements contracts under which losses are recorded upon receipt of the purchase order. For existing commitments, anticipated losses on contracts are recognized in the period in which losses become evident. Products contemplated under contractual arrangement include products purchased under contract and, in the large commercial engine business, future highly probable sales of replacement parts required by regulation that are expected to be purchased subsequently for incorporation into the original equipment. Revenue projections used in determining contract loss provisions are based upon estimates of the quantity, pricing and timing of future product deliveries. Losses are generally recognized on shipment to the extent that inventoriable manufacturing costs, estimated warranty costs and product performance guarantee costs, as appropriate, exceed revenue realized. Contract accounting requires estimates of future costs over the performance period of the contract as well as estimates of award

fees and other sources of revenue. These estimates are subject to change and result in adjustments to margins on contracts in progress. The extent of progress toward completion on our long-term commercial aerospace equipment and helicopter contracts is measured using units of delivery. In addition, we use the cost-to-cost method for elevator and escalator sales, installation and modernization contracts in the commercial businesses. For long-term aftermarket contracts, revenue is recognized over the contract period in proportion to the costs expected to be incurred in performing services under the contract. We review our cost estimates on significant contracts on a quarterly basis, and for others, no less frequently than annually or when circumstances change and warrant a modification to a previous estimate. Adjustments to contract loss provisions are recorded in earnings upon identification.

Service sales, representing aftermarket repair and maintenance activities, are recognized over the contractual period or as services are performed. In the commercial businesses, revenue is generally recognized on a straight line basis. In the aerospace businesses, revenue is generally recognized in proportion to cost.

Revenues generated from engine programs, spare parts sales, and aftermarket business under collaboration arrangements are recorded as earned in our financial statements. Amounts attributable to our collaborative partners for their share of revenues 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 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 a collaborator's share of program costs is recorded as a reduction of the related expense item at that time.

*Research and Development* . Research and development costs not specifically covered by contracts and those related to the company sponsored share of research and development activity in connection with cost-sharing arrangements are charged to expense as incurred. Government research and development support, not associated with specific contracts, is recorded as a reduction to research and development expense in the period earned. Repayment, if any, is in the form of future royalties and is conditioned upon the achievement of certain financial targets.

Research and development costs incurred under contracts with customers are expensed as incurred and are reported as a component of cost of products sold. Revenue from such contracts is recognized as product sales when earned.

*Foreign Exchange and Hedging Activity* . We conduct business in many different currencies and, accordingly, are subject to the inherent risks associated with foreign exchange rate movements. The financial position and results of operations of substantially all of our foreign subsidiaries are measured using the local currency as the functional currency. Foreign currency denominated assets and liabilities are translated into U.S. dollars at the exchange rates existing at the respective balance sheet dates, and income and expense items are translated at the average exchange rates during the respective periods. The aggregate effects of translating the balance sheets of these subsidiaries are deferred as a separate component of shareowners' equity.

We have used derivative instruments, including swaps, forward contracts and options, to manage certain foreign currency, interest rate and commodity price exposures. Derivative instruments are viewed as risk management tools by us and are not used for trading or speculative purposes. Derivatives used for hedging purposes may be designated and effective as a hedge of the identified risk exposure at the inception of the contract.

All derivative instruments are recorded on the balance sheet at fair value. Derivatives used to hedge foreign-currency-denominated balance sheet items are reported directly in earnings along with offsetting transaction gains and losses on the items being hedged. Derivatives used to hedge forecasted cash flows associated with foreign currency commitments or forecasted commodity purchases may be accounted for as cash flow hedges, as deemed appropriate. Gains and losses on derivatives designated as cash flow hedges are recorded in other comprehensive income and reclassified to earnings in a manner that matches the timing of the earnings impact of the hedged transactions. The ineffective portion of all hedges, if any, is recognized currently in earnings.

*Environmental* . Environmental investigatory, remediation, operating and maintenance costs are accrued 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, the minimum is accrued. 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. Liabilities with fixed or reliably determinable future cash payments are discounted. Accrued environmental liabilities are not reduced by potential insurance reimbursements.

*Asset Retirement Obligations* . We record the fair value of legal obligations associated with the retirement of tangible long-lived assets in the period in which it is determined to exist, if a reasonable estimate of fair value can be made. Upon initial recognition of a liability, we capitalize the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is increased for changes in its present value and the capitalized cost is depreciated over the useful life of the related asset. We have determined that conditional legal obligations exist for certain of our worldwide owned and leased facilities related primarily to building materials. As of December 31, 2009 and 2008, the outstanding liability for asset retirement obligations was \$157 million and \$163 million, respectively.

*Pension and Postretirement Obligations*. Guidance under the Compensation – Retirement Benefits Topic of the FASB ASC requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Under this guidance, actuarial gains and losses, prior service costs or credits, and any remaining transition assets or obligations that have not been recognized under previous accounting standards must be recognized in other comprehensive income, net of tax effects, until they are amortized as a component of net periodic benefit cost. This guidance was effective for publicly-held companies for fiscal years ending after December 15, 2006, except for the measurement date provisions, which were effective for fiscal years ending after December 15, 2008. Based on the funded status of our plans as of December 31, 2006, the adoption of this guidance decreased total assets by approximately \$2.4 billion, decreased total liabilities by approximately \$549 million and reduced total shareowners' equity by approximately \$1.8 billion, net of taxes. This guidance also requires the measurement date (the date at which plan assets and the benefit obligation are measured) to be the company's fiscal year end. We early-adopted the measurement date provisions of this guidance effective January 1, 2007. The majority of our pension and postretirement plans previously used a November 30 measurement date. All plans are now measured as of December 31, consistent with the company's fiscal year end. The non-cash effect of the adoption of the measurement date provisions of this guidance increased total shareowners' equity by approximately \$425 million and decreased long-term liabilities by approximately \$620 million in 2007. The adoption of this guidance did not affect our results of operations.

#### **Note 2: Business Acquisitions, Goodwill and Intangible Assets**

*Business Acquisitions* . Our investments in businesses in 2009, 2008 and 2007 totaled \$703 million, \$1.4 billion and \$2.3 billion, respectively. Included in the total investments in businesses was \$0, \$196 million and \$300 million of debt assumed in 2009, 2008 and 2007, respectively.

In December 2009, we agreed to acquire a 49.5% equity stake in Clipper Windpower Plc (Clipper), a California-based wind turbine manufacturer that trades on the AIM London Stock Exchange. This investment is intended to expand our power generation portfolio and allow us to enter the wind power segment by leveraging our expertise in blade technology, turbines and gearbox design. The total cost was £166 million (approximately \$270 million) for the purchase of 84.3 million newly issued shares and 21.8 million shares from existing shareowners. We completed the acquisition of this investment on January 12, 2010 and will account for it under the equity method of accounting. Pursuant to our agreement with Clipper, we are prohibited from acquiring additional shares of Clipper within two years of the closing date that would result in an equity stake in excess of 49.9% without prior approval of Clipper.

In November 2009, we entered into an agreement with General Electric Company (GE) to purchase the GE Security business for approximately \$1.8 billion. Subject to regulatory approvals and the satisfaction of customary closing conditions, the closing is anticipated to take place early in the second quarter of 2010. GE Security, part of GE Technology Infrastructure, supplies security and fire safety technologies for commercial and residential applications through a broad product portfolio that includes fire detection and life safety systems, intrusion alarms, and video surveillance and access control systems. We intend to incorporate the GE Security business within our existing UTC Fire & Security segment, which will significantly enhance UTC Fire & Security's geographic diversity with GE Security's strong North American presence and increased product and technology offerings.

In August 2009, we completed the acquisition of the remaining 71% interest in GST Holdings Limited (GST), a fire alarm provider in China, for approximately \$250 million bringing our total investment in GST to approximately \$360 million. We recorded over \$200 million of goodwill and approximately \$100 million of identified intangibles in connection with GST. With the acquisition of the remaining 71% of GST, UTC Fire & Security further strengthened its presence in the Chinese fire safety industry.

In July 2009, Carrier and Watsco, Inc. (Watsco) formed Carrier Enterprise, LLC, a joint venture to distribute Carrier, Bryant, Payne and Totaline residential and light commercial HVAC products in the U.S. sunbelt region and selected territories in the Caribbean and Latin America. As part of the transaction, Carrier contributed its distribution businesses located in these regions into the new venture. In consideration of its contribution, Carrier received approximately 3 million shares of common stock of Watsco and a 40 percent noncontrolling interest in the new venture, which included a business contributed by Watsco. Watsco owns 60 percent interest in the venture with options to purchase an additional 20 percent interest from Carrier in future years. Carrier

recognized a gain of approximately \$60 million in 2009 as a result of its contribution of the majority of its U.S. residential sales and distribution businesses in this new venture.

The 2008 investments consisted primarily of a number of small acquisitions in our commercial businesses. The 2007 investments consisted principally of the acquisition of Initial Electronic Security Group (IESG), a division of Rentokil Initial, plc, and Marioff Corporation, Oy (Marioff) both part of the UTC Fire & Security segment, and a number of small acquisitions in both the commercial and aerospace businesses.

On July 2, 2007, we completed the acquisition of IESG with the exception of the French operations, the acquisition of which was completed on December 27, 2007 after receiving regulatory approval. The total purchase price was approximately \$1.2 billion including approximately \$250 million of debt assumed. We recorded approximately \$1.0 billion of goodwill and approximately \$300 million of identified intangible assets in connection with this acquisition. The acquisition of IESG enhances UTC Fire & Security's scale and capability in the electronic security business in key markets where we have a significant presence. IESG sells integrated security systems, intrusion detection, closed circuit television, access control and security software. It is headquartered in the United Kingdom, with operations in the United Kingdom, the Netherlands, the United States and France.

On August 30, 2007, we completed the acquisition of Marioff, a global provider of water mist fire suppression systems for land and marine applications, for approximately \$348 million. We recorded approximately \$250 million of goodwill and approximately \$70 million of identified intangibles in connection with this acquisition. The acquisition increases UTC Fire & Security's presence in environmentally friendly water-based suppression systems and will expand the company's product and service offerings.

We account for business combinations as required by the provisions of the Business Combinations Topic of the FASB ASC, which includes provisions that we adopted effective January 1, 2009. The accounting for business combinations retains the underlying concepts of the previously issued standard in that all business combinations are still required to be accounted for at fair value, but changes the method of applying the acquisition method in a number of significant aspects. Acquisition costs are generally expensed as incurred; noncontrolling interests are valued at fair value at the acquisition date; in-process research and development is recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination are generally expensed subsequent to the acquisition date; and changes in deferred tax



asset valuation allowances and income tax uncertainties after the acquisition date generally affect income tax expense. These changes are effective on a prospective basis for all of our business combinations for which the acquisition date is on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. Adjustments for valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to January 1, 2009 would also apply the revised accounting for business combination provisions.

During the measurement period we will recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisitions date that, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period shall not exceed one year from the acquisition date. Further, any associated restructuring activities will be expensed in future periods and not recorded through purchase accounting as previously done for acquisitions occurring prior to January 1, 2009.

There was no significant impact on our acquisition activity in 2009 from the changes in the provisions of accounting for business combinations.

The assets and liabilities of the acquired businesses are accounted for under the purchase method of accounting and recorded at their fair values at the dates of acquisition. The excess of the purchase price over the estimated fair values of the net assets acquired was recorded as an increase in goodwill of \$630 million in 2009, \$825 million in 2008, and \$1.8 billion in 2007. The results of operations of acquired businesses have been included in the Consolidated Statement of Operations beginning as of the effective date of acquisition.

*Goodwill*. The changes in the carrying amount of goodwill, by segment, are as follows:

(in millions of dollars)	Balance as of January 1, 2009	Goodwill resulting from business combinations	Foreign currency translation and other	Balance as of December 31, 2009
Otis	\$ 1,193	\$ 150	\$ 39	\$ 1,382
Carrier	3,270	36	(54)	3,252
UTC Fire & Security	5,074	259	308	5,641
Pratt & Whitney	1,037	165	35	1,237
Hamilton Sundstrand	4,423	20	53	4,496
Sikorsky	249	—	1	250
Total Segments	15,246	630	382	16,258
Eliminations and other	117	—	(77)	40
Total	\$ 15,363	\$ 630	\$ 305	\$ 16,298

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

(in millions of dollars)	2009		2008	
	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
<b>Amortized:</b>				
Service portfolios	\$ 1,814	\$ (833)	\$ 1,625	\$ (700)
Patents and trademarks	369	(120)	333	(103)
Other, principally customer relationships	2,624	(1,047)	2,460	(825)
	<b>4,807</b>	<b>(2,000)</b>	<b>4,418</b>	<b>(1,628)</b>
<b>Unamortized:</b>				
Trademarks and other	731	—	653	—
Total	\$ 5,538	\$ (2,000)	\$ 5,071	\$ (1,628)

Amortization of intangible assets in 2009 and 2008 was \$347 million and \$363 million, respectively. Amortization of these intangible assets for 2010 through 2014 is expected to approximate \$280 million per year.

### Note 3: Earnings Per Share

(in millions of dollars, except per share amounts)	2009	2008	2007
Net income attributable to common shareowners	\$3,829	\$4,689	\$4,224
Basic weighted average shares outstanding	917.4	937.8	963.9
Stock awards	11.4	18.6	24.9
Diluted weighted average shares outstanding	928.8	956.4	988.8
<b>Earnings per share of Common Stock:</b>			
Basic	\$ 4.17	\$ 5.00	\$ 4.38
Diluted	\$ 4.12	\$ 4.90	\$ 4.27

The computation of diluted earnings per share excludes the effect of the potential exercise of stock awards, including stock appreciation rights (SARs) and stock options when the average market price of the common stock is lower than the exercise price of the related SARs and options during the period. These outstanding stock awards are not included in the computation of diluted earnings per share because the effect would have been antidilutive. For 2009 and 2008, the number of stock awards excluded from the computation was 20.2 million and 8.9 million, respectively. There were no antidilutive stock awards outstanding for 2007. Effective January 1, 2009, we adopted the provisions under the Consolidation Topic of the FASB ASC as it relates to the accounting for noncontrolling interests in Consolidated Financial Statements. This Topic requires that the amount of net income attributable to the noncontrolling interests be included in consolidated net income on the face of the income statement. Earnings per share have not been affected as a result of the adoption of the provisions under this Topic. Additional information pertaining to the accounting for noncontrolling interests is included in Note 9.



#### Note 4: Commercial Aerospace Industry Assets and Commitments

We have receivables and other financing assets with commercial aerospace industry customers totaling \$3,016 million and \$2,636 million at December 31, 2009 and 2008, respectively.

Customer financing assets related to commercial aerospace industry customers consist of products under lease of \$675 million and notes and leases receivable of \$375 million. The notes and leases receivable are scheduled to mature as follows: \$62 million in 2010, \$52 million in 2011, \$15 million in 2012, \$14 million in 2013, \$14 million in 2014, and \$218 million thereafter.

Financing commitments, in the form of secured debt, guarantees or lease financing, are provided to commercial aerospace customers. The extent to which the financing commitments will be utilized is not currently known, since customers may be able to obtain more favorable terms from other financing sources. We may also arrange for third-party investors to assume a portion of these commitments. If financing commitments are exercised, debt financing is generally secured by assets with fair market values equal to or exceeding the financed amounts with interest rates established at the time of funding. We also may lease aircraft and subsequently sublease the aircraft to customers under long-term noncancelable operating leases. In some instances, customers may have minimum lease terms that result in sublease periods shorter than our lease obligation. Lastly, we have made residual value and other guarantees related to various commercial aerospace customer-financing arrangements. The estimated fair market values of the guaranteed assets equal or exceed the value of the related guarantees, net of existing reserves.

Our commercial aerospace financing and rental commitments as of December 31, 2009 were \$909 million and are exercisable as follows: \$116 million in 2010, \$100 million in 2011, \$29 million in 2012, \$7 million in 2013, \$6 million in 2014, and \$651 million thereafter. Our financing obligations with customers are contingent upon maintenance of certain levels of financial condition by the customers.

In addition, we have residual value and other guarantees of \$320 million as of December 31, 2009.

We have a 33% interest in International Aero Engines AG (IAE), an international consortium of four shareholders organized to support the V2500 commercial aircraft engine program. Our interest in IAE is accounted for under the equity method of accounting. IAE may offer customer financing in the form of guarantees, secured debt or lease financing in connection with V2500 engine sales. At December 31, 2009, IAE had financing commitments of \$863 million and asset value guarantees of \$55 million. Our share of IAE's financing commitments and asset value

guarantees was approximately \$281 million at December 31, 2009. In addition, IAE had lease obligations under long-term noncancelable leases of approximately \$268 million, on an undiscounted basis, through 2020 related to aircraft, which are subleased to customers under long-term leases. These aircraft have fair market values, which approximate the financed amounts, net of reserves. The shareholders of IAE have guaranteed IAE's financing arrangements to the extent of their respective ownership interests. In the event of default by a shareholder on certain of these financing arrangements, the other shareholders would be proportionately responsible.

Reserves related to receivables and financing assets were \$141 million and \$149 million at December 31, 2009 and 2008, respectively. Reserves related to financing commitments and guarantees were \$34 million and \$30 million at December 31, 2009 and 2008, respectively.

#### Note 5: Inventories & Contracts in Progress

<i>(in millions of dollars)</i>	2009	2008
Raw materials	\$ 1,281	\$ 1,271
Work-in-process	3,097	3,295
Finished goods	2,889	3,634
Contracts in progress	6,479	6,113
	13,746	14,313
Less:		
Progress payments, secured by lien, on U.S. Government contracts	(264)	(476)
Billings on contracts in progress	(5,973)	(5,497)
	\$ 7,509	\$ 8,340

Raw materials, work-in-process and finished goods are net of valuation reserves of \$683 million and \$497 million as of December 31, 2009 and 2008, respectively. As of December 31, 2009 and 2008, inventory also includes capitalized contract development costs of \$862 million and \$833 million, respectively, related to certain aerospace programs. These capitalized costs will be liquidated as production units are delivered to the customer. The capitalized contract research and development costs within inventory principally relate to capitalized costs 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.

Contracts in progress principally relate to elevator and escalator contracts and include costs of manufactured components, accumulated installation costs and estimated earnings on incomplete contracts.

Our sales contracts in many cases are long-term contracts expected to be performed over periods exceeding twelve months. At December 31, 2009 and 2008, approximately 73% and 68%,

respectively, of total inventories and contracts in progress have been acquired or manufactured under such long-term contracts, a portion of which is not scheduled for delivery within the next twelve months.

#### Note 6: Fixed Assets

<i>(in millions of dollars)</i>	Estimated Useful Lives	2009	2008
Land		\$ 345	\$ 334
Buildings and improvements	20-40 years	4,898	4,681
Machinery, tools and equipment	3-20 years	9,941	9,486
Other, including under construction		493	605
		15,677	15,106
Accumulated depreciation		(9,313)	(8,758)
		\$ 6,364	\$ 6,348

Depreciation expense was \$852 million in 2009, \$865 million in 2008 and \$770 million in 2007.

#### Note 7: Accrued Liabilities

<i>(in millions of dollars)</i>	2009	2008
Advances on sales contracts and service billings	\$ 5,267	\$ 5,248
Accrued salaries, wages and employee benefits	1,801	1,877
Litigation and contract matters	541	436
Service and warranty accruals	447	526
Income taxes payable	348	307
Interest payable	296	296
Accrued property, sales and use taxes	196	207
Accrued restructuring costs	403	213
Accrued workers compensation	181	177
Other	2,312	2,782
	\$11,792	\$12,069

#### Note 8: Borrowings and Lines of Credit

<i>(in millions of dollars)</i>	2009	2008
Short-term borrowings:		
Commercial paper	\$ —	\$ 150
Revolving credit borrowings	—	461
Other borrowings	254	412
Total short-term borrowings	\$254	\$1,023

The weighted-average interest rates applicable to short-term borrowings outstanding at December 31, 2009 and 2008 were 4.8% and 5.3%, respectively. At December 31, 2009, approximately \$3.1 billion was available under short-term lines of credit with local banks at our various domestic and international subsidiaries.

At December 31, 2009, we had committed credit agreements from banks permitting aggregate borrowings of up to \$2.5 billion under a \$1.5 billion revolving credit agreement and a \$1.0 billion multicurrency revolving credit agreement, both of which are available for general funding purposes, including acquisitions. As of December 31, 2009, there were no borrowings under either of these revolving credit agreements, which expire in October 2011 and November 2011, 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 commercial paper borrowings for general corporate purposes, including the funding of potential acquisitions and repurchases of our Common Stock.

<i>(in millions of dollars)</i>	2009	2008
Long-term debt:		
LIBOR+.07% floating rate notes due 2009 *	\$ —	\$ 500
6.500% notes due 2009 *	—	400
7.675% ESOP debt due 2009 *	—	33
4.375% notes due 2010 *	600	600
7.125% notes due 2010 *	500	500
6.350% notes due 2011 *	500	500
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
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
Project financing obligations	158	193
Other (including capitalized leases)	110	105
Total long-term debt	9,490	10,453
Less current portion	(1,233)	(1,116)
Long-term portion	\$ 8,257	\$ 9,337

\* We may redeem the above notes, in whole or in part, at our option at any time at a redemption price in U.S. dollars equal to the greater of 100% of the principal amount of the notes to be redeemed or the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed, discounted to the redemption date on a semiannual basis at the adjusted treasury rate plus 10-50 basis points. The redemption price will also include interest accrued to the date of redemption on the principal balance of the notes being redeemed.

In February 2009, we redeemed the entire \$500 million outstanding principal amount of our LIBOR+.07% floating rate notes that were due June 1, 2009 at a redemption price in U.S. dollars equal to 100% of the principal amount, plus interest accrued. On June 1, 2009, we repaid our \$400 million of 6.500% notes due 2009 which matured on the same date. In December 2009, we redeemed the entire \$33 million outstanding principal amount of our 7.675% ESOP debt that was due December 10, 2009 at a redemption price in U.S. dollars equal to 100% of the principal amount, plus interest accrued.

In December 2008, we issued \$1.25 billion of long-term debt, the proceeds of which were used primarily to repay commercial paper borrowings maturing between December 15, 2008 and January 21, 2009 and a portion of the outstanding borrowings under our multicurrency revolving credit facility. The remainder of the net proceeds were used for general corporate purposes.

In May 2008, we issued \$1.0 billion of long-term debt, the proceeds of which were primarily used for general corporate purposes, including financing acquisitions and repurchases of our stock.

The project financing obligations noted above are associated with the sale of rights to unbilled revenues related to the ongoing activity of an entity acquired in 2008 by Carrier. The percentage of total debt at floating interest rates was 3% and 15% at December 31, 2009 and 2008, respectively. The three month LIBOR rate as of December 31, 2009 and 2008 was approximately 0.3% and 1.4%, respectively.

The schedule of principal payments required on long-term debt for the next five years are:

<i>(in millions of dollars)</i>	
2010	<b>\$1,233</b>
2011	<b>574</b>
2012	<b>508</b>
2013	<b>4</b>
2014	<b>4</b>
Thereafter	<b>7,167</b>
<b>Total</b>	<b>\$9,490</b>

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

#### **Note 9: Equity**

As of January 1, 2009, we adopted the provisions under the Consolidation Topic of the FASB ASC as it relates to the accounting and reporting standards for noncontrolling interests (previously referred to as minority interests) in consolidated subsidiaries as reported in consolidated financial statements. These provisions require that the carrying value of noncontrolling interests be removed from the mezzanine section of the balance sheet and reclassified as equity, and that consolidated net income be recast to include net income attributable to the noncontrolling interests. The standards require retrospective presentation and disclosure of existing noncontrolling interests. Accordingly, we have presented noncontrolling interests as a separate component of equity and have also presented net income attributable to the

noncontrolling interest in the consolidated statement of operations. As a result of this adoption, we reclassified noncontrolling interests in the amounts of \$918 million and \$835 million from the mezzanine section to equity in the December 31, 2008 and 2007, balance sheets, respectively.

In conjunction with the adoption of the new provisions under the Consolidation Topic, we adopted the FASB update to the accounting and reporting standards for redeemable equity instruments. The update to the standards is applicable for all noncontrolling interests with redemption features, such as put options, that are not solely within the control of the Company (redeemable noncontrolling interest). The standards require redeemable noncontrolling interest to be reported in the mezzanine equity section of the consolidated balance sheet at the greater of redemption value or initial carrying value. As a result, we have classified \$245 million and \$203 million of "redeemable noncontrolling interests" in the mezzanine section in the December 31, 2008 and 2007, balance sheets, respectively. These amounts include an initial transition adjustment of \$114 million to increase the redeemable noncontrolling interest to redemption value, where required, as of January 1, 2007. The additional accretion to redemption value attributable to certain redeemable noncontrolling interests was not significant in 2009, 2008 or 2007.

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 is provided below:

<i>(in millions of dollars)</i>	<b>2009</b>	2008	2007
Net income attributable to common shareowners	<b>\$3,829</b>	\$4,689	\$4,224
Transfers to noncontrolling interests			
Decrease in common stock for purchase of subsidiary shares	<b>(67)</b>	—	—
Net income attributable to common shareowners after transfers to noncontrolling interests	<b>\$3,762</b>	\$4,689	\$4,224

## Note 10: Income Taxes

<i>(in millions of dollars)</i>	2009	2008	2007
Current:			
United States:			
Federal	\$ 239	\$ 576	\$ 490
State	54	51	82
Foreign:	837	1,211	1,206
	1,130	1,838	1,778
Future:			
United States:			
Federal	\$ 370	\$ 142	\$ 220
State	41	(52)	(60)
Foreign:	40	(45)	(102)
	451	45	58
Income tax expense	\$1,581	\$1,883	\$1,836
Attributable to items (charged) credited to equity and goodwill	\$ (782)	\$2,818	\$ (493)

Future income taxes represent the tax effects of transactions, which are reported in different periods for tax and financial reporting purposes. These amounts consist of the tax effects of temporary differences between the tax and financial reporting balance sheets and tax carryforwards. Pursuant to the Income Taxes Topic of the FASB ASC, current and non-current future income tax benefits and payables within the same tax jurisdiction are generally offset for presentation in the Consolidated Balance Sheet.

The tax effects of net temporary differences and tax carryforwards which gave rise to future income tax benefits and payables at December 31, 2009 and 2008 are as follows:

<i>(in millions of dollars)</i>	2009	2008
Future income tax benefits:		
Insurance and employee benefits	\$2,209	\$3,200
Other asset basis differences	(357)	(397)
Other liability basis differences	901	1,271
Tax loss carryforwards	764	683
Tax credit carryforwards	1,177	1,125
Valuation allowance	(903)	(698)
	\$3,791	\$5,184
Future income taxes payable:		
Fixed assets	\$ 650	\$ 523
Other items, net	123	290
	\$ 773	\$ 813

Valuation allowances have been established primarily for tax credit, tax loss carryforwards, and certain foreign temporary differences to reduce the future income tax benefits to expected realizable amounts. Upon the January 1, 2009 adoption of the additional guidance issued under the Income Taxes Topic of the FASB ASC related to the accounting for business combinations,

changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense including those associated with acquisitions that closed prior to the date of adoption.

The sources of income before income taxes are:

<i>(in millions of dollars)</i>	2009	2008	2007
United States	\$2,584	\$2,899	\$2,786
Foreign	3,176	4,037	3,598
	\$5,760	\$6,936	\$6,384

With few exceptions, U.S. income taxes have not been provided on undistributed earnings of international subsidiaries. It is not practicable to estimate the amount of tax that might be payable. Our intention is to reinvest these earnings permanently or to repatriate the earnings only when it is tax effective to do so. Accordingly, we believe that U.S. tax on any earnings that might be repatriated would be substantially offset by U.S. foreign tax credits.

Differences between effective income tax rates and the statutory U.S. federal income tax rates are as follows:

	2009	2008	2007
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
Tax on international activities	(6.9)%	(6.9)%	(5.2)%
Tax audit settlements	(0.7)%	(0.8)%	(0.6)%
Other	0.0%	(0.2)%	(0.4)%
Effective income tax rate	27.4%	27.1%	28.8%

The 2009 effective tax rate increased as compared to 2008 due to the absence of certain discrete items which had a net favorable impact in 2008. The 2009 effective tax rate reflects approximately \$38 million of tax expense reductions relating to re-evaluation of our liabilities and contingencies based on global examination activity, including the IRS's completion of 2004 and 2005 examination fieldwork and our related protest filing. As a result of the global examination activity, we recognized approximately \$18 million of associated pre-tax interest income adjustments during 2009.

The 2008 effective tax rate reflects \$62 million of tax expense reductions, principally related to the resolution of disputes with the Appeals Division of the IRS for tax years 2000 through 2003.

The 2007 effective tax rate reflects approximately \$80 million of tax expense reductions, principally relating to re-evaluation of our liabilities and contingencies based upon global examination activity including IRS completion of 2000 through 2003 examination fieldwork and related protest filing, and development of claims for research and development tax credits. Principal



adverse tax impacts to the 2007 effective tax rate related to the EU Fine and enacted tax law changes outside the United States.

In the normal course of business, various tax authorities examine us, including the IRS. The IRS review of tax years 2006 through 2008 is ongoing. Although the outcome of these matters cannot be currently determined, we believe adequate provision has been made for any potential unfavorable financial statement impact.

At December 31, 2009, tax credit carryforwards, principally state and federal, were \$1,177 million, of which \$508 million expire as follows: \$25 million expire from 2010–2014, \$288 million from 2015–2019, and \$195 million from 2020–2029.

At December 31, 2009, tax loss carryforwards, principally state and foreign, were \$3,061 million, of which \$1,020 million expire as follows: \$437 million from 2010-2014, \$139 million from 2015-2019, and \$444 million from 2020-2029.

As disclosed in Note 1, we adopted the provisions of the Income Taxes Topic of the FASB ASC as it relates to the accounting for uncertainty in income taxes as of January 1, 2007. At December 31, 2009, we had gross tax-effected unrecognized tax benefits of \$793 million of which \$732 million, if recognized, would impact the effective tax rate. During the years ended December 31, 2009, 2008, and 2007, we recorded interest expense related to unrecognized tax benefits of approximately \$21 million, \$39 million, and \$56 million, respectively. Total accrued interest at December 31, 2009 and 2008 was approximately \$142 million and \$161 million, respectively. A reconciliation of the beginning and ending amounts of unrecognized tax benefits for the years ended December 31, 2009 and 2008 are as follows:

<i>(in millions of dollars)</i>	2009	2008	2007
Balance at January 1	\$ 773	\$ 798	\$ 815
Additions for tax positions related to the current year	90	112	78
Additions for tax positions of prior years	174	66	93
Reductions for tax positions of prior years	(20)	(85)	(48)
Settlements	(224)	(118)	(140)
Balance at December 31	\$ 793	\$ 773	\$ 798

Included in the balances at December 31, 2009 and 2008, are \$57 million and \$63 million, respectively, of tax positions whose tax characterization is highly certain but for which there is uncertainty about the timing of tax return inclusion. Because of the impact of deferred tax accounting, other than interest and penalties, the timing would not impact the annual effective tax rate but could accelerate the payment of cash to the taxing authority to an earlier period.

We conduct business globally and, as a result, UTC or one or more of our subsidiaries file 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, 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.

It is reasonably possible that over the next twelve months the amount of unrecognized tax benefits may change within a range of a net decrease of \$50 million to a net increase of \$190 million resulting from additional worldwide uncertain tax positions, from the re-evaluation of current uncertain tax positions arising from developments in examinations, in appeals, or in the courts, or from the closure of tax statutes. Not included in the range is €198 million (approximately \$284 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 has been 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. After consideration of the ECJ 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 developments in the other taxpayer's case in the German courts warrant, it may become necessary for us to accrue for this matter, and related interest.

#### **Note 11: Employee Benefit Plans**

We sponsor numerous domestic and foreign employee benefit plans, which are discussed below.

As disclosed in Note 1, we adopted the recognition provisions in 2006 and the measurement date provisions effective January 1, 2007 of the guidance reflected under the Compensation-Retirement Benefits Topic of the FASB ASC. Accordingly, we use a December 31 measurement date for our pension and postretirement plans. Prior to 2007, we used a November 30 measurement date for a majority of our pension and postretirement plans.

*Employee Savings Plans*. We sponsor various employee savings plans. Our contributions to employer sponsored defined contribution plans were \$192 million, \$212 million and \$200 million

for 2009, 2008 and 2007, respectively. Effective January 1, 2010, newly hired non-union employees will receive all of their retirement benefits through the defined contribution savings plan.

Our non-union domestic employee savings plan uses an Employee Stock Ownership Plan (ESOP) for employer contributions. External borrowings, guaranteed by us and reported as debt in the Consolidated Balance Sheet, were used by the ESOP to fund a portion of its purchase of ESOP Convertible Preferred Stock (ESOP Preferred Stock) from us. On November 6, 2003, the Trustee and we effected the conversion of all 10.6 million outstanding shares of ESOP Preferred Stock into 85 million shares of common stock. At the time of the conversion, each share of ESOP Preferred Stock was convertible into four shares of common stock, had a guaranteed minimum value of \$65, a \$4.80 annual dividend and was redeemable by us at any time for \$65 per share. Because of its guaranteed value, the ESOP Preferred Stock was classified outside of Shareowners' Equity. Beginning with the December 31, 2003 balance sheet, common stock held by the ESOP and committed to employees is classified as permanent equity because it no longer has a guaranteed value. Common stock allocated to ESOP participants is included in the average number of common shares outstanding for both basic and diluted earnings per share.

Shares of common stock are allocated to employees' ESOP accounts at fair value on the date earned. Cash dividends on common stock held by the ESOP are used for debt service payments. Participants receive additional shares in lieu of cash dividends. As ESOP debt service payments are made, common stock is released from an unreleased shares account. ESOP debt may be prepaid or re-amortized to either increase or decrease the number of shares released so that the value of released shares equals the value of plan benefit. We may also, at our option, contribute additional common stock or cash to the ESOP. The external borrowings have been extinguished and only re-amortized loans remain between the Company and the Trust. At December 31, 2009, 37.6 million common shares had been allocated to employees, leaving 22.2 million unallocated common shares in the ESOP Trust, with an approximate fair value of \$1.5 billion.

*Pension Plans* . We sponsor both funded and unfunded domestic and foreign defined benefit pension plans that cover the majority of our employees.

<i>(in millions of dollars)</i>	2009	2008
<b>Change in Benefit Obligation:</b>		
Beginning balance	\$ 21,511	\$ 21,914
Service cost	429	446
Interest cost	1,285	1,263
Actuarial loss	471	111
Total benefits paid	(1,162)	(1,121)
Net settlement and curtailment gain	(62)	(21)
Plan amendments	(534)	13
Other	333	(1,094)
Ending balance	\$ 22,271	\$ 21,511
<b>Change in Plan Assets:</b>		
Beginning balance	\$ 15,940	\$ 22,650
Actual return on plan assets	3,004	(5,095)
Employer contributions	1,308	492
Benefits paid from plan assets	(1,111)	(1,095)
Other	236	(1,012)
Ending balance	\$ 19,377	\$ 15,940
<b>Funded Status:</b>		
Fair value of plan assets	\$ 19,377	\$ 15,940
Benefit obligations	(22,271)	(21,511)
Funded status of plan	\$ (2,894)	\$ (5,571)
<b>Amounts Recognized in the Consolidated Balance Sheet Consist of:</b>		
Noncurrent assets	\$ 341	\$ 59
Current liability	(72)	(47)
Noncurrent liability	(3,163)	(5,583)
Net amount recognized	\$ (2,894)	\$ (5,571)
<b>Amounts Recognized in Accumulated Other Comprehensive Income Consist of:</b>		
Net actuarial loss	\$ 6,767	\$ 7,903
Prior service (credit) cost	(313)	298
Transition obligation	7	9
Net amount recognized	\$ 6,461	\$ 8,210

The amounts included in Other in the preceding table reflect the impact of foreign exchange translation, primarily for plans in the United Kingdom and Canada.

Qualified domestic pension plan benefits comprise approximately 75% of the projected benefit obligation. Benefits for union employees are generally based on a stated amount for each year of service. For non-union employees, benefits are generally based on an employee's years of service and compensation near retirement. Effective January 1, 2015, this formula will change to the existing cash balance formula that was adopted in 2003 for newly hired non-union employees and for other non-union employees who made a one-time voluntary election to have future benefit accruals determined under this formula. This plan change resulted in a \$623 million reduction in the projected benefit obligation as of December 31, 2009. Certain foreign plans, which comprise approximately 23% of the projected benefit obligation, are considered defined benefit plans for accounting purposes.

Nonqualified domestic pension plans provide supplementary retirement benefits to certain employees and are not a material component of the projected benefit obligation.

We contributed \$951 million and \$250 million to our domestic defined benefit pension plans during 2009 and 2008, respectively.

Information for pension plans with accumulated benefit obligation in excess of plan assets:

<i>(in millions of dollars)</i>	2009	2008
Projected benefit obligation	\$18,327	\$18,910
Accumulated benefit obligation	17,342	17,224
Fair value of plan assets	15,315	13,391

The accumulated benefit obligation for all defined benefit pension plans was \$20.8 billion and \$19.6 billion at December 31, 2009 and 2008, respectively.

The components of the net periodic pension cost are as follows:

<i>(in millions of dollars)</i>	2009	2008	2007
<b>Pension Benefits:</b>			
Service cost	\$ 429	\$ 446	\$ 438
Interest cost	1,285	1,263	1,182
Expected return on plan assets	(1,634)	(1,663)	(1,546)
Amortization of prior service costs	56	49	37
Amortization of unrecognized net transition obligation	1	1	1
Recognized actuarial net loss	226	119	253
Net settlement and curtailment loss (gain)	102	1	(1)
<b>Net periodic pension cost – employer</b>	<b>\$ 465</b>	<b>\$ 216</b>	<b>\$ 364</b>

Other changes in plan assets and benefit obligations recognized in other comprehensive income in 2009 are as follows:

<i>(in millions of dollars)</i>	
Current year actuarial gain	\$ (910)
Amortization of actuarial loss	(226)
Current year prior service credit	(534)
Amortization of prior service costs	(56)
Amortization of transition obligation	(1)
Other	(90)
<b>Total recognized in other comprehensive income</b>	<b>(1,817)</b>
Net recognized in net periodic pension cost and other comprehensive income	\$ 1,352

The estimated amount that will be amortized from accumulated other comprehensive income into net periodic pension cost in 2010 is as follows:

<i>(in millions of dollars)</i>	
Net actuarial loss	\$284
Prior service credit	(18)
Transition obligation	1
	\$267

Contributions to multiemployer plans were \$126 million, \$163 million and \$145 million for 2009, 2008 and 2007, respectively.

Major assumptions used in determining the benefit obligation and net cost for pension plans are presented in the following table as weighted-averages:

<i>(in millions of dollars)</i>	Benefit Obligation		Net Cost		
	2009	2008	2009	2008	2007
Discount rate	5.9%	6.1%	6.1%	6.0%	5.4%
Salary scale	4.4%	4.4%	4.4%	4.4%	4.0%
Expected return on plan assets	—	—	8.2%	8.3%	8.3%

In determining the expected return on plan assets, we consider the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance. In addition, we may consult with and consider the opinions of financial and other professionals in developing appropriate capital market assumptions. Return projections are also validated using a simulation model that incorporates yield curves, credit spreads and risk premiums to project long-term prospective returns. The 2007 net cost assumptions reflect the early adoption of the measurement change provisions of the Compensation-Retirement Benefits Topic of the FASB ASC, as discussed in Note 1.

Asset management objectives include maintaining an adequate level of diversification, to reduce interest rate and market risk, and to provide adequate liquidity to meet immediate and future benefit payment requirements. The company's overall investment strategy is to achieve a mix of 64% growth seeking assets and 36% income generating assets using a wide diversification of asset types, fund strategies and investment managers. The growth seeking allocation consists of global public equities in developed and emerging countries, private equity, real estate and balanced market risk strategies. Within global equities, twelve percent of the portfolio is an enhanced equity strategy that invests in publicly traded equity and fixed income securities, derivatives and foreign currency. Investments in private equity are primarily via limited partnership interests in buy-out strategies with smaller allocations in distressed debt funds. The real estate strategy is principally concentrated in directly held U.S. core investments with some smaller investments in international, value-added and opportunistic strategies. Within the income generating assets, the fixed income portfolio consists of a broadly diversified portfolio of high quality corporate bonds which are highly correlated to UTC's liabilities and hedge a portion of UTC's interest rate risk. To reduce concentration in individual issuer risk, the portfolio may include a small allocation to U.S. treasuries and securities with credit ratings below investment grade.



The fair values of pension plan assets at December 31, 2009, by asset category are as follows:

<i>Fair Value Measurements at December 31, 2009</i>				
<i>(in millions of dollars)</i>	Quoted Prices in	Significant	Significant	Total
	Active Markets For Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	
<b>Asset Category</b>				
Public Equities				
Global Equities	\$ 4,595	\$ 4	\$ —	\$ 4,599
Global Equity Commingled Funds (a)	77	2,695	—	2,772
Enhanced Global Equities (b)	22	1,538	11	1,571
Private Equities (c)	—	—	1,045	1,045
Fixed Income Securities				
Governments	149	786	—	935
Corporate Bonds	76	5,620	—	5,696
Structured Products (d)	—	1	—	1
Real Estate (e)	—	51	715	766
Other (f)	50	1,100	—	1,150
Cash & Cash Equivalents (g)	190	241	—	431
Subtotal	\$ 5,159	\$ 12,036	\$ 1,771	18,966
Other Assets & Liabilities (h)				411
<b>Total</b>				<b>\$19,377</b>

- (a) This category represents commingled funds that invest primarily in common stocks.
- (b) This category represents enhanced equity separate account and commingled fund portfolios. A portion of the portfolio may include long-short market neutral and relative value strategies that invest in publicly traded, equity and fixed income securities, as well as derivatives of equity and fixed income securities and foreign currency.
- (c) This category represents limited partner investments with general partners that primarily invest in debt and equity.
- (d) This category represents mortgage and asset-backed securities.
- (e) This category represents investments in real estate including commingled funds and directly held properties.
- (f) This category represents insurance contracts and a global balanced risk commingled fund consisting mainly of equity, bonds and some commodities.
- (g) This category represents short-term commercial paper, bonds and other cash or cash-like instruments.
- (h) This category represents trust receivables and payables that are not leveled.

Total assets include \$7.2 billion in gross notional derivative and \$5.5 billion in net notional derivative exposure. Derivatives in the plan are primarily used to manage risk and gain asset class exposure while still maintaining liquidity. Derivative instruments mainly consist of equity futures, interest rate futures, interest rate swaps and currency forward contracts.

Our common stock represents approximately 4% of total plan assets at both December 31, 2009 and 2008. We review our assets at least quarterly to ensure we are within the targeted asset allocation ranges and, if necessary, asset balances are adjusted back within target allocations. We employ a broadly diversified investment manager structure that includes diversification by active and passive management, style, capitalization, country, sector, industry and number of investment managers.

The fair value measurement of plan assets using significant unobservable inputs (Level 3) changed during 2009 due to the following:

<i>2009 Changes in Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</i>						
<i>(in millions of dollars)</i>	Global Equity Commingled Funds	Enhanced Global Equities	Private Equities	Corporate Bonds	Real Estate	Total
Beginning Balance, December 31, 2008	\$ 21	\$ 7	\$ 990	\$ 96	\$ 894	\$2,008
Realized gains/(losses)	(4)	—	(90)	13	(35)	(116)
Unrealized gains/(losses) relating to instruments still held in the reporting period	5	—	140	30	(228)	(53)
Purchases, sales, issuances and settlements (net)	(22)	4	5	(139)	84	(68)
Transfers in/out (net)	—	—	—	—	—	—
<b>Ending Balance, December 31, 2009</b>	<b>\$ —</b>	<b>\$ 11</b>	<b>\$ 1,045</b>	<b>\$ —</b>	<b>\$ 715</b>	<b>\$1,771</b>

Quoted market prices are used to value investments when available. Investments in securities traded on exchanges, including listed futures and options, are valued at the last reported sale prices on the last business day of the year or, if not available, the last reported bid prices. Fixed income securities are primarily measured using a market approach pricing methodology, where observable prices are obtained by market transactions involving identical or comparable securities of issuers with similar credit ratings. Mortgages have been valued on the basis of their future

principal and interest payments discounted at prevailing interest rates for similar investments. Investment contracts are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations. Real estate investments are valued on a quarterly basis using discounted cash flow models which consider long-term lease estimates, future rental receipts and estimated residual values. Valuation estimates are supplemented by third-party appraisals on an annual basis.

Private Equity limited partnerships are valued quarterly using discounted cash flows, earnings multiples and market multiples. Valuation adjustments reflect changes in operating results, financial condition, or prospects of the applicable portfolio company. Over-the-counter securities and government obligations are valued at the bid prices or the average of the bid and ask prices on the last business day of the year from published sources or, if not available, from other sources considered reliable, generally broker quotes. Temporary cash investments are stated at cost, which approximates fair value.

#### Estimated Future Contributions and Benefit Payments

We expect to make contributions of approximately \$600 million to our pension plans in 2010, including approximately \$400 million to our domestic plans. Contributions do not reflect benefits to be paid directly from corporate assets.

Benefit payments, including amounts to be paid from corporate assets, and reflecting expected future service, as appropriate, are expected to be paid as follows: \$1,250 million in 2010, \$1,283 million in 2011, \$1,335 million in 2012, \$1,383 million in 2013, \$1,431 million in 2014, and \$8,071 million from 2015 through 2019.

*Postretirement Benefit Plans*. We sponsor a number of postretirement benefit plans that provide health and life benefits to eligible retirees. Such benefits are provided primarily from domestic plans, which comprise approximately 88% of the benefit obligation. The postretirement plans are primarily unfunded. Assets in funded plans are primarily invested in cash and cash equivalents.

<i>(in millions of dollars)</i>	2009	2008
<b>Change in Benefit Obligation:</b>		
Beginning balance	\$ 871	\$ 971
Service cost	2	3
Interest cost	50	53
Actuarial loss (gain)	20	(54)
Total benefits paid	(83)	(90)
Other	16	(12)
Ending balance	\$ 876	\$ 871
<b>Change in Plan Assets:</b>		
Beginning balance	\$ 16	\$ 27
Employer contributions	73	83
Benefits paid from plan assets	(83)	(90)
Other	5	(4)
Ending balance	\$ 11	\$ 16
<b>Funded Status:</b>		
Fair value of plan assets	\$ 11	\$ 16
Benefit obligations	(876)	(871)
Funded status of plan	\$(865)	\$(855)
<b>Amounts Recognized in the Consolidated Balance Sheet Consist of:</b>		
Current liability	\$ (81)	\$ (88)
Noncurrent liability	(784)	(767)
	\$(865)	\$(855)
<b>Amounts Recognized in Accumulated Other Comprehensive Income Consist of:</b>		
Net actuarial gain	\$(104)	\$(123)
Prior service credit	(2)	(4)
	\$(106)	\$(127)

The components of net periodic benefit cost are as follows:

<i>(in millions of dollars)</i>	2009	2008	2007
<b>Other Postretirement Benefits:</b>			
Service cost	\$ 2	\$ 3	\$ 5
Interest cost	50	53	56
Expected return on plan assets	(1)	(2)	(3)
Amortization of prior service credit	(2)	(6)	(8)
Recognized actuarial net gain	(3)	—	—
Net periodic other postretirement benefit cost	\$ 46	\$ 48	\$ 50

Other changes in plan assets and benefit obligations recognized in other comprehensive income in 2009 are as follows:

<i>(in millions of dollars)</i>	
Current year actuarial loss	\$16
Amortization of prior service credit	2
Amortization of actuarial net gain	3
Total recognized in other comprehensive income	21
Net recognized in net periodic benefit cost and other comprehensive income	\$67

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost in 2010 include actuarial net gains of \$1 million and prior service credits of \$2 million.

Major assumptions used in determining the benefit obligation and net cost for postretirement plans are presented in the following table as weighted-averages:

	Benefit Obligation		Net Cost		
	2009	2008	2009	2008	2007
Discount rate	5.5%	6.0%	6.0%	5.9%	5.5%
Expected return on plan assets	—	—	5.8%	7.8%	7.3%

The 2007 net cost assumptions reflect the early adoption of the measurement change provisions of guidance reflected under the Compensation-Retirement Benefits Topic of the FASB ASC, as discussed in Note 1.

Assumed health care cost trend rates are as follows:

	2009	2008
Health care cost trend rate assumed for next year	8.0%	8.5%
Rate that the cost trend rate gradually declines to	5.0%	5.0%
Year that the rate reaches the rate it is assumed to remain at	2016	2016

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(in millions of dollars)	2009 One-Percentage-Point	
	Increase	Decrease
Effect on total service and interest cost	\$ 2	\$ (2)
Effect on postretirement benefit obligation	\$ 44	\$ (39)

### Estimated Future Benefit Payments

Benefit payments, including net amounts to be paid from corporate assets, and reflecting expected future service, as appropriate, are expected to be paid as follows: \$83 million in 2010, \$80 million in 2011, \$77 million in 2012, \$74 million in 2013, \$71 million in 2014, and \$278 million from 2015 through 2019.

**Stock-Based Compensation**. We have long-term incentive plans authorizing various types of market and performance-based incentive awards that may be granted to officers and employees. Prior to April 13, 2005, our long-term incentive plan provided for the annual grant of awards in an amount not to exceed 2% of the aggregate number of shares of outstanding common stock, treasury shares and potential common stock (as determined by us in the calculation of earnings per share on a diluted basis) for

the preceding year. On April 9, 2008, the shareowners approved an amendment to the 2005 Long Term Incentive Plan (LTIP) which authorized the delivery of up to an additional 33 million shares of common stock pursuant to awards under the LTIP. The amendment increased the maximum number of shares of common stock that may be awarded under the LTIP to 71 million shares. As of December 31, 2009, approximately 27 million shares remain available for awards under the LTIP. The LTIP does not contain an annual award limit. We expect that the shares awarded on an annual basis will range from 1% to 1.5% of shares outstanding. The LTIP will expire after all shares have been awarded or April 30, 2014, whichever is sooner. Following initial approval of the LTIP on April 13, 2005, we may not grant any new awards under previously existing equity compensation plans. Under all long-term incentive plans, the exercise price of awards is set on the grant date and may not be less than the fair market value per share on that date. Generally, stock appreciation rights and stock options have a term of ten years and a minimum three-year vesting period. In the event of retirement, awards held for more than one year shall immediately become vested and exercisable. In addition, under the LTIP, awards with performance-based vesting generally have a minimum three-year vesting period and vest based on performance against pre-established metrics. In the event of retirement, awards held more than one year remain eligible to vest. We have historically repurchased shares in an amount at least equal to the number of shares issued under our equity compensation arrangements and expect to continue this policy.

We measure the cost of all share-based payments, including stock options, at fair value on the grant date and recognize this cost in the statement of operations. For the years ended December 31, 2009, 2008 and 2007, \$153 million, \$211 million and \$198 million, respectively, of compensation cost was recognized in operating results. The associated future income tax benefit recognized was \$49 million, \$72 million and \$67 million for the years ended December 31, 2009, 2008 and 2007, respectively.

For the years ended December 31, 2009, 2008 and 2007, the amount of cash received from the exercise of stock options was \$341 million, \$163 million and \$415 million, respectively, with an associated tax benefit realized of \$95 million, \$49 million and \$174 million, respectively. In addition, the associated tax benefit realized from the vesting of performance share units was \$33 million for the year ended December 31, 2009. Also, in accordance with the Compensation – Stock Compensation Topic of the FASB ASC, for the years ended December 31, 2009, 2008 and 2007, \$50 million, \$32 million and \$130 million, respectively, of certain tax benefits have been reported as operating cash outflows with corresponding cash inflows from financing activities.

At December 31, 2009, there was \$140 million of total unrecognized compensation cost related to non-vested equity awards granted under long-term incentive plans. This cost is expected to be recognized ratably over a weighted-average period of 1.5 years.

A summary of the transactions under all long-term incentive plans for the three years ended December 31, 2009 follows:

<i>(shares and units in thousands)</i>	Stock Options		Stock Appreciation Rights		Performance Share Units		Other Incentive Shares/Units
	Shares	Average Price *	Shares	Average Price *	Units	Average Price **	
Outstanding at:							
December 31, 2006	71,976	\$ 37.71	6,860	\$ 56.78	1,141	\$ 56.53	549
Granted	275	64.49	7,578	65.33	1,085	62.81	125
Exercised/earned	(14,458)	31.39	(61)	45.16	—	—	(85)
Cancelled	(782)	39.35	(491)	60.22	(69)	59.63	(2)
December 31, 2007	57,011	\$ 39.42	13,886	\$ 61.37	2,157	\$ 59.59	587
Granted	192	74.57	7,221	74.23	948	75.21	174
Exercised/earned	(6,095)	32.65	(14)	47.34	—	—	(144)
Cancelled	(110)	44.75	(798)	66.57	(111)	64.59	(55)
December 31, 2008	50,998	\$ 40.35	20,295	\$ 65.75	2,994	\$ 64.35	562
Granted	325	54.95	8,239	54.92	1,302	54.95	180
Exercised/earned	(12,095)	35.04	(346)	56.42	(1,064)	56.53	(96)
Cancelled	(332)	43.54	(851)	62.75	(120)	63.50	(15)
<b>December 31, 2009</b>	<b>38,896</b>	<b>\$ 42.10</b>	<b>27,337</b>	<b>\$ 62.70</b>	<b>3,112</b>	<b>\$ 63.12</b>	<b>631</b>

\* weighted-average exercise price  
 \*\* weighted-average grant stock price

The weighted-average grant date fair value of stock options and stock appreciation rights granted during 2009, 2008 and 2007 was \$16.01, \$21.16 and \$19.10, respectively. The weighted-average grant date fair value of performance share units, which vest upon achieving certain performance metrics, granted during 2009, 2008, and 2007 was \$61.56, \$84.01 and \$71.28, respectively. The total fair value of awards vested during the years ended December 31, 2009, 2008 and 2007 was \$235 million, \$144 million and \$216 million, respectively. The total intrinsic value (which is the amount by which the stock price exceeded the exercise price on the date of exercise) of stock options and stock

appreciation rights exercised during the years ended December 31, 2009, 2008 and 2007 was \$296 million, \$173 million and \$575 million, respectively. The total intrinsic value (which is the stock price at vesting) of performance share units vested was \$100 million during the year ended December 31, 2009.

The following table summarizes information about equity awards outstanding that are expected to vest and equity awards outstanding that are exercisable at December 31, 2009:

<i>(shares thousands, aggregate intrinsic value in millions)</i>	Awards	Equity Awards Outstanding Expected to Vest			Equity Awards Outstanding That Are Exercisable			
		Average Price *	Aggregate Intrinsic Value	Remaining Term **	Awards	Average Price *	Aggregate Intrinsic Value	Remaining Term **
Stock Options/Stock Appreciation Rights	65,661	\$ 50.34	\$ 1,252	5.1	45,879	\$ 44.50	\$ 1,143	3.9
Performance Share Units/Restricted Stock	2,419	—	\$ 168	1.4				

\* weighted-average exercise price per share  
 \*\* weighted-average contractual remaining term in years

The fair value of each option award is estimated on the date of grant using a binomial lattice model. The following table indicates the assumptions used in estimating fair value for the years ended December 31, 2009, 2008 and 2007.

Because lattice-based option models incorporate ranges of assumptions for inputs, those ranges are as follows:

	2009	2008	2007
Expected volatility	30% - 42%	23% - 26%	22% - 23%
Weighted-average volatility	30%	23%	22%
Expected term (in years)	7.4 - 7.9	7.9 - 8.7	7.8 - 8.2
Expected dividends	2.1%	1.6%	1.6%
Risk-free rate	0% - 2.5%	2.9% - 4.0%	4.6% - 5.0%

Expected volatilities are based on the returns of our stock, including implied volatilities from traded options on our stock for the binomial lattice model. We use historical data to estimate equity award exercise and employee termination behavior within the valuation model. Separate employee groups and equity award characteristics are considered separately for valuation purposes. The expected term represents an estimate of the period of time equity awards are expected to remain outstanding. The risk-free rate is based on the term structure of interest rates at the time of equity award grant.

#### Note 12: Restructuring and Other Costs

During 2009, we recorded net pre-tax restructuring and other charges totaling \$830 million for new and ongoing restructuring actions. We recorded charges in the segments as follows: Otis \$158 million, Carrier \$210 million, UTC Fire & Security \$112 million, Pratt & Whitney \$190 million, Hamilton Sundstrand \$88 million, Sikorsky \$7 million, Eliminations and other \$62 million and General corporate expenses \$3 million. The charges include \$420 million in cost of sales, \$364 million in selling, general and administrative expenses and \$46 million in other income. As described below, these charges relate principally to actions initiated during 2009 and, to a lesser extent, to certain actions initiated in 2008 and 2007.

**2009 Actions**. During 2009, we initiated restructuring actions relating to ongoing cost reduction efforts, including workforce reductions, the consolidation of field operations and the consolidation of repair and overhaul operations. We recorded net pre-tax restructuring and related charges totaling \$802 million, including \$389 million in cost of sales, \$368 million in selling, general and administrative expenses and \$45 million in other income.

We expect the 2009 actions that were initiated in the year to result in net workforce reductions of approximately 14,600 hourly and salaried employees, the exiting of approximately 4.5 million net square feet of facilities and the disposal of assets associated

with exited facilities. As of December 31, 2009, net workforce reductions of approximately 11,100 have been completed, and 1.1 million net square feet of facilities have been exited. The majority of the remaining workforce and facility related cost reduction actions are targeted for completion during 2010 and 2011. No specific plans for significant other actions have been finalized at this time.

On September 21, 2009, Pratt & Whitney announced plans to close its Connecticut Airfoil Repair Operations facility in East Hartford, Connecticut by the second quarter of 2010 and its engine overhaul facility in Cheshire, Connecticut by early 2011. On September 22, 2009, the International Association of Machinists (IAM) filed a lawsuit in the U.S. District Court for the District of Connecticut in Hartford, Connecticut alleging that Pratt & Whitney's decision to close these facilities and transfer certain work to facilities outside Connecticut breached the terms of its collective bargaining agreement. Pratt & Whitney believes that it has fully complied with the collective bargaining agreement and that the IAM's contentions are without merit. On February 5, 2010, following a trial on merits, the court issued a declaratory judgment that Pratt & Whitney had breached its obligations under the collective bargaining agreement and permanently enjoined Pratt & Whitney from closing the facilities and transferring the work described in the challenged plans for the duration of the current collective bargaining agreement, which expires on December 5, 2010. Pratt & Whitney is reviewing the decision and considering whether to appeal. Pratt & Whitney has recorded \$53 million of restructuring costs associated with these planned closures.

The following table summarizes the accrual balances and utilization by cost type for the 2009 restructuring actions:

(in millions of dollars)	Severance	Asset Write-Downs	Facility Exit and Lease Termination Costs	Total
Net pre-tax restructuring charges	\$ 680	\$ 69	\$ 53	\$ 802
Utilization	(385)	(69)	(36)	(490)
<b>Balance at December 31, 2009</b>	<b>\$ 295</b>	<b>\$ —</b>	<b>\$ 17</b>	<b>\$ 312</b>

The following table summarizes expected, incurred and remaining costs for the 2009 restructuring actions by type:

(in millions of dollars)	Severance	Asset Write-Downs	Facility Exit and Lease Termination Costs	Total
Expected costs	\$ 713	\$ 69	\$ 117	\$ 899
Costs incurred during 2009	(680)	(69)	(53)	(802)
<b>Remaining costs at December 31, 2009</b>	<b>\$ 33</b>	<b>\$ —</b>	<b>\$ 64</b>	<b>\$ 97</b>



The following table summarizes expected, incurred and remaining costs for the 2009 restructuring actions by segment:

(in millions of dollars)	Expected Costs	Costs Incurred	Remaining Costs at December 31,
		During 2009	2009
Otis	\$ 166	\$ (157)	\$ 9
Carrier	225	(205)	20
UTC Fire & Security	115	(103)	12
Pratt & Whitney	218	(174)	44
Hamilton Sundstrand	102	(90)	12
Sikorsky	7	(7)	—
Eliminations and other	63	(63)	—
General corporate expenses	3	(3)	—
<b>Total</b>	<b>\$ 899</b>	<b>\$ (802)</b>	<b>\$ 97</b>

**2008 Actions** . During 2009, we recorded net pre-tax restructuring and other charges and (reversals) totaling \$26 million, including \$29 million in cost of sales and (\$4 million) in selling, general and administrative expenses and \$1 million in other income. The 2008 actions relate to ongoing cost reduction efforts including selling, general and administrative reductions, principally at Carrier, Pratt & Whitney, and UTC Fire & Security, and the consolidation of manufacturing facilities.

As of December 31, 2009, net workforce reductions of approximately 6,100 employees of an expected 6,200 employees have been completed, and 700,000 net square feet of facilities of an expected 1.2 million net square feet have been exited. The remaining workforce and facility reduction actions are targeted for completion during 2010.

The following table summarizes the restructuring accrual balances and utilization by cost type for the 2008 programs:

(in millions of dollars)	Severance	Asset Write-Downs	Facility Exit and Lease Termination	Total
			Costs	
Restructuring accruals at January 1, 2009	\$ 152	\$ —	\$ 7	\$ 159
Net pre-tax restructuring charges	6	1	19	26
Utilization	(116)	(1)	(22)	(139)
<b>Balance at December 31, 2009</b>	<b>\$ 42</b>	<b>\$ —</b>	<b>\$ 4</b>	<b>\$ 46</b>

The following table summarizes expected, incurred and remaining costs for the 2008 programs by type:

(in millions of dollars)	Severance	Asset Write-Downs	Facility Exit and Lease Termination	Total
			Costs	
Expected costs	\$ 283	\$ 25	\$ 47	\$ 355
Costs incurred during 2008	(277)	(24)	(26)	(327)
Costs incurred during 2009	(6)	(1)	(19)	(26)
<b>Remaining costs at December 31, 2009</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 2</b>	<b>\$ 2</b>

The following table summarizes expected, incurred and remaining costs for the 2008 programs by segment:

(in millions of dollars)	Expected Costs	Costs Incurred	Costs Incurred	Remaining Costs at December 31,
		During 2008	During 2009	2009
Otis	\$ 22	\$ (21)	\$ (1)	\$ —
Carrier	146	(141)	(5)	—
UTC Fire & Security	69	(58)	(9)	2
Pratt & Whitney	109	(93)	(16)	—
Hamilton Sundstrand	9	(13)	4	—
Eliminations and other	—	(1)	1	—
<b>Total</b>	<b>\$ 355</b>	<b>\$ (327)</b>	<b>\$ (26)</b>	<b>\$ 2</b>

### Note 13: 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 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 to hedge forecasted cash flows associated with foreign currency transaction exposures which are accounted for as cash flow hedges, as deemed 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, changes in the derivatives' fair value 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 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 (i.e. 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 \$9 billion and \$11.2 billion at December 31, 2009 and December 31, 2008, respectively.

*Commodity Forward Contracts* . We enter into commodity forward contracts to reduce the risk of fluctuations in the price we pay for

certain commodities (for example, 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 of commodity contracts were insignificant for the period ended December 31, 2009 and 2008, respectively.

The outstanding notional amount of contracts hedging commodity exposures was insignificant at December 31, 2009 and 2008, respectively.

The following table summarizes the fair value of derivative instruments as of December 31, 2009:

<i>(in millions of dollars)</i>	Assets Balance Sheet Location		Liabilities Balance Sheet Location	
Derivatives designated as hedging instruments:				
Foreign Exchange Contracts	Other Current Assets	\$107	Accrued Liabilities	\$ 31
Foreign Exchange Contracts	Other Assets	33	Other Long-Term Liabilities	4
		\$140		\$ 35
Derivatives not designated as hedging instruments:				
Foreign Exchange Contracts	Other Current Assets	\$113	Accrued Liabilities	\$106
Foreign Exchange Contracts	Other Assets	5	Other Long-Term Liabilities	3
		\$118		\$109
<b>Total Derivative Contracts</b>		<b>\$258</b>		<b>\$144</b>

The impact on Accumulated other comprehensive loss from foreign exchange derivative instruments that qualified as cash flow hedges for the period was as follows:

<i>(in millions of dollars)</i>	December 31, 2009
Gain recorded in Accumulated other comprehensive loss	\$ 192
Loss reclassified from Accumulated other comprehensive loss into Product Sales (effective portion)	(165)
Loss recognized in Other Income, net on derivatives (ineffective portion)	(5)

Assuming current market conditions continue, of the amount recorded in Accumulated other comprehensive loss, a \$97 million pre-tax gain is expected to be reclassified into product sales or cost of products sold to reflect the fixed prices obtained from foreign exchange hedging within the next 12 months. Gains and losses recognized in earnings related to the discontinuance or the ineffectiveness of cash flow hedges was \$5 million for the period ended December 31, 2009. The ineffectiveness recognized in earnings was the result of certain forecasted product sales transactions no longer occurring. At December 31, 2009, all

derivative contracts accounted for as cash flow hedges mature by December 2014.

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

<i>(in millions of dollars)</i>	December 31, 2009
Loss recognized in Other Income, net	\$ (59)

*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.



We adopted the requirements of the Fair Value Measurements and Disclosure Topic as of January 1, 2008, with the exception of the application to non-recurring nonfinancial assets and nonfinancial liabilities, which was delayed and therefore adopted as of January 1, 2009. As of December 31, 2009, we do not have any significant non-recurring nonfinancial assets and nonfinancial liabilities.

**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. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, including interest rates, yield curves and credit risks, or inputs that are derived principally from or corroborated by observable market data through correlation. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at 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 December 31, 2009 and 2008:

(in millions of dollars)	Total Carrying Value at December 31, 2009	Quoted price in active markets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)
	Available-for-sale securities	\$ 664	\$ 664	\$ —
Derivative assets	258	—	258	—
Derivative liabilities	144	—	144	—

(in millions of dollars)	Total Carrying Value at December 31, 2008	Quoted price in active markets (Level 1)	Significant other observable inputs (Level 2)	Unobservable inputs (Level 3)
	Available-for-sale securities	\$ 317	\$ 317	\$ —
Derivative assets	188	—	188	—
Derivative liabilities	680	—	680	—

**Valuation Techniques.** Our available-for-sale securities include equity investments that are traded in an active market. 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 and commodity derivatives that are measured at fair value using 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 December 31, 2009, 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 carrying amounts and fair values of financial instruments at December 31, 2009 and 2008 are as follows:

(in millions of dollars)	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets and Liabilities				
Marketable equity securities	\$ 664	\$ 664	\$ 325	\$ 325
Long-term receivables	430	408	343	316
Customer financing notes receivable	350	264	316	245
Short-term borrowings	(254)	(254)	(1,023)	(1,023)
Long-term debt	(9,442)	(10,361)	(10,408)	(11,332)

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 from carrying amounts are attributable to interest and or credit rate changes subsequent to when the transaction occurred. The values of marketable equity securities represent our investment in common stock that is classified as available-for-sale and is accounted for at fair value. 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 have outstanding financing and rental commitments totaling \$909 million at December 31, 2009. 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. Additional information pertaining to these commitments is included in Note 4.

**Note 14: Guarantees**

We extend a variety of financial guarantees to third parties. As of December 31, 2009 and 2008 the following financial guarantees were outstanding:

	2009		2008	
	Maximum Potential Payment	Carrying Amount of Liability	Maximum Potential Payment	Carrying Amount of Liability
<i>(in millions of dollars)</i>				
Credit facilities and debt obligations				
– unconsolidated subsidiaries (expire 2010 to 2034)	\$ 243	\$ 73	\$ 208	\$ 2
IAE's financing arrangements (See Note 4)	1,186	13	1,420	14
Commercial aerospace financing arrangements (See Note 4)	320	12	137	10
Commercial customer financing arrangements	229	1	209	5
Performance guarantees	39	—	40	—

We also have obligations arising from sales of certain businesses and assets, including representations and warranties and related indemnities for environmental, health and safety, tax and employment matters. The maximum potential payment related to these obligations is not a specified amount as a number of the obligations do not contain financial caps. The carrying amount of liabilities related to these obligations was \$137 million and \$150 million at December 31, 2009 and 2008, respectively. For additional information regarding the environmental indemnifications, see Note 16.

We accrue for costs associated with guarantees 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, and where no amount within a range of estimates is more likely, the minimum is accrued. In accordance with the Guarantees Topic of FASB ASC, we record a liability for the fair value of such guarantees in the balance sheet.

We provide service and warranty policies on our products and extend performance and operating cost guarantees beyond our normal service and warranty policies on some of our products, particularly commercial aircraft engines. In addition, we incur discretionary costs to service our products in connection with specific product performance issues. Liability for performance and operating cost guarantees is based upon future product performance and durability, and is estimated largely based upon historical experience. Adjustments are made to accruals as claim data and historical experience warrant. The changes in the carrying amount of service and product warranties and product performance guarantees for the years ended December 31, 2009 and 2008, are as follows:

<i>(in millions of dollars)</i>	2009	2008
Balance as of January 1	\$1,136	\$1,252
Warranties and performance guarantees issued	400	429
Settlements made	(424)	(551)
Other	(40)	6
Balance as of December 31	\$1,072	\$1,136

**Note 15: 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, revenues and risks are shared. Revenues generated from engine programs, spare parts sales, and aftermarket business under collaboration arrangements are recorded as earned in our financial statements. Amounts attributable to our collaborative partners for their share of revenues 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 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 collaborator's share of program costs is recorded as a reduction of the related expense item at that time. As of December 31, 2009, the collaborators' interests in all commercial engine programs ranged from 12 percent to 48 percent. 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 partners exceed 31 percent share in an individual program.

The following table illustrates the income statement classification and amounts attributable to transactions arising from the collaborative arrangements between participants for each period presented:

<i>(in millions of dollars)</i>	2009	2008	2007
Collaborator share of revenues:			
Cost of products sold	\$772	\$1,059	\$942
Cost of services sold	29	17	15
Collaborator share of program costs (reimbursement of expenses incurred):			
Cost of products sold	(66)	(83)	(87)
Research and development	(97)	(61)	(44)
Selling, general and administrative	(4)	(11)	(3)

The Collaborative Arrangements Topic of the FASB ASC requires that participants in a collaborative arrangement report costs incurred and revenues generated from such transactions on a gross basis and in the appropriate line items in each company's financial statements. This is pursuant to the guidance in the Revenue Recognition Topic of the FASB ASC that addresses whether an entity should report revenue gross or net depending on whether the entity functions as a principal or agent. The Collaborative Arrangements Topic also requires disclosure of the nature and purpose of the participant's collaborative

arrangements, the participant's rights and obligations under these arrangements, the accounting policy for collaborative arrangements, the income statement classification and amounts attributable to transactions arising from collaboration arrangements between participants, and the disclosure related to individually significant collaborative arrangements. These requirements were effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and must be applied retrospectively to all prior periods presented for all collaborative arrangements existing as of the effective date.

We adopted the provisions of the Collaborative Arrangements Topic as of January 1, 2009. As required, we have applied the provisions retrospectively for all periods presented. As a result, the collaborators' share of revenues, which were previously reported on a net basis, are now reported on a gross basis. Certain reclassifications were made to the prior year amounts in both the Consolidated Balance Sheet and Consolidated Statement of Operations. In the Consolidated Balance Sheet, accounts receivable and accounts payable were each increased by \$368 million at December 31, 2008, in order to reflect the amounts owed to our collaborative partners for their share of revenues on a gross basis.

The following table illustrates the effect of the retroactive application on our Revenues and Costs and Expenses for all collaborative arrangements existing as of the effective date:

<i>(in millions of dollars)</i>	2008			2007		
	As Previously Reported	Effect of Retroactive Application	Currently Reported	As Previously Reported	Effect of Retroactive Application	Currently Reported
Revenues:						
Product sales	\$ 42,175	\$ 1,059	\$ 43,234	\$ 39,240	\$ 942	\$ 40,182
Service sales	15,868	17	15,885	14,679	15	14,694
Other income, net	638	—	638	840	—	840
	58,681	1,076	59,757	54,759	957	55,716
Costs and Expenses:						
Cost of products sold	31,774	1,059	32,833	29,927	942	30,869
Cost of services sold	10,787	17	10,804	9,995	15	10,010
Research and development	1,771	—	1,771	1,678	—	1,678
Selling, general and administrative	6,724	—	6,724	6,109	—	6,109
Operating profit	\$ 7,625	\$ —	\$ 7,625	\$ 7,050	\$ —	\$ 7,050

#### Note 16: Contingent Liabilities

**Leases.** We occupy space and use certain equipment under lease arrangements. Rental commitments of \$1,571 million at December 31, 2009 under long-term noncancelable operating leases are payable as follows: \$420 million in 2010, \$337 million in 2011, \$231 million in 2012, \$155 million in 2013, \$103 million in 2014 and \$325 million thereafter. Rent expense was \$463 million in 2009, \$504 million in 2008 and \$437 million in 2007.

Additional information pertaining to commercial aerospace rental commitments is included in Note 4.

**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. As described in Note 1, we have accrued for the costs of environmental remediation activities and periodically

reassess these amounts. We believe that the likelihood of incurring losses materially in excess of amounts accrued is remote. At December 31, 2009, we had \$539 million reserved for environmental remediation.

*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 involved substantial amounts. We have made voluntary refunds in those cases we believe appropriate, have settled some allegations and continue to litigate certain 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 accrued 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. Both the DOJ and UTC have appealed the decision. 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.

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 government contracts. The DOD claims that Sikorsky's liability is approximately \$83 million (including interest through December 2009). We believe this claim is without merit and Sikorsky filed an appeal in December 2009 with the U.S. Court of Federal Claims.

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.

*Other*. As described in Note 14, 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, which 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 the 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.

#### **Note 17: Segment Financial Data**

Our operations are classified in six principal segments. The segments are generally determined based on the management of the businesses and on the basis of separate groups of operating companies, each with general operating autonomy over diversified products and services.

Otis products include elevators, escalators, moving walkways and service sold to customers in the commercial and residential property industries around the world.

Carrier products include HVAC and refrigeration systems, controls, services and energy efficient products for residential, commercial, industrial and transportation applications.

UTC Fire & Security products include fire and special hazard and suppression systems and firefighting equipment, security, monitoring and rapid response systems and service and security personnel for a diversified international customer base principally in the industrial, commercial and residential property sectors.

Pratt & Whitney products include commercial, military, business jet and general aviation aircraft engines, parts and services, industrial gas turbines, geothermal power systems and space propulsion sold to a diversified customer base, including international and domestic commercial airlines and aircraft leasing companies, aircraft manufacturers, and U.S. and foreign governments. Pratt & Whitney also provides product support and

a full range of overhaul, repair and fleet management services and produces land-based power generation equipment.

Hamilton Sundstrand provides aerospace and industrial products and aftermarket services for diversified industries worldwide. Aerospace products include power generation, management and distribution systems, flight systems, engine control systems, environmental control systems, fire protection and detection systems, auxiliary power units and propeller systems. Industrial products include air compressors, metering pumps and fluid handling equipment.

Sikorsky products include military and commercial helicopters, aftermarket helicopter and aircraft parts and services.

*Segment Revenues and Operating Profit*. Total revenues by segment include intersegment sales, which are generally made at prices approximating those that the selling entity is able to obtain on external sales. Segment information for the years ended December 31 is as follows:

(in millions of dollars)	Total Revenues			Operating Profits		
	2009	2008	2007	2009	2008	2007
Otis	\$11,779	\$12,949	\$11,885	\$2,447	\$2,477	\$2,321
Carrier	11,413	14,944	14,644	740	1,316	1,381
UTC Fire & Security	5,531	6,462	5,754	493	542	443
Pratt & Whitney	12,577	14,041	13,086	1,835	2,122	2,011
Hamilton Sundstrand	5,599	6,207	5,636	857	1,099	967
Sikorsky	6,318	5,368	4,789	608	478	373
Total segment	53,217	59,971	55,794	6,980	8,034	7,496
Eliminations and other	(297)	(214)	(78)	(167)	(1)	(60)
General corporate expenses	—	—	—	(348)	(408)	(386)
Consolidated	\$52,920	\$59,757	\$55,716	\$6,465	\$7,625	\$7,050

(in millions of dollars)	Total Assets			Capital Expenditures			Depreciation & Amortization		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
Otis	\$ 7,908	\$ 7,731	\$ 7,721	\$ 67	\$ 150	\$ 136	\$ 204	\$ 203	\$ 186
Carrier	9,804	10,810	10,335	90	191	181	191	194	188
UTC Fire & Security	10,304	10,022	11,143	72	95	101	214	238	202
Pratt & Whitney	10,063	10,018	9,586	288	412	384	329	368	307
Hamilton Sundstrand	8,509	8,648	8,965	114	141	160	174	178	163
Sikorsky	4,167	3,985	3,412	95	165	128	68	62	52
Total segment	50,755	51,214	51,162	726	1,154	1,090	1,180	1,243	1,098
Eliminations and other <sup>1</sup>	5,007	5,623	3,726	100	62	63	78	78	75
Consolidated	\$55,762	\$56,837	\$54,888	\$826	\$1,216	\$1,153	\$1,258	\$1,321	\$1,173

<sup>1</sup> The asset increase from 2007 to 2008 primarily reflects the increase in cash and cash equivalents held at UTC Corporate.

**Geographic External Revenues and Operating Profit** . Geographic external revenues and operating profits are attributed to the geographic regions based on their location of origin. U.S. external revenues include export sales to commercial customers outside the United States and sales to the U.S. government, commercial and affiliated customers, which are known to be for resale to customers outside the United States. Long-lived assets are net fixed assets attributed to the specific geographic regions.

<i>(in millions of dollars)</i>	External Revenues			Operating Profits			Long-Lived Assets		
	2009	2008	2007	2009	2008	2007	2009	2008	2007
United States Operations	\$28,337	\$29,477	\$27,665	\$3,771	\$3,945	\$3,508	\$3,096	\$3,198	\$3,109
International Operations									
Europe	12,269	15,180	13,917	1,743	2,219	2,204	1,346	1,347	1,356
Asia Pacific	7,138	8,212	7,991	990	1,037	1,041	845	800	762
Other	5,040	6,619	5,783	476	833	743	714	671	803
Eliminations and other	136	269	360	(515)	(409)	(446)	363	332	266
Consolidated	\$52,920	\$59,757	\$55,716	\$6,465	\$7,625	\$7,050	\$6,364	\$6,348	\$6,296

Revenues from U.S. operations include export sales as follows:

<i>(in millions of dollars)</i>	2009	2008	2007
Europe	\$2,089	\$2,180	\$1,858
Asia Pacific	2,430	2,221	2,387
Other	2,477	2,861	2,247
	\$6,996	\$7,262	\$6,492

**Major Customers** . Revenues include sales under prime contracts and subcontracts to the U.S. government, primarily related to Pratt & Whitney, Hamilton Sundstrand and Sikorsky products, as follows:

<i>(in millions of dollars)</i>	2009	2008	2007
Pratt & Whitney	\$3,942	\$3,804	\$3,765
Hamilton Sundstrand	1,230	1,089	948
Sikorsky	3,979	3,063	2,774
Other	127	35	39
	\$9,278	\$7,991	\$7,526

### Selected Quarterly Financial Data (Unaudited)

<i>(in millions of dollars, except per share amounts)</i>	2009 Quarters				2008 Quarters			
	First	Second	Third	Fourth	First	Second	Third	Fourth
Sales	\$12,199	\$13,060	\$13,187	\$13,979	\$13,834	\$15,812	\$14,973	\$14,500
Gross margin	3,092	3,459	3,351	3,662	3,596	4,176	4,038	3,672
Net income attributable to common shareowners	722	976	1,058	1,073	1,000	1,275	1,269	1,145
Earnings per share of Common Stock:								
Basic – net income	\$ .79	\$ 1.06	\$ 1.15	\$ 1.17	\$ 1.05	\$ 1.35	\$ 1.36	\$ 1.24
Diluted – net income	\$ .78	\$ 1.05	\$ 1.14	\$ 1.15	\$ 1.03	\$ 1.32	\$ 1.33	\$ 1.23

### Comparative Stock Data (Unaudited)

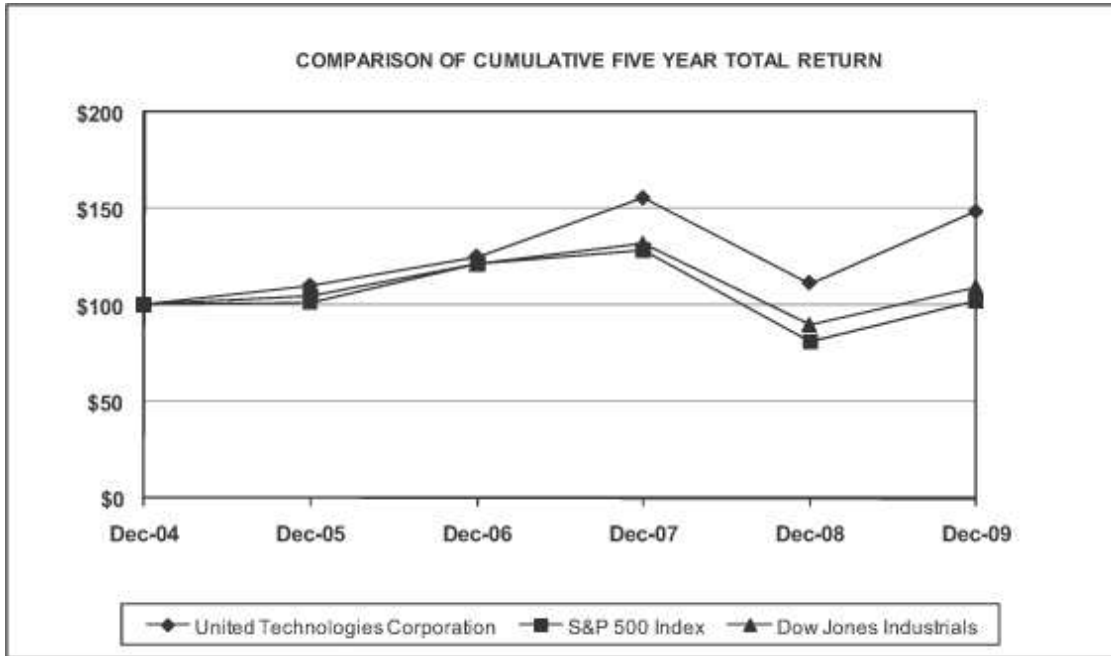
Common Stock	2009			2008		
	High	Low	Dividend	High	Low	Dividend
First quarter	\$55.51	\$37.40	\$ .385	\$77.14	\$65.20	\$ .320
Second quarter	\$56.99	\$42.06	\$ .385	\$75.86	\$60.51	\$ .320
Third quarter	\$63.72	\$49.00	\$ .385	\$67.95	\$56.15	\$ .320
Fourth quarter	\$70.89	\$59.31	\$ .385	\$59.96	\$41.76	\$ .385

Our common stock is listed on the New York Stock Exchange. The high and low prices are based on the Composite Tape of the New York Stock Exchange. There were approximately 25,778 registered shareholders at December 31, 2009.



### Performance Graph (Unaudited)

The following graph presents the cumulative total shareholder return for the five years ending December 31, 2009 for our common stock, as compared to the Standard & Poor's 500 Stock Index and to the Dow Jones 30 Industrial Average. Our common stock price is a component of both indices. These figures assume that all dividends paid over the five-year period were reinvested, and that the starting value of each index and the investment in common stock was \$100.00 on December 31, 2004.



	December					
	2004	2005	2006	2007	2008	2009
United Technologies Corporation	\$100.00	\$110.05	\$125.08	\$155.65	\$111.40	<b>\$148.48</b>
S&P 500 Index	\$100.00	\$104.91	\$121.48	\$128.16	\$ 80.74	<b>\$102.11</b>
Dow Jones Industrial Average	\$100.00	\$101.75	\$121.11	\$131.85	\$ 89.77	<b>\$109.34</b>



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## Board of Directors

### Louis R. Chênevert

Chairman & Chief Executive Officer  
United Technologies Corporation  
*(Diversified Manufacturer)*

### John V. Faraci

Chairman and Chief Executive Officer  
International Paper  
*(Paper, Packaging and Distribution)*

### Jean-Pierre Garnier

Chief Executive Officer  
Pierre Fabre S.A.  
*(Pharmaceutical and Cosmetic Products)*

### Jamie S. Gorelick

Partner  
WilmerHale  
*(Law Firm)*  
Former Deputy Attorney General of the United States  
Former General Counsel of the Department of Defense

### Carlos M. Gutierrez

Former U.S. Secretary of Commerce  
*(Government Service)*  
Former Chairman and CEO Kellogg Company  
*(Food Products)*

### Edward A. Kangas

Former Chairman and CEO, Deloitte Touche Tohmatsu  
*(Audit and Tax Services)*

### Charles R. Lee

Retired Chairman and Co-Chief Executive Officer  
Verizon Communications  
*(Telecommunications)*

### Richard D. McCormick

Retired Chairman, President and Chief Executive Officer  
US West, Inc.  
*(Telecommunications)*

### Harold McGraw III

Chairman, President and Chief Executive Officer  
The McGraw-Hill Companies  
*(Global Information Services)*

### Richard B. Myers

General, U.S. Air Force  
*(Ret.)*  
and former Chairman of the Joint Chiefs of Staff  
*(Military Leadership)*

### H. Patrick Swygert

President Emeritus  
Howard University  
*(Educational Institution)*

### André Villeneuve

Non-Executive Chairman of LIFFE  
*(Part of NYSE Euronext Group)*

### Christine Todd Whitman

President  
The Whitman Strategy Group  
*(Environment and Public Policy Consulting)*  
Former EPA Administrator  
Former Governor of New Jersey

## Permanent Committees

### Audit Committee

John V. Faraci, Chair  
Edward A. Kangas  
Richard D. McCormick  
Richard B. Myers  
H. Patrick Swygert  
André Villeneuve

### Committee on Compensation and Executive Development

Jean-Pierre Garnier, Chair  
Jamie S. Gorelick  
Edward A. Kangas  
Charles R. Lee  
Richard D. McCormick  
Harold McGraw III  
H. Patrick Swygert

### Executive Committee

Louis R. Chênevert, Chair  
Charles R. Lee  
Richard D. McCormick

### Finance Committee

Charles R. Lee, Chair  
Louis R. Chênevert  
John V. Faraci  
Jamie S. Gorelick  
Carlos M. Gutierrez  
Richard B. Myers  
André Villeneuve  
Christine Todd Whitman

## Committee on Nominations and Governance

Richard D. McCormick, Chair  
John V. Faraci  
Jean-Pierre Garnier  
Carlos M. Gutierrez  
Charles R. Lee  
Harold McGraw III  
Christine Todd Whitman

## Public Issues Review Committee

Christine Todd Whitman, Chair  
Jean-Pierre Garnier  
Jamie S. Gorelick  
Harold McGraw III  
Richard B. Myers  
H. Patrick Swygert  
André Villeneuve

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## Leadership

**Paul R. Adams**  
Senior Vice President,  
Engineering, Pratt & Whitney

**David Adler**  
President,  
Sikorsky Aerospace Services

**David G. Appel**  
President,  
HVAC EMEA, Carrier

**Alain M. Bellemare**  
President,  
Hamilton Sundstrand

**Richard H. Bennett, Jr.**  
Vice President,  
Environment, Health &  
Safety

**Anthony C. Black**  
Senior Vice President,  
Operations, UTC Fire &  
Security

**Carey E. Bond**  
President, Sikorsky Global  
Helicopters and Chief  
Marketing Officer

**Ari Bousbib**  
President, Commercial  
Companies and Executive  
Vice President, UTC

**J. Thomas Bowler, Jr.**  
Senior Vice President,  
Human Resources and  
Organization

**Matthew F. Bromberg**  
Vice President and General  
Manager,  
Customer Service,  
Hamilton Sundstrand

**William M. Brown**  
President,  
UTC Fire & Security

**Louis R. Chênevert**  
Chairman & Chief Executive  
Officer

**Peter C. Christman, Jr.**  
President, Pratt & Whitney  
Power Systems

**Geraud Darnis**  
President, Carrier

**Nancy M. Davis**  
Vice President and  
Chief Information Officer

**Pierre Dejoux**  
President, South Asia Pacific  
and Gulf, Otis

**Philippe Delpech**  
President, Commercial  
Refrigeration,  
Carrier

**John J. Doucette**  
President, Industrial,  
Hamilton Sundstrand

**Eileen P. Drake**  
Vice President, Operations

**Michael R. Dumais**  
Vice President, Operations,  
Hamilton Sundstrand

**Thomas E. Farmer**  
President, Military Engines,  
Pratt & Whitney

**Charles D. Gill, Jr.**  
Senior Vice President and  
General Counsel

**David L. Gitlin**  
President, Auxiliary Power,  
Engine & Control Systems,  
Hamilton Sundstrand

**Bruno Grob**  
President, North and East  
Europe and Africa, Otis

**Lindsay Harvey**  
President, United Kingdom  
and Central Europe, Otis

**Gregory J. Hayes**  
Senior Vice President and  
Chief Financial Officer

**David P. Hess**  
President, Pratt & Whitney

**Kathleen M. Hopko**  
Vice President, Secretary  
and Associate General  
Counsel

**Todd J. Kallman**  
President, Commercial  
Engines and Global  
Services, Pratt & Whitney

**Ervin F. Lauterbach**  
President, Building Systems  
and Services, North America,  
Carrier

**Robert F. Leduc**  
President, Flight Systems  
and U.S. Government  
Classified  
Programs, Hamilton  
Sundstrand

**James G. Maser**  
President,  
Pratt & Whitney Rocketdyne

**Michael B. Maurer**  
Senior Vice President,  
Operations, Sikorsky

**Robert J. McDonough**  
President, Residential and  
Light Commercial  
North America, Carrier

**J. Michael McQuade**  
Senior Vice President,  
Science and Technology

**Didier Michaud-Daniel**  
President, Otis

**Raymond J. Moncini**  
Senior Vice President,  
Operations, Carrier

**Michael A. Monts**  
Vice President,  
Business Practices

**David E. Parekh**  
Vice President, Research,  
and Director, United  
Technologies Research  
Center

**Jeffrey P. Pino**  
President, Sikorsky

**Jothi Purushotaman**  
President, UTC India

**Thomas I. Rogan**  
Vice President, Treasurer

**Kelly Romano**  
Senior Vice President,  
Sales and Marketing,  
UTC Fire & Security

**John Saabas**  
President,  
Pratt & Whitney Canada

**Pedro Sainz de Baranda**  
President, South Europe and  
Mediterranean, Otis

**Ross B. Shuster**  
President, HVAC Asia,  
Carrier

**Margaret M. Smyth**  
Vice President, Controller

**Scott D. Starrett**  
President, Sikorsky Military  
Systems

**Tobin J. Treichel**  
Vice President, Tax

**Charles Vo**  
President,  
North Asia Pacific, Otis

**Gregg Ward**  
Senior Vice President,  
Government Affairs

**Randal E. Wilcox**  
President, North and  
South America, Otis

## Shareowner Information

### Corporate Office

United Technologies Corporation  
United Technologies Building  
Hartford, Connecticut 06101  
Telephone: 860.728.7000

This report is made available to shareowners in advance of the annual meeting of shareowners to be held at 2 p.m., April 14, 2010, in Indianapolis, Indiana. The proxy statement will be made available to shareowners on or about February 26, 2010, at which time proxies for the meeting will be requested.

Information about UTC, including financial information, can be found at our Web site: [www.utc.com](http://www.utc.com).

### Stock Listing

New York Stock Exchange

### Ticker Symbol

UTX

### Transfer Agent and Registrar

Computershare Trust Company, N.A., is the transfer agent, registrar and dividend disbursing agent for UTC's Common Stock. Questions and communications regarding transfer of stock, replacement of lost certificates, dividends and address changes, and the Direct Stock Purchase and Dividend Reinvestment Plan should be directed to:

Computershare Trust Company, N.A.  
250 Royall Street  
Canton, Massachusetts 02021  
Telephone:

Within the U.S.: 1.800.488.9281

Outside the U.S.: 1.781.575.2724

Web site: [www.computershare.com/investor](http://www.computershare.com/investor)

TDD: 1.800.952.9245

Telecommunications device for the hearing impaired.

### Certifications

UTC has included as Exhibit 31 to its Annual Report on Form 10-K for fiscal year 2009 filed with the Securities and Exchange Commission certificates of its principal executive officers and principal financial officers certifying, among other things, the information contained in the Form 10-K.

Annually UTC submits to the New York Stock Exchange (NYSE) a certificate of UTC's Chief Executive Officer certifying that he was not aware of any violation by UTC of NYSE corporate governance listing standards as of the date of the certification.

### Dividends

Dividends are usually paid on the 10th day of March, June, September and December.

### Electronic Access

Rather than receiving mailed copies, registered shareowners may sign up at the following Web site for electronic communications, including annual meeting materials, stock plan statements and tax documents: [www.computershare-na.com/green](http://www.computershare-na.com/green).

For annual meeting materials, your enrollment is revocable until a week before each year's record date for the annual meeting. Beneficial shareowners may be able to request electronic access by contacting their broker or bank, or Broadridge Financial Solutions at: <http://enroll.icsdelivery.com/utc>.

### Additional Information

Shareowners may obtain a copy of the UTC Annual Report on Form 10-K for 2009 filed with the Securities and Exchange Commission by writing to:

Corporate Secretary  
United Technologies Corporation  
United Technologies Building  
Hartford, Connecticut 06101

For additional information about UTC, please contact Investor Relations at the above corporate office address, or visit our Web site at: [www.utc.com](http://www.utc.com).

### Shareowner Information Services

Our Internet and telephone services give shareowners fast access to UTC financial results. The 24-hour-a-day, toll-free telephone service includes recorded summaries of UTC's quarterly earnings information and other company news. Callers also may request copies of our quarterly earnings and news releases, by either fax or mail, and obtain copies of the UTC Annual Report and Form 10-K.

To access the service, dial 1.800.881.1914 from any touchtone phone and follow the recorded instructions.

### Direct Registration System

If your shares are held in street name through a broker and you are interested in participating in the Direct Registration System, you may have your broker transfer the shares to Computershare Trust Company, N.A., electronically through the Direct Registration System. Interested investors can request a description of this book-entry form of registration by calling Shareholder Direct at: 1.800.881.1914.

### Environmentally Friendly Report

This annual report is printed on recycled and recyclable paper.

[www.utc.com](http://www.utc.com)

[www.carrier.com](http://www.carrier.com)

[www.hamiltonsundstrand.com](http://www.hamiltonsundstrand.com)

[www.otis.com](http://www.otis.com)

[www.pw.utc.com](http://www.pw.utc.com)

[www.sikorsky.com](http://www.sikorsky.com)

[www.utcfireandsecurity.com](http://www.utcfireandsecurity.com)

[www.utcpower.com](http://www.utcpower.com)

United Technologies Corporation  
 Subsidiary and Affiliate Listing  
 December 31, 2009

<u>Entity Name</u>	<u>State/Country of Incorporation</u>
3206772 Nova Scotia Company	Canada
Australia Holdings Inc.	Delaware
Beesail Limited	England
Caricor Ltd.	Delaware
Carrier Commercial Refrigeration, Inc.	Delaware
Carrier Corporation	Delaware
Carrier Enterprise, LLC	Delaware
Carrier HVACR Investments B.V.	Netherlands
Carrier Technologies ULC	Canada
Ceesail Limited	England
Chubb (UK) Limited	England
Chubb Asia Holdings Limited	England
Chubb Fire Limited	England
Chubb Group (International) Limited	England
Chubb Group Limited	England
Chubb Group Properties Limited	England
Chubb Group Security Limited	England
Chubb International (Netherlands) BV	Netherlands
Chubb International Holdings Limited	England
Chubb International Limited	England
Chubb Investments Limited	England
Chubb Limited	England
Chubb Nederland B.V.	Netherlands
Chubb Overseas Investments Limited	England
Chubb Security Holdings Australia Limited	Australia
Chubb White Peak (UK) Limited	England
Commonwealth Luxembourg Holdings S.a.r.l.	Luxembourg
Empresas Carrier, S. De R.L. De C.V.	Mexico
Fyrnetics (Hong Kong) Limited	Hong Kong
GST Holdings Limited	Cayman Islands
Hamilton Sundstrand Corporation	Delaware
Hamilton Sundstrand Holdings, Inc.	Delaware
Hamilton Sundstrand International Holdings Ltd.	Cayman Islands
Helicopter Support, Inc.	Connecticut
le Pe Ge B.V.	Netherlands
International Comfort Products, LLC	Delaware
Kaysail Limited	England
Kidde America Inc.	Delaware
Kidde Fire Protection Inc.	Delaware
Kidde Holdings Limited	England
Kidde International Limited	England
Kidde Limited	England
Kidde Technologies Inc. (*)	Delaware
Kidde UK	England
Kidde US Holdings Inc.	Delaware
KNA Inc.	Delaware
Latin American Holding, Inc.	Delaware

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**United Technologies Corporation  
Subsidiary and Affiliate Listing  
December 31, 2009**

<u>Entity Name</u>	<u>State/Country of Incorporation</u>
Lenel Systems International, Inc.	Delaware
Milton Roy Company	Pennsylvania
Moonless Limited	England
Nippon Otis Elevator Company	Japan
Noresco, LLC	Delaware
NSI, Inc.	Delaware
Otis Elevator Company	New Jersey
Otis Elevator Korea	Republic of Korea
Otis Far East Holdings Limited	Hong Kong
Otis Holdings GmbH & Co. OHG	Germany
Otis International Holdings UK Limited	England
Otis Limited	England
Otis Pacific Holdings B.V.	Netherlands
Otis S.C.S.	France
Parkview Participations LLC	Delaware
Parkview Treasury Services (UK) Limited	United Kingdom
Pilgrim House Group Limited	England
Pratt & Whitney Canada Corp.	Canada
Pratt & Whitney Canada Holdings Corp.	Canada
Pratt & Whitney Canada Leasing, Limited Partnership	Canada
Pratt & Whitney Engine Leasing, LLC	Delaware
Pratt & Whitney Power Systems, Inc.	Delaware
Pratt & Whitney Rocketdyne, Inc.	Delaware
Pratt Aero Limited Partnership	Canada
Ratier-Figeac, SAS	France
SICLI Holding SAS	France
Sikorsky Aircraft Corporation	Delaware
Sirius Korea Limited	England
Sullair Corporation	Indiana
United Technologies Australia Holdings Limited	Australia
United Technologies Canada, Ltd.	Canada
United Technologies Cortran, Inc.	Delaware
United Technologies Electronic Controls, Inc.	Delaware
United Technologies Far East Limited	Hong Kong
United Technologies Finance (U.K.) Limited	England
United Technologies France SAS	France
United Technologies Holding GmbH	Germany
United Technologies Holdings Limited	England
United Technologies Holdings SAS	France
United Technologies Intercompany Lending Ireland Limited	Ireland
United Technologies International Corporation-Asia Private Limited	Singapore
United Technologies International SAS	France
United Technologies Luxembourg S.a.r.l.	Luxembourg
United Technologies Paris SNC	France
UT (UK) LIMITED	England
UT Finance Corporation	Delaware
UT Luxembourg Holding I S.a.r.l.	Luxembourg

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**United Technologies Corporation  
Subsidiary and Affiliate Listing  
December 31, 2009**

Entity Name

**UT Luxembourg Holding II S.a.r.l.  
UT Park View, Inc.  
UTC Canada Corporation  
UTC Fire & Security Corporation  
UTCL Holdings, Limited  
UTCL Investments B.V.  
UTX Holdings S.C.S.  
White Peak Finance Ireland  
Wytownia Sprzetu Komunikacyjnego PZL-Rzeszow S.A.  
Xizi Otis Elevator Company Limited  
Zardoya Otis, S.A.**

State/Country of Incorporation

**Luxembourg  
Delaware  
Canada  
Delaware  
Canada  
Netherlands  
France  
Ireland  
Poland  
China  
Spain**

\* Kidde Technologies Inc. also conducts business as Kidde Aerospace & Defense, Fenwal Safety Systems and Kidde Dual Spectrum.

Other subsidiaries of the Registrant have been omitted from this listing since, considered in the aggregate as a single subsidiary, they would not constitute a significant subsidiary.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-144830), 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. 333-163822, 333-156390, 333-156385, 333-150643, 333-125293, 333-110020, 333-100724, 333-100723, 333-100718, 333-82911, 333-77817, 333-21853, 333-21851, 033-57769 and 033-51385) of United Technologies Corporation of our report dated February 11, 2010 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareowners, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 11, 2010 relating to the financial statement schedule, which appears on page S-I of this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut  
February 11, 2010



**UNITED TECHNOLOGIES CORPORATION**  
**Power of Attorney**

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints CHARLES D. GILL, KATHLEEN M. HOPKO and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2009, including specifically, but without limiting the generality of the foregoing, the power and authority to sign the name of the undersigned, in the capacities aforesaid or in any other capacity, to such Form 10-K Annual Report filed or to be filed with the Securities and Exchange Commission, and any and all amendments to the said Form 10-K Annual Report, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K Annual Report or any amendments thereto; hereby ratifying and confirming all that the said attorneys and agents, or any one of them, have done, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 8th day of February, 2010.

/s/ JOHN V. FARACI

\_\_\_\_\_  
John V. Faraci

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**UNITED TECHNOLOGIES CORPORATION**  
**Power of Attorney**

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints CHARLES D. GILL, KATHLEEN M. HOPKO and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2009, including specifically, but without limiting the generality of the foregoing, the power and authority to sign the name of the undersigned, in the capacities aforesaid or in any other capacity, to such Form 10-K Annual Report filed or to be filed with the Securities and Exchange Commission, and any and all amendments to the said Form 10-K Annual Report, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K Annual Report or any amendments thereto; hereby ratifying and confirming all that the said attorneys and agents, or any one of them, have done, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 8th day of February, 2010.

/s/ JEAN-PIERRE GARNIER

Jean-Pierre Garnier

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**UNITED TECHNOLOGIES CORPORATION**  
**Power of Attorney**

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints CHARLES D. GILL, KATHLEEN M. HOPKO and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2009, including specifically, but without limiting the generality of the foregoing, the power and authority to sign the name of the undersigned, in the capacities aforesaid or in any other capacity, to such Form 10-K Annual Report filed or to be filed with the Securities and Exchange Commission, and any and all amendments to the said Form 10-K Annual Report, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K Annual Report or any amendments thereto; hereby ratifying and confirming all that the said attorneys and agents, or any one of them, have done, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 8th day of February, 2010.

/s/ JAMIE S. GORELICK

Jamie S. Gorelick

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**UNITED TECHNOLOGIES CORPORATION**  
**Power of Attorney**

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints CHARLES D. GILL, KATHLEEN M. HOPKO and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2009, including specifically, but without limiting the generality of the foregoing, the power and authority to sign the name of the undersigned, in the capacities aforesaid or in any other capacity, to such Form 10-K Annual Report filed or to be filed with the Securities and Exchange Commission, and any and all amendments to the said Form 10-K Annual Report, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K Annual Report or any amendments thereto; hereby ratifying and confirming all that the said attorneys and agents, or any one of them, have done, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 8th day of February, 2010.

/s/ CARLOS M. GUTIERREZ

Carlos M. Gutierrez

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**UNITED TECHNOLOGIES CORPORATION**  
**Power of Attorney**

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints CHARLES D. GILL, KATHLEEN M. HOPKO and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2009, including specifically, but without limiting the generality of the foregoing, the power and authority to sign the name of the undersigned, in the capacities aforesaid or in any other capacity, to such Form 10-K Annual Report filed or to be filed with the Securities and Exchange Commission, and any and all amendments to the said Form 10-K Annual Report, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K Annual Report or any amendments thereto; hereby ratifying and confirming all that the said attorneys and agents, or any one of them, have done, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 8th day of February, 2010.

/s/ EDWARD A. KANGAS

Edward A. Kangas

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**UNITED TECHNOLOGIES CORPORATION**  
**Power of Attorney**

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 8th day of February, 2010.

/s/ CHARLES R. LEE

Charles R. Lee

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**UNITED TECHNOLOGIES CORPORATION**  
**Power of Attorney**

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 8th day of February, 2010.

/s/ RICHARD D. MCCORMICK \_\_\_\_\_

Richard D. McCormick



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**UNITED TECHNOLOGIES CORPORATION**  
**Power of Attorney**

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 8th day of February, 2010.

/s/ HAROLD W. MCGRAW III

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Harold W. McGraw III

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**UNITED TECHNOLOGIES CORPORATION**  
**Power of Attorney**

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 8th day of February, 2010.

/s/ RICHARD B. MYERS

Richard B. Myers

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**UNITED TECHNOLOGIES CORPORATION**  
**Power of Attorney**

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IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 8th day of February, 2010.

/s/ H. PATRICK SWYGERT

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H. Patrick Swygert

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**UNITED TECHNOLOGIES CORPORATION**  
**Power of Attorney**

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints CHARLES D. GILL, KATHLEEN M. HOPKO and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2009, including specifically, but without limiting the generality of the foregoing, the power and authority to sign the name of the undersigned, in the capacities aforesaid or in any other capacity, to such Form 10-K Annual Report filed or to be filed with the Securities and Exchange Commission, and any and all amendments to the said Form 10-K Annual Report, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K Annual Report or any amendments thereto; hereby ratifying and confirming all that the said attorneys and agents, or any one of them, have done, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 8th day of February, 2010.

/s/ ANDRÉ VILLENEUVE

André Villeneuve

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**UNITED TECHNOLOGIES CORPORATION**  
**Power of Attorney**

The undersigned, as a member of the Board of Directors, or as an officer of UNITED TECHNOLOGIES CORPORATION, a Delaware corporation (the "Corporation"), or as a member of a committee of said Board, or in all of said capacities, hereby constitutes and appoints CHARLES D. GILL, KATHLEEN M. HOPKO and GREGORY J. HAYES, or any one of them, his or her true and lawful attorneys and agents to do any and all acts and things and execute any and all instruments which the said attorneys and agents may deem necessary or advisable to enable the Corporation to comply with the Securities Exchange Act of 1934 and any rules and regulations and requirements of the Securities and Exchange Commission in respect thereof in connection with the filing of the Annual Report of the Corporation on Form 10-K for the fiscal year ended December 31, 2009, including specifically, but without limiting the generality of the foregoing, the power and authority to sign the name of the undersigned, in the capacities aforesaid or in any other capacity, to such Form 10-K Annual Report filed or to be filed with the Securities and Exchange Commission, and any and all amendments to the said Form 10-K Annual Report, and any and all instruments and documents filed as a part of or in connection with the said Form 10-K Annual Report or any amendments thereto; hereby ratifying and confirming all that the said attorneys and agents, or any one of them, have done, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, the undersigned has signed this Power of Attorney this 8th day of February, 2010.

/s/ CHRISTINE TODD WHITMAN

Christine Todd Whitman

## CERTIFICATION

I, Louis R. Chênevert, certify that:

1. I have reviewed this annual report on Form 10-K 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, President and Chief Executive Officer

Date: February 11, 2010

## CERTIFICATION

I, Gregory J. Hayes, certify that:

1. I have reviewed this annual report on Form 10-K 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

Gregory J. Hayes

Senior Vice President and Chief Financial Officer

Date: February 11, 2010



## CERTIFICATION

I, Margaret M. Smyth, certify that:

1. I have reviewed this annual report on Form 10-K 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/ MARGARET M. SMYTH

Margaret M. Smyth

Vice President, Controller

Date: February 11, 2010

**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 Annual Report on Form 10-K for the year ended December 31, 2009 (the "Form 10-K") 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-K fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

Date: February 11, 2010

/s/ LOUIS R. CHÊNEVERT

Louis R. Chênevert  
Chairman, President and Chief Executive Officer

Date: February 11, 2010

/s/ GREGORY J. HAYES

Gregory J. Hayes  
Senior Vice President and Chief Financial Officer

Date: February 11, 2010

/s/ MARGARET M. SMYTH

Margaret M. Smyth  
Vice President, Controller