UNITED TECHNOLOGIES CORP /DE/
Form 10-K
February 08, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2006

Commission file number 1-812

UNITED TECHNOLOGIES CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**06 0570975**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
One Financial Plaza, Hartford, Connecticut	**06103**
(Address of principal executive offices)	**(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	Name of each exchange on which registered
Common Stock ($1 par value) (CUSIP 913017 10 9)	**New York Stock Exchange**

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x. 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 x.

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

Indicate by check mark 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. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨.

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

The aggregate market value of the voting Common Stock held by non-affiliates at June 30, 2006 was approximately $63,982,113,467, 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, 2007, there were 995,786,259 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 2006 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 2007 Annual Meeting of Shareowners are incorporated by reference in Part III hereof.

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UNITED TECHNOLOGIES CORPORATION

Annual Report on Form 10-K for Year Ended December 31, 2006

Whenever reference is made in this Form 10-K to specific sections of UTC s 2006 Annual Report to Shareowners, 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. As used herein, the terms we , us , our or UTC , unless the context requires otherwise, mean United Technologies Corporation and it 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 2006 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 Aircraft (collectively referred to as the aerospace businesses) primarily serve commercial and government customers in the aerospace industry. Hamilton Sundstrand and Pratt & Whitney also serve customers in industrial markets. For 2006, our commercial and industrial revenues (generated principally by our commercial businesses) were 63 percent of our consolidated revenues, and commercial aerospace and military aerospace revenues were approximately 21 percent and 16 percent, respectively, of our total revenues. Revenues for 2006 from outside the United States, including U.S. export sales, were 60 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 (www.utc.com) under the headings Financials and/or SEC Filings as soon as practicable after these reports are electronically filed with, or furnished to, the Securities and Exchange Commission.

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 its management organization has general operating autonomy over a range of products and services. The principal products and services of each segment are as follows:

Otis	Otis elevators, escalators, moving walkways and service.
Carrier	Carrier residential, commercial and industrial heating, ventilating, air conditioning (HVAC) and refrigeration systems and equipment, food service equipment, building automation and controls, HVAC and refrigeration components and installation, retrofit and aftermarket services.
UTC Fire & Security	UTC Fire & Security fire and special hazard detection and suppression systems and fire fighting equipment, electronic security, monitoring and rapid response systems and service and security personnel services.
Pratt & Whitney	Pratt & Whitney commercial, general aviation and military aircraft engines, parts and services, industrial gas turbines and space propulsion.
Hamilton Sundstrand	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 and propeller systems, and industrial products, including air compressors,

	metering pumps and fluid handling equipment.
Sikorsky	Sikorsky military and commercial helicopters, aftermarket helicopter and aircraft parts and services.

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Segment financial data for the years 2004 through 2006, including financial information about foreign and domestic operations and export sales, appears in Note 15 of Notes to Consolidated Financial Statements in our 2006 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. Sales are made both directly to the customers 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 2006 and 2005. At December 31, 2006, Otis business backlog was $11,583 million as compared to $10,243 million at December 31, 2005. Due to an industry-wide progression to longer term maintenance contracts in recent years, in 2006, Otis re-evaluated the factors used to calculate service contract backlog. The backlog amounts above reflect this re-evaluation, which resulted in increased backlog figures. We believe these figures more accurately reflect the current outstanding service contract backlog. Calculated as previously reported, backlog would have been $6,750 million and $5,807 million at December 31, 2006 and 2005, respectively. Of the total Otis backlog at December 31, 2006, approximately $7,200 million is expected to be realized as sales in 2007.

Carrier

Carrier is the world s largest manufacturer and distributor of HVAC and refrigeration systems. It also produces food service equipment and HVAC and refrigeration related controls for residential, commercial, industrial and transportation applications. Carrier also provides installation, retrofit and aftermarket services and components for the products it sells and those of other manufacturers in the HVAC and refrigeration industries. 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. Sales are made both directly to the customer and through manufacturer representatives, distributors, wholesalers, dealers and retail outlets. Certain of Carrier s HVAC businesses are seasonal and can be impacted by weather.

Revenues generated by Carrier s international operations, including U.S. export sales, were 54 percent and 55 percent of total Carrier segment revenues in 2006 and 2005, respectively. At December 31, 2006, Carrier s business backlog was $1,852 million as compared to $2,099 million at December 31, 2005. Substantially all the business backlog at December 31, 2006 is expected to be realized as sales in 2007.

UTC Fire & Security

UTC Fire & Security (UTC F&S) is a global provider of security and fire safety products and services. We created the UTC F&S segment in the second quarter of 2005 upon acquiring Kidde plc. The UTC F&S segment includes our former Chubb segment, Kidde s industrial, retail and commercial fire safety businesses and Lenel Systems International, Inc., a leader in the development and delivery of scalable, integrated security software systems and business solutions. In the electronic security industry, UTC F&S provides system integration, installation and service of intruder alarms, access control systems and video surveillance systems. In the fire safety industry, UTC F&S designs, manufactures, integrates, installs and services fire and specialty hazard detection and fixed suppression systems and manufactures, sells and services portable fire extinguishers and other fire fighting equipment. UTC F&S also provides monitoring, response and security personnel services, including cash-in-transit security, to complement its electronic security and fire safety products. Its 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.

UTC F&S provides its products and services under Chubb, Kidde, Lenel and other brand names and sells directly to the customer as well as through manufacturer representatives, distributors and dealers. Revenues generated by UTC F&S s international operations were 84 percent and 87 percent of total UTC F&S segment revenues in 2006 and 2005, respectively. At December 31, 2006, UTC F&S s business backlog was $692 million as compared to $582 million at December 31, 2005. Substantially all the business backlog at December 31, 2006 is expected to be realized as sales in 2007.

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Pratt & Whitney

Pratt & Whitney is among the world s leading suppliers of commercial, general aviation and military aircraft engines. Pratt & Whitney s Global Service Partners provides maintenance, repair and overhaul services, including the sale of spare parts, as well as fleet management services. Pratt & Whitney produces families of engines for wide, narrow body and military aircraft that power both Boeing and Airbus aircraft. Pratt & Whitney also sells engines for auxiliary power units, industrial applications and space propulsion systems. Pratt & Whitney Canada (P&WC) is a world leader for 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 space shuttle.

In view of the risk and cost associated with developing new engines, Pratt & Whitney has entered into collaboration arrangements in which revenues, costs and risks are shared. At December 31, 2006, the interests of participants in current Pratt & Whitney-directed commercial jet engine production programs ranged from 14 to 29 percent. In addition, Pratt & Whitney has interests in other programs. These include a 33 percent interest in the International Aero Engines (IAE) collaboration that sells and supports V2500 engines for the A320 family of aircraft and a 50 percent interest in the Engine Alliance (EA) with GE Aviation to develop, market and manufacture the GP7000 engine for the A380 aircraft. At December 31, 2006, other participants held interests totaling 40 percent of Pratt & Whitney s share of the EA. Flight testing of the GP7000 commenced in 2006. European Aviation Safety Agency certification of the A380 aircraft with the GP7000 engines is expected in 2007, with expected entry into service in 2008.

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, including testing of a geared turbofan, which is intended to enable it to power the next generation A320 and 737 aircraft. Pratt & Whitney has also initiated the Advantage 70 program, which is intended to enhance its PW4000 engine for the A330 aircraft by reducing maintenance and fuel costs and increasing thrust. PWR is developing a liquid fuel J-2x engine to support NASA s vision for space exploration. P&WC is developing the PW600 engine series for the very light jet market. Two of the engine models have been certified to power Cessna Aircraft s Citation Mustang and Eclipse Aviation s Eclipse 500. A third engine model is expected to be certified in 2007 to power the Embraer Phenom 100. P&WC is also developing the PW210 engine for Sikorsky s S-76D helicopter. IAE is developing the V2500 Select as a follow-on to its V2500 engine. Pratt & Whitney continues to enhance its programs through performance improvement measures and product base expansion. During 2006, Pratt & Whitney launched Global Material Solutions (GMS), a new business that intends to engineer, certify, manufacture, sell, distribute and service new original equipment parts, including life limited parts, for CFM56®-3 engines.

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. The vast majority of sales are made directly to the customer and, to a limited extent, through independent distributors or foreign sales representatives. Sales to Airbus and Boeing were 12 and 6 percent, respectively, of total Pratt & Whitney revenues in 2006, before taking into account discounts or financial incentives offered to customers. Sales to the U.S. government were 33 percent of total Pratt & Whitney revenues in 2006.

Revenues from Pratt & Whitney s international operations, including U.S. exports, were 53 percent and 54 percent of total Pratt & Whitney segment revenues in 2006 and 2005, respectively. At December 31, 2006, Pratt & Whitney s business backlog was $16,893 million, including $2,895 million of U.S. government funded contracts and subcontracts, as compared to $17,834 million and $2,959 million, respectively, at December 31, 2005. Of the total Pratt & Whitney backlog at December 31, 2006, approximately $6,118 million is expected to be realized as sales in 2007. During 2006, P&WC began including an estimate of the net realizable value of all future sales remaining on long term aftermarket maintenance agreements in the business backlog, consistent with Pratt & Whitney s practice. As these contracts are sole source and represent an increasing portion of Pratt & Whitney s aftermarket business, management believes their inclusion provides a more accurate representation of the business backlog. Calculated as previously reported, backlog would have been $15,836 million and $16,831 million at December 31, 2006 and 2005, respectively. Pratt & Whitney s backlog includes certain contracts for which actual costs may ultimately exceed total revenues. See Note 1 to Consolidated Financial Statements in our 2006 Annual Report for a description of our accounting for long-term contracts.

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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 space and undersea applications. 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 sales of aerospace products to Boeing, Airbus and Pratt & Whitney, collectively, including sales where the U.S. government was the ultimate customer, were 17% percent of Hamilton Sundstrand segment sales in 2006.

Hamilton Sundstrand is engaged in development programs for the Boeing 787 aircraft, the Airbus A380 aircraft, the F-35 Lightning II military aircraft and the 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 space shuttle, 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 raw material processing, bulk material handling, construction, hydrocarbon and chemical processing, and water and wastewater treatment. These products are sold under the Sullair, Sundyne, Milton Roy and other brand names directly to end-users, through manufacturer representatives and distributors.

Revenues generated by Hamilton Sundstrand s international operations, including U.S. export sales, were 47 percent and 45 percent of total Hamilton Sundstrand segment revenues in 2006 and 2005, respectively. At December 31, 2006, Hamilton Sundstrand s business backlog was $4,527 million, including $725 million under U.S. government funded contracts and subcontracts, as compared to $3,700 million and $708 million, respectively, at December 31, 2005. Of the total Hamilton Sundstrand backlog at December 31, 2006, approximately $2,600 million is expected to be realized as sales in 2007. During 2006, Hamilton Sundstrand began including an estimate of the net realizable value of all future sales remaining on long term aftermarket maintenance agreements in the business backlog. As these contracts are sole source and represent an increasing portion of Hamilton Sundstrand s aftermarket business, management believes their inclusion provides a more accurate representation of the business backlog. Calculated as previously reported, backlog would have been $3,015 million and $2,823 million at December 31, 2006 and 2005, respectively.

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.

Current production programs at Sikorsky include the UH-60L and UH-60M Black Hawk medium-transport helicopters for the U.S. and 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. In June 2005, the U.S. Army awarded Sikorsky a low rate initial production contract for new UH-60M Black Hawk advanced utility helicopters. This contract is the last phase before the Army makes the full rate production decision. In April 2006, Sikorsky was awarded a System Development and Demonstration contract for the U.S. Marine Corps CH-53K next generation heavy lift helicopter. Development of the H-92 helicopter for military markets and the S-76D helicopter, which is expected to be the next generation of the S-76 helicopter, is in process.

In December 2006, Sikorsky entered into an agreement to acquire the Polish aircraft manufacturer, PZL Mielec, which is intended to form the foundation for Sikorsky s European operations. This acquisition is expected to close in the first half of 2007, subject to regulatory and other customary conditions.

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.

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Revenues generated by Sikorsky s international operations, including U.S. export sales, were 34 percent and 31 percent of total Sikorsky revenues in 2006 and 2005, respectively. At December 31, 2006, Sikorsky s business backlog was $8,789 million, including $3,257 million under U.S. government funded contracts and subcontracts, as compared to $7,531 million and $2,261 million, respectively, at December 31, 2005. Of the total Sikorsky backlog at December 31, 2006, approximately $3,800 million is expected to be realized as sales in 2007.

Other

UTC Power develops and markets distributed generation power systems and fuel cell power plants for stationary, transportation, space and defense applications. UTC Power s three primary distributed generation product lines, PureCell 200 fuel cell power plants, PureComfort combined cooling, heat and power systems and PureCycle geothermal organic Rankine cycle power systems, are designed to provide reliable, efficient and environmentally responsible energy solutions for customers.

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. UTC Power is currently developing PEM fuel cells for submarine applications. UTC Power s alkaline-based fuel cells are used on NASA s space shuttle program.

Although fuel cells are believed to be superior to conventional power generation technologies in terms of efficiency and environmental characteristics, the technology is still in development and continued technology advancement and cost reduction of key fuel cell components are required to achieve wide-scale market acceptance. Government support is needed to advance fuel cell technology to a truly commercial stage. There is still significant uncertainty as to whether and when commercially viable PEM fuel cells will be produced.

UTC Power and its related UTC Fuel Cells unit merged effective January 1, 2007. The results of UTC Power and UTC Fuel Cells are included in the Eliminations and other category in the segment financial data in Note 15 of Notes to Consolidated Financial Statements in our 2006 Annual Report.

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 Management s Discussion and Analysis of Financial Condition and Results of Operations included in our 2006 Annual Report, in this Item 1 under the heading Other Matters Relating to Our Business as a Whole , in Item 1A. Risk Factors and in Cautionary Note Concerning Factors That May Affect Future Results 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 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. 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 and Rolls Royce plc. For information regarding customer financing commitments, participation in guarantees of customer financing arrangements and performance and operating cost guarantees, see Notes 4 and 13 of Notes to Consolidated Financial Statements in our 2006 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 $1,529 million, or 3.2 percent of total sales in 2006, as compared with $1,367 million or 3.2 percent of total

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sales in 2005 and $1,267 million or 3.5 percent of total sales in 2004. 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 $1,952 million in 2006, as compared with $1,650 million in 2005 and $1,619 million in 2004. 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, $1,621 million, $1,478 million and $1,585 million were expensed in 2006, 2005 and 2004, 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 $2.1 billion of our total sales for 2006 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 amounts. We have made voluntary refunds in those cases we believe appropriate, have settled some allegations and we 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 14 of Notes to Consolidated Financial Statements in our 2006 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 14 of Notes to Consolidated Financial Statements in our 2006 Annual Report.

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 the 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 F&S 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 by suppliers. Like other users in the U.S., 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

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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 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, 2006, our total employment was approximately 214,500, approximately 66 percent of which represents employees based outside the United States. During 2006, we renegotiated twenty multi-year collective bargaining agreements, the largest of which covered certain workers at Sikorsky and Carrier. In 2007, numerous collective bargaining agreements are subject to renegotiation, the largest of which cover certain workers at Hamilton Sundstrand, Otis and Pratt & Whitney. We do not anticipate any problems in renegotiating these 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 Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 11 of Notes to Consolidated Financial Statements in our 2006 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 and Item 1A. Risk Factors in this Form 10-K and in Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2006 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 and other words of similar m
connection with a discussion of future operating or financial performance. These include, among others, statements relating to:

Future earnings and other measures of financial performance

Future cash flow and uses of cash

The effect of economic downturns or growth in particular regions

The effect of changes in the level of activity in particular industries or markets

The availability and cost of materials, components, services and supplies

The scope, nature or impact of acquisition activity and integration into our businesses

The development, production and support of advanced technologies and new products and services

New business opportunities

Restructuring costs and savings

The effective negotiation of collective bargaining agreements

The outcome of contingencies

Future repurchases of common stock

Future levels of indebtedness and capital spending

Pension plan assumptions and future contributions

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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. 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 Securities and Exchange Commission from time to time. This Annual Report on Form 10-K for 2006 includes important information as to these factors in the Business section under the headings General , Description of Business by Segment and Other Matters Relating to Our Business as a Whole and in the Risk Factors and Legal Proceedings sections. Additional important information as to these factors is included in our 2006 Annual Report in the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations .

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 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 2006 Annual Report.

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

The results of our commercial and military aerospace businesses, which generated 37 percent of our revenues in 2006, are directly tied to the economic conditions in the commercial aviation and defense industries. The aviation industry is cyclical, and capital spending by airlines and aircraft manufacturers may be influenced by a wide variety of factors, including current and predicted traffic levels, load factors, aircraft fuel pricing, labor issues, competition, the retirement of older aircraft, regulatory changes, terrorism and related safety concerns, general economic conditions, worldwide airline profits and backlog levels. Also, since a substantial portion of the backlog for commercial aerospace customers is scheduled for delivery beyond 2007, changes in economic conditions may cause customers to request that firm orders be rescheduled or canceled. 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, regulatory changes, the retirement of older aircraft and technological improvements to new engines that increase reliability. 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 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.

The results of our commercial and industrial businesses, which generated 63 percent of our revenues in 2006, are influenced by a number of external factors including fluctuations in residential and commercial construction activity, interest rates, labor costs, foreign currency exchange rates, customer attrition, raw material and energy costs 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.

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 investigations (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 U.S. could result in civil or criminal penalties and suspension or termination of our export privileges.

Our International Operations Subject Us to Economic Risk As Our Results of Operations May Be Adversely Affected by Foreign Currency Fluctuations and Changes in Local Government Regulation

We conduct our business on a global basis, with 60 percent of our total 2006 segment revenues derived from operations outside of the United States and from U.S. export sales. Fluctuations in exchange rates may affect product demand in export markets and affect reported profits of 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. 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 on 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.

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 and South Africa, that carry high levels of currency, political and economic risk. While these factors or the impact of these factors 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 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 May Encounter Difficulties Integrating Acquired Businesses with Our Current Operations; Therefore, We May Not Realize the Anticipated Benefits of the Acquisitions

We seek to grow through strategic acquisitions. In the past several years, we have made various acquisitions and 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 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, and in managing strategic investments. Furthermore, 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.

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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 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 and validation of innovative technologies. These factors involve significant risks and uncertainties. We 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 Pratt & Whitney or its affiliates will produce aircraft engines 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 and Legal Compliance Risks That Could Adversely Affect Our Operating Results

We are subject to a variety of litigation 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, compliance with competition laws and sales and trading practices. 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. As required by generally accepted accounting principles, we estimate material loss contingencies and establish reserves 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 Item 3   Legal Proceedings   in this Form 10-K.

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Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

	Number of Facilities - Owned							
Location	**Otis**	**Carrier**	**Fire & Security**	**Pratt & Whitney**	**Hamilton Sundstrand**	**Sikorsky**	**Other**	**Total**
Manufacturing:								
North America		18	9	27	22	8		84
Europe & Middle East	8	12	13	2	20			55
Asia	3	3		6	2			14
Emerging Markets*	13	23	6	9	4			55
	24	56	28	44	48	8		208
Non-Manufacturing:								
North America	4	23	1	33	5		11	77
Europe & Middle East	16	13	2		1			32
Asia	1	1	5	1				8
Emerging Markets*	7	13	2	3				25
	28	50	10	37	6		11	142

	Number of Facilities - Leased							
Location	**Otis**	**Carrier**	**Fire & Security**	**Pratt & Whitney**	**Hamilton Sundstrand**	**Sikorsky**	**Other**	**Total**
Manufacturing:								
North America	2	9	4	19	6	7	2	49
Europe & Middle East	2	7	9	1	10	1		30
Asia		1		3	2		&nbs	