UNITED TECHNOLOGIES CORP /DE/
Form 10-Q
July 27, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-812

UNITED TECHNOLOGIES CORPORATION

DELAWARE 06-0570975
10 Farm Springs Road,
Farmington, Connecticut
06032
(860) 728-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý. No ¨.
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý. No ¨.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

At June 30, 2018 there were 800,093,285 shares of Common Stock outstanding.

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AND SUBSIDIARIES
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United Technologies Corporation and its subsidiaries' names, abbreviations thereof, logos, and product and service designators are all either the registered or unregistered trademarks or tradenames of United Technologies Corporation and its subsidiaries. Names, abbreviations of names, logos, and products and service designators of other companies are either the registered or unregistered trademarks or tradenames of their respective owners. As used herein, the terms "we," "us," "our," "the Company," or "UTC," unless the context otherwise requires, mean United Technologies

Corporation and its subsidiaries. References to internet web sites in this Form 10-Q are provided for convenience only. Information available through these web sites is not incorporated by reference into this Form 10-Q.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Quarter Ended June 30,	
(dollars in millions, except per share amounts)	2018	2017
Net Sales:		
Product sales	$11,520	$10,661
Service sales	5,185	4,619
	16,705	15,280
Costs and Expenses:		
Cost of products sold	9,154	7,957
Cost of services sold	3,268	3,207
Research and development	589	619
Selling, general and administrative	1,759	1,590
	14,770	13,373
Other income, net	941	257
Operating profit	2,876	2,164
Non-service pension (benefit)	(192)	(126)
Interest expense, net	234	226
Income from operations before income taxes	2,834	2,064
Income tax expense	695	532
Net income from operations	2,139	1,532
Less: Noncontrolling interest in subsidiaries' earnings from operations	91	93
Net income attributable to common shareowners	$2,048	$1,439
Earnings Per Share of Common Stock - Basic:		
Net income attributable to common shareowners	$2.59	$1.83
Earnings Per Share of Common Stock - Diluted:		
Net income attributable to common shareowners	$2.56	$1.80

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Six Months Ended June 30,	
(dollars in millions, except per share amounts)	2018	2017
Net Sales:		
Product sales	$21,778	$20,298
Service sales	10,169	8,797
	31,947	29,095
Costs and Expenses:		
Cost of products sold	17,170	15,268
Cost of services sold	6,532	6,032
Research and development	1,143	1,205
Selling, general and administrative	3,470	3,127
	28,315	25,632
Other income, net	1,172	845
Operating profit	4,804	4,308
Non-service pension (benefit)	(383)	(249)
Interest expense, net	463	439
Income from operations before income taxes	4,724	4,118
Income tax expense	1,217	1,118
Net income from operations	3,507	3,000
Less: Noncontrolling interest in subsidiaries' earnings from operations	162	175
Net income attributable to common shareowners	$3,345	$2,825
Earnings Per Share of Common Stock - Basic:		
Net income attributable to common shareowners	$4.23	$3.57
Earnings Per Share of Common Stock - Diluted:		
Net income attributable to common shareowners	$4.18	$3.53

See accompanying Notes to Condensed Consolidated Financial Statements

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

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in millions)	2018	2017	2018	2017
Net income	$2,139	$1,532	$3,507	$3,000
Other comprehensive income (loss), net of tax (expense) benefit:				
Foreign currency translation adjustments				
Foreign currency translation adjustments arising during period	(602)	249	(193)	395
Less: Reclassification adjustments for gain on sale of an investment in a foreign entity recognized in Other income, net	(3)	—	(3)	—
	(605)	249	(196)	395
Tax (expense) benefit	(74)	—	56	—
	(679)	249	(140)	395
Pension and postretirement benefit plans				
Pension and postretirement benefit plans adjustments during the period	18	(5)	26	(4)
Amortization of actuarial loss and prior service credit	88	132	176	263
	106	127	202	259
Tax expense	(26)	(47)	(49)	(96)
	80	80	153	163
Unrealized loss on available-for-sale securities				
Unrealized holding gain (loss) arising during period	—	30	—	(2)
Reclassification adjustments for loss included in Other income, net	—	(24)	—	(407)
ASU 2016-01 adoption impact	—	—	(5)	—
	—	6	(5)	(409)
Tax (expense) benefit	—	(2)	—	156
	—	4	(5)	(253)
Change in unrealized cash flow hedging				
Unrealized cash flow hedging (loss) gain arising during period	(245)	66	(200)	130
(Gain) loss reclassified into Product sales	(1)	5	(28)	10
	(246)	71	(228)	140
Tax benefit (expense)	60	(17)	56	(32)
	(186)	54	(172)	108
Other comprehensive (loss) income, net of tax	(785)	387	(164)	413
Comprehensive income	1,354	1,919	3,343	3,413
Less: Comprehensive income attributable to noncontrolling interest	(53)	(111)	(157)	(218)
Comprehensive income attributable to common shareowners	$1,301	$1,808	$3,186	$3,195

See accompanying Notes to Condensed Consolidated Financial Statements

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

(dollars in millions)	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$11,068	$ 8,985
Accounts receivable, net	11,973	12,595
Contract assets, current	3,273	—
Inventories and contracts in progress, net	8,979	9,881
Other assets, current	1,263	1,397
Total Current Assets	36,556	32,858
Customer financing assets	2,763	2,372
Future income tax benefits	1,626	1,723
Fixed assets	21,597	21,364
Less: Accumulated depreciation	(11,482)	(11,178)
Fixed assets, net	10,115	10,186
Goodwill	27,699	27,910
Intangible assets, net	15,739	15,883
Other assets	7,071	5,988
Total Assets	$101,569	$ 96,920
Liabilities and Equity		
Short-term borrowings	$985	$ 392
Accounts payable	9,623	9,579
Accrued liabilities	8,730	12,316
Contract liabilities, current	5,652	—
Long-term debt currently due	78	2,104
Total Current Liabilities	25,068	24,391
Long-term debt	27,246	24,989
Future pension and postretirement benefit obligations	2,589	3,036
Other long-term liabilities	13,190	12,952
Total Liabilities	68,093	65,368
Commitments and contingent liabilities (Note 15)		
Redeemable noncontrolling interest	130	131
Shareowners' Equity:		
Common Stock	17,747	17,574
Treasury Stock	(35,645)	(35,596)
Retained earnings	57,027	55,242
Unearned ESOP shares	(81)	(85)
Accumulated other comprehensive loss	(7,684)	(7,525)
Total Shareowners' Equity	31,364	29,610
Noncontrolling interest	1,982	1,811
Total Equity	33,346	31,421
Total Liabilities and Equity	$101,569	$ 96,920

See accompanying Notes to Condensed Consolidated Financial Statements

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

(dollars in millions)	Six Months Ended June 30, 2018	2017
Operating Activities:		
Net income from operations	$3,507	$3,000
Adjustments to reconcile net income from operations to net cash flows provided by operating activities:		
Depreciation and amortization	1,173	1,039
Deferred income tax provision	45	502
Stock compensation cost	117	96
Gain on sale of Taylor Company	(795)	—
Change in:		
Accounts receivable	(1,661)	(951)
Contract assets, current	(617)	—
Inventories and contracts in progress	(962)	(1,066)
Other current assets	301	27
Accounts payable and accrued liabilities	2,010	1,436
Contract liabilities, current	440	—
Global pension contributions	(59)	(79)
Canadian government settlement	(221)	(246)
Other operating activities, net	(723)	(619)
Net cash flows provided by operating activities	2,555	3,139
Investing Activities:		
Capital expenditures	(709)	(771)
Investments in businesses	(134)	(168)
Dispositions of businesses	1,094	19
Proceeds from sale of investments in Watsco, Inc.	—	596
Increase in customer financing assets, net	(344)	(240)
Increase in collaboration intangible assets	(181)	(195)
Receipts (payments) from settlements of derivative contracts	82	(294)
Other investing activities, net	(46)	63
Net cash flows used in investing activities	(238)	(990)
Financing Activities:		
Issuance of long-term debt	2,429	4,013
Repayment of long-term debt	(2,092)	(1,611)
Increase in short-term borrowings, net	642	32
Proceeds from Common Stock issued under employee stock plans	6	22
Dividends paid on Common Stock	(1,070)	(1,008)
Repurchase of Common Stock	(52)	(1,370)
Other financing activities, net	(74)	(130)
Net cash flows used in financing activities	(211)	(52)
Effect of foreign exchange rate changes on cash and cash equivalents	(18)	95
Net increase in cash, cash equivalents and restricted cash	2,088	2,192
Cash, cash equivalents and restricted cash, beginning of year	9,018	7,189
Cash, cash equivalents and restricted cash, end of period	11,106	9,381

Less: Restricted cash, included in Other assets	38	36
Cash and cash equivalents, end of period	$11,068	$9,345

See accompanying Notes to Condensed Consolidated Financial Statements

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

The Condensed Consolidated Financial Statements at June 30, 2018 and for the quarter and six months ended June 30, 2018 and 2017 are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the results for the interim periods. The results reported in these Condensed Consolidated Financial Statements should not necessarily be taken as indicative of results that may be expected for the entire year. The financial information included herein should be read in conjunction with the financial statements and notes in our Annual Report to Shareowners (2017 Annual Report) incorporated by reference in our Annual Report on Form 10-K for calendar year 2017 (2017 Form 10-K).

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

Business Acquisitions and Dispositions. During the six months ended June 30, 2018, our investment in business acquisitions was $134 million, and primarily consisted of an acquisition at Pratt & Whitney. On June 21, 2018, UTC Climate, Controls & Security completed its sale of Taylor Company for proceeds of $1.0 billion resulting in a pre-tax gain of $795 million ($588 million after tax).

On September 4, 2017, we announced that we had entered into a merger agreement with Rockwell Collins, Inc. (Rockwell Collins), under which we agreed to acquire Rockwell Collins. Under the terms of the merger agreement, each Rockwell Collins shareowner will receive $93.33 per share in cash and a fraction of a share of UTC common stock equal to the quotient obtained by dividing $46.67 by the average of the volume-weighted average prices per share of UTC common stock on the NYSE on each of the 20 consecutive trading days ending with the trading day immediately prior to the closing date, (the “UTC Stock Price”), subject to adjustment based on a two-way collar mechanism as described below (the “Stock Consideration”). The cash and UTC stock payable in exchange for each such share of Rockwell Collins common stock are collectively the “Merger Consideration.” The fraction of a share of UTC common stock into which each such share of Rockwell Collins common stock will be converted is the “Exchange Ratio.” The Exchange Ratio will be determined based upon the UTC Stock Price. If the UTC Stock Price is greater than $107.01 but less than $124.37, the Exchange Ratio will be equal to the quotient of (i) $46.67 divided by (ii) the UTC Stock Price, which, in each case, will result in the Stock Consideration having a value equal to $46.67. If the UTC Stock Price is less than or equal to $107.01 or greater than or equal to $124.37, then a two-way collar mechanism will apply, pursuant to which, (x) if the UTC Stock Price is greater than or equal to $124.37, the Exchange Ratio will be fixed at 0.37525 and the value of the Stock Consideration will be greater than $46.67, and (y) if the UTC Stock Price is less than or equal to $107.01, the Exchange Ratio will be fixed at 0.43613 and the value of the Stock Consideration will be less than $46.67. On January 11, 2018, the merger was approved by Rockwell Collins' shareowners. We currently expect that the merger will be completed in the third quarter of 2018, subject to customary closing conditions, including the receipt of required regulatory approvals.

We anticipate that approximately $15 billion will be required to pay the aggregate cash portion of the Merger Consideration. We expect to fund the cash portion of the Merger Consideration through debt issuances and cash on hand. Additionally, we have entered into a $6.5 billion 364-day unsecured bridge loan credit agreement that would be funded only to the extent certain anticipated debt issuances are not completed prior to the completion of the merger. We expect to assume approximately $7 billion of Rockwell Collins' outstanding debt upon completion of the merger.

Goodwill. Changes in our goodwill balances for the six months ended June 30, 2018 were as follows:

(dollars in millions)	Balance as of January 1, 2018	Goodwill Resulting from Business Combinations	Foreign Currency Translation and Other	Balance as of June 30, 2018
Otis	$ 1,737	$ 5	$ (34)	$ 1,708
UTC Climate, Controls & Security	10,009	1	(211)	9,799
Pratt & Whitney	1,511	57	(3)	1,565
UTC Aerospace Systems	14,650	—	(26)	14,624

Total Segments	27,907	63	(274)	27,696
Eliminations and other	3	—	—	3
Total	$ 27,910	$ 63	$ (274)	$ 27,699

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The $274 million net reduction in goodwill within Foreign Currency Translation and Other includes a $150 million reduction of goodwill attributable to UTC Climate, Controls & Security's sale of Taylor Company.

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

	June 30, 2018		December 31, 2017	
(dollars in millions)	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized:				
Service portfolios	$2,187	$ (1,588)	$2,178	$ (1,534)
Patents and trademarks	364	(226)	399	(233)
Collaboration intangible assets	4,294	(510)	4,109	(384)
Customer relationships and other	13,425	(4,281)	13,352	(4,100)
	20,270	(6,605)	20,038	(6,251)
Unamortized:				
Trademarks and other	2,074	—	2,096	—
Total	$22,344	$ (6,605)	$22,134	$ (6,251)

Customer relationship intangible assets include payments made to our customers to secure certain contractual rights. Such payments are capitalized when distinct rights are obtained and sufficient incremental cash flows to support the recoverability of the assets have been established. Otherwise, the applicable portion of the payments are expensed. We amortize these intangible assets based on the underlying pattern of economic benefit, which may result in an amortization method other than straight-line. In the aerospace industry, amortization based on the pattern of economic benefit generally results in lower amortization expense during the development period with amortization expense increasing as programs enter full production and aftermarket cycles. If a pattern of economic benefit cannot be reliably determined, a straight-line amortization method is used. We classify amortization of such payments as a reduction of sales. The collaboration intangible assets are amortized based upon the pattern of economic benefits as represented by the underlying cash flows.

Amortization of intangible assets for the quarter and six months ended June 30, 2018 was $232 million and $455 million, respectively, compared with $210 million and $415 million for the same periods of 2017. The following is the expected amortization of intangible assets for the years 2018 through 2023, which reflects the pattern of expected economic benefit on certain aerospace intangible assets.

(dollars in millions)	Remaining 2018	2019	2020	2021	2022	2023
Amortization expense	$ 457	$873	$874	$899	$896	$918

Note 2: Revenue Recognition

ASU 2014-09 and its related amendments (collectively, the New Revenue Standard) are effective for reporting periods beginning after December 15, 2017, and interim periods therein. We adopted the New Revenue Standard effective January 1, 2018 and elected the modified retrospective approach. The results for periods before 2018 were not adjusted for the new standard and the cumulative effect of the change in accounting was recognized through retained earnings at the date of adoption.

Revenue Recognition Accounting Policy Summary. We account for revenue in accordance with Accounting Standards Codification (ASC) Topic 606: Revenue from Contracts with Customers. Under Topic 606, a performance obligation is a promise in a contract with a customer to transfer a distinct good or service to the customer. Some of our contracts with customers contain a single performance obligation, while others contain multiple performance obligations most commonly when a contract spans multiple phases of the product life-cycle such as development, production, maintenance and support. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. When there are multiple performance obligations within a contract, we allocate the transaction price to each performance obligation based on its standalone selling price.

We consider the contractual consideration payable by the customer and assess variable consideration that may affect the total transaction price, including contractual discounts, contract incentive payments, estimates of award fees, and other sources of variable consideration, when determining the transaction price of each contract. We include variable consideration in the

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estimated transaction price when there is a basis to reasonably estimate the amount. These estimates are based on historical experience, anticipated performance and our best judgment at the time. We also consider whether our contracts provide customers with significant financing. Generally, our contracts do not contain significant financing.

Point in time revenue recognition. Timing of the satisfaction of performance obligations varies across our businesses due to our diverse product and service mix, customer base, and contractual terms. Performance obligations are satisfied as of a point in time for heating, ventilating, air-conditioning and refrigeration systems, certain alarm and fire detection and suppression systems, and certain aerospace components, engines, and spare parts. Revenue is recognized when control of the product transfers to the customer, generally upon product shipment.

Over-time revenue recognition. Performance obligations are satisfied over-time if the customer receives the benefits as we perform work, if the customer controls the asset as it is being produced, or if the product being produced for the customer has no alternative use and we have a contractual right to payment. Revenue is recognized for our construction-type and certain production-type contracts on an over-time basis. We recognize revenue on an over-time basis on certain long-term aerospace aftermarket contracts and aftermarket service work; development, fixed price, and other cost reimbursement contracts in our aerospace businesses; and elevator and escalator sales, installation, service, modernization and other construction contracts in our commercial businesses. For construction and installation contracts within our commercial businesses and aerospace performance obligations satisfied over time, revenue is recognized using costs incurred to date relative to total estimated costs at completion to measure progress. Incurred costs represent work performed, which correspond with and best depict transfer of control to the customer. Contract costs include labor, materials, and subcontractors' costs, or other direct costs, and where applicable on government and commercial contracts, indirect costs.

For certain of our long-term aftermarket contracts, revenue is recognized over the contract period. In the commercial businesses, revenue is primarily recognized on a straight-line basis over the contract period. In the aerospace businesses, we generally account for such contracts as a series of daily obligations to stand ready to provide product maintenance and aftermarket services. Revenue is primarily recognized in proportion to cost as sufficient historical evidence indicates that the cost of performing services under the contract is incurred on an other than straight-line basis. Aerospace contract modifications are routine and contracts are often modified to account for changes in contract specifications or requirements. Contract modifications that are for goods or services that are not distinct are accounted for as part of the existing contract.

We incur costs for engineering and development of aerospace products directly related to existing or anticipated contracts with customers. Such costs generate or enhance our ability to satisfy our performance obligations under these contracts. We capitalize these costs as contract fulfillment costs to the extent the costs are recoverable from the associated contract margin and subsequently amortize the costs as the original equipment (OEM) products are delivered to the customer. In instances where intellectual property does not transfer to the customer, we defer the customer funding of OEM product engineering and development and recognize revenue when the OEM products are delivered to the customer. Costs to obtain contracts are not material.

Loss provisions on OEM contracts are recognized to the extent that estimated contract costs exceed the estimated consideration 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 contracts under which losses are recorded upon receipt of the purchase order that obligates us to perform. For existing commitments, anticipated losses on contractual arrangements are recognized in the period in which losses become evident. Products contemplated under contractual arrangements include firm quantities of product sold under contract and, in the large commercial engine and wheels and brakes businesses, future highly probable sales of replacement parts required by regulation that are expected to be sold subsequently for incorporation into the original equipment. In the large commercial engine and wheels and brakes businesses, when the combined original equipment and aftermarket arrangement for each individual sales campaign are profitable, we record original equipment product losses, as applicable, at the time of delivery.

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. We record changes in contract estimates using the cumulative catch-up method.

The New Revenue Standard changed the revenue recognition practices for a number of revenue streams across our businesses, although the most significant impacts are concentrated in our aerospace units. Several businesses, which previously accounted for revenue on a point in time basis are now required to use an over-time model when their contracts meet one or more of the mandatory criteria established in the New Revenue Standard. Revenue is now recognized based on percentage-of-completion for repair contracts within Otis and UTC Climate, Controls & Security; certain U.S. Government and commercial aerospace equipment contracts; and aerospace aftermarket service work. For these businesses, unrecognized sales related to the satisfied portion of the performance obligations of contracts in process as of the date of adoption of approximately $220 million

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were recorded through retained earnings. The ongoing effect of recording revenue on a percentage-of-completion basis within these businesses is not expected to be materially different than the previous revenue recognition method. In addition to the foregoing, our aerospace businesses, in certain cases, also changed the timing of manufacturing cost recognition and certain engineering and development costs. In most circumstances, our commercial aerospace businesses identify the performance obligation as the individual OEM unit; revenue and cost to manufacture each unit are recognized upon OEM unit delivery. Under the prior accounting, the unit of accounting was the contract and early-contract OEM unit costs in excess of the average unit costs expected over the contract were capitalized and amortized over lower-cost units later in the contract. With the adoption of the New Revenue Standard, deferred unit costs in excess of the contract average of $438 million as of January 1, 2018 were eliminated through retained earnings, and as such, will not be amortized into future earnings.

Under the New Revenue Standard, costs incurred for engineering and development of aerospace products under contracts with customers must be capitalized as contract fulfillment costs, to the extent recoverable from the associated contract margin, and subsequently amortized as the OEM products are delivered to the customer. Under prior accounting, we generally expensed costs of engineering and development of aerospace products. The new standard also requires that customer funding of OEM product engineering and development be deferred in instances where economic benefit does not transfer to the customer and recognized as revenue when the OEM products are delivered. Engineering and development costs which do not qualify for capitalization as contract fulfillment costs are expensed as incurred. Prior to the New Revenue Standard, any customer funding received for such development efforts was recognized when earned, with the corresponding costs recognized as cost of sales.

With the adoption of the New Revenue Standard, we capitalized engineering and development costs of approximately $700 million as contract fulfillment cost assets through retained earnings as of January 1, 2018. We also established previously recognized customer funding of approximately $850 million as a contract liability through retained earnings as of the adoption date.

We expect the New Revenue Standard will have an immaterial impact on our 2018 net income. Adoption of the New Revenue Standard has resulted in Statement of Operations classification changes between Net Sales, Cost of sales, Research & development, and Other income. The New Revenue Standard also resulted in the establishment of Contract asset and Contract liability balance sheet accounts, and in the reclassification of balances to these new accounts from Accounts receivable, Inventories and contracts in progress, net, and Accrued liabilities. In addition to the following disclosures, Note 16 provides incremental disclosures required by the New Revenue Standard, including disaggregation of revenue into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

The following schedules quantify the impact of the New Revenue Standard on the statement of operations for the quarter and six months ended June 30, 2018. The effect of the new standard represents the increase (decrease) in the line item based on the adoption of the New Revenue Standard.

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(dollars in millions)	Quarter Ended June 30, 2018, under previous standard	Effect of the New Revenue Standard	Quarter Ended June 30, 2018 as reported
Net Sales:			
Product sales	$11,406	$ 114	$11,520
Service sales	5,115	70	5,185
	16,521	184	16,705
Costs and Expenses:			
Cost of products sold	8,975	179	9,154
Cost of services sold	3,228	40	3,268
Research and development	607	(18)	589
Selling, general and administrative	1,759	—	1,759
	14,569	201	14,770
Other income, net	943	(2)	941
Operating profit	2,895	(19)	2,876
Non-service pension (benefit)	(192)	—	(192)
Interest expense, net	234	—	234
Income from operations before income taxes	2,853	(19)	2,834
Income tax expense	700	(5)	695
Net income from operations	2,153	(14)	2,139
Less: Noncontrolling interest in subsidiaries' earnings from operations	87	4	91
Net income attributable to common shareowners	$2,066	$ (18)	$2,048

(dollars in millions)	Six Months Ended June 30, 2018, under previous standard	Effect of the New Revenue Standard	Six Months Ended June 30, 2018 as reported
Net Sales:			
Product sales	$21,573	$ 205	$21,778
Service sales	9,968	201	10,169
	31,541	406	31,947
Costs and Expenses:			
Cost of products sold	16,861	309	17,170
Cost of services sold	6,396	136	6,532
Research and development	1,180	(37)	1,143
Selling, general and administrative	3,470	—	3,470
	27,907	408	28,315
Other income, net	1,175	(3)	1,172
Operating profit	4,809	(5)	4,804
Non-service pension (benefit)	(383)	—	(383)
Interest expense, net	463	—	463

Income from operations before income taxes	4,729	(5)	4,724
Income tax expense	1,218	(1)	1,217
Net income from operations	3,511	(4)	3,507
Less: Noncontrolling interest in subsidiaries' earnings from operations	156	6	162
Net income attributable to common shareowners	$3,355	$ (10)	$3,345

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The New Revenue Standard resulted in an increase to Product and Service sales and Cost of products and services sold primarily due to the change to a percentage-of-completion revenue model for certain U.S Government and commercial aerospace equipment contracts, and aerospace aftermarket service work at Pratt & Whitney and UTC Aerospace Systems. The New Revenue Standard also resulted in an increase in Cost of products sold related to the timing of manufacturing cost recognition on early-contract OEM units sold, with costs in excess of the contract average unit costs recorded through Cost of products sold.

The lower amounts of research and development expense recognized under the New Revenue Standard reflect the capitalization of costs of engineering and development of aerospace products as contract fulfillment costs under contracts with customers.

The following schedule quantifies the impact of the New Revenue Standard on our balance sheet as of June 30, 2018.

(dollars in millions)	June 30, 2018 under previous standard	Effect of the New Revenue Standard	June 30, 2018 as reported
Assets			
Accounts receivable, net	$ 13,432	$ (1,459)	$ 11,973
Inventories	11,093	(2,114)	8,979
Contract assets, current	—	3,273	3,273
Other assets, current	1,276	(13)	1,263
Future income tax benefits	1,600	26	1,626
Intangible assets, net	15,807	(68)	15,739
Other assets	6,098	973	7,071
Liabilities and Equity			
Accrued liabilities	$ 14,287	$ (5,557)	$ 8,730
Contract liabilities, current	—	5,652	5,652
Other long term liabilities	12,180	1,010	13,190
Noncontrolling interest	1,977	5	1,982
Retained earnings	57,517	(490)	57,027

The decrease in Retained earnings of $490 million in the table above reflects $480 million of adjustments to the balance sheet as of January 1, 2018, resulting from the adoption of the New Revenue Standard and $10 million lower reported net income under the New Revenue Standard during 2018. The declines in Accounts receivable, net, Inventories, Other assets, current, and Intangible assets, net, reflect reclassifications to contract assets, and specifically for Inventories, earlier recognition of costs of products sold for contracts requiring an over-time method of revenue recognition. The increase in Other assets reflects the establishment of non-current contract assets and contract fulfillment cost assets.

The decline in accrued liabilities is primarily due to the reclassification of payments from customers in advance of work performed as contract liabilities. The Other long term liabilities increase primarily reflects the establishment of non-current contract liabilities for certain customer funding of OEM product engineering and development, which will be recognized as revenue when the OEM products are delivered to the customer.

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Contract Assets and Liabilities. Contract assets reflect revenue recognized and performance obligations satisfied in advance of customer billing. Contract liabilities relate to payments received in advance of the satisfaction of performance under the contract. We receive payments from customers based on the terms established in our contracts. Total contract assets and contract liabilities as of June 30, 2018 are as follows:

(dollars in millions)	June 30, 2018
Contract assets, current	$3,273
Contract assets, noncurrent (included within Other assets)	1,015
Total contract assets	4,288
Contract liabilities, current	(5,652)
Contract liabilities, noncurrent (included within Other long-term liabilities)	(4,838)
Total contract liabilities	(10,490)
Net contract liabilities	$(6,202)

Under the New Revenue Standard, during the six months ended June 30, 2018, net contract liabilities increased to $6,202 million. This reflects the establishment of $6,365 million of net contract liabilities upon the adoption, and $14,401 million of advance payments from customers and reclassifications of contract assets to receivables upon billing during the period. These increases were partially offset by the liquidation of beginning of period contract liabilities of $1,728 million as a result of revenue recognition, and by $12,701 million of revenue recognition within the period. The remaining change is primarily attributable to the impact of foreign currency exchange rate changes on the balance of contract assets and liabilities.

Remaining performance obligations ("RPO") are the aggregate amount of total contract transaction price that is unsatisfied or partially unsatisfied. As of June 30, 2018, our total RPO is $103.4 billion. Of this total, we expect approximately 45% will be recognized as sales over the following 24 months.

Note 3: Earnings Per Share

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in millions, except per share amounts; shares in millions)	2018	2017	2018	2017
Net income attributable to common shareowners	$2,048	$1,439	$3,345	$2,825
Basic weighted average number of shares outstanding	790.5	788.7	790.2	791.1
Stock awards and equity units	9.1	9.5	9.8	9.3
Diluted weighted average number of shares outstanding	799.6	798.2	800.0	800.4
Earnings Per Share of Common Stock:				
Basic	$2.59	$1.83	$4.23	$3.57
Diluted	$2.56	$1.80	$4.18	$3.53

The computation of diluted earnings per share excludes the effect of the potential exercise of stock awards, including stock appreciation rights and stock options, when the average market price of the common stock is lower than the exercise price of the related stock awards during the period because the effect would be anti-dilutive. For both the quarter and six months ended June 30, 2018, the number of stock awards excluded from the computation was approximately 5.1 million. For the quarter and six months ended June 30, 2017, the number of stock awards excluded from the computation was approximately 5.8 million and 6.4 million, respectively.

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Note 4: Inventories and Contracts in Progress

(dollars in millions)	June 30, 2018	December 31, 2017
Raw materials	$ 2,298	$ 2,038
Work-in-process	2,306	3,366
Finished goods	4,375	3,845
Contracts in progress	—	10,205
	8,979	19,454
Less:		
Progress payments, secured by lien, on U.S. Government contracts	—	(236)
Billings on contracts in progress	—	(9,337)
	$ 8,979	$ 9,881

Inventories as of December 31, 2017 include capitalized contract development costs of $127 million related to certain aerospace programs at UTC Aerospace Systems. Upon adoption of the New Revenue Standard, these costs are recorded as contract fulfillment costs included in Other assets.

Prior to the adoption of the New Revenue Standard, within our commercial aerospace business, inventory costs attributable to new engine offerings were recognized based on the average cost per unit expected over the life of each contract using the units-of-delivery method of percentage of completion accounting. Under this method, costs of initial engine deliveries in excess of the projected contract per unit average cost were capitalized and these capitalized amounts were subsequently expensed as additional engines are delivered for engines with costs below the projected contract per unit average cost over the life of the contract. As of December 31, 2017, inventory included $438 million of such capitalized amounts. Upon adoption of the New Revenue Standard, these amounts are no longer included in inventory. In addition, amounts previously reported as Contracts in progress have been reclassified as contract assets in accordance with the New Revenue Standard.

Note 5: Borrowings and Lines of Credit

(dollars in millions)	June 30, 2018	December 31, 2017
Commercial paper	$ 876	$ 300
Other borrowings	109	92
Total short-term borrowings	$ 985	$ 392

At June 30, 2018, we had revolving credit agreements with various banks permitting aggregate borrowings of up to $4.35 billion, pursuant to a $2.20 billion revolving credit agreement and a $2.15 billion multicurrency revolving credit agreement, both of which expire in August 2021. As of June 30, 2018, there were no borrowings under either of these agreements. The undrawn portions of these revolving credit agreements are also available to serve as backup facilities for the issuance of commercial paper. As of June 30, 2018, our maximum commercial paper borrowing limit was $4.35 billion. Commercial paper borrowings at June 30, 2018 include approximately €750 million ($876 million) of euro-denominated commercial paper. We use our commercial paper borrowings for general corporate purposes, including the funding of potential acquisitions, pension contributions, debt refinancing, dividend payments and repurchases of our common stock. The need for commercial paper borrowings arises when the use of domestic cash for general corporate purposes exceeds the sum of domestic cash generation and foreign cash repatriated to the U.S.

On May 18, 2018, we issued €750 million aggregate principal amount of 1.150% senior notes due 2024, €500 million aggregate principal amount of 2.150% senior notes maturing 2030 and €750 million aggregate principal amount of senior floating rate notes maturing 2020. The net proceeds received from these debt issuances were used for general corporate purposes.

On May 4, 2018, we repaid at maturity approximately $1.1 billion aggregate principal amount of 1.778% junior subordinated notes.

On February 1, 2018, we repaid at maturity the $99 million 6.80% notes due in 2018 and on February 22, 2018, we repaid at maturity the €750 million EURIBOR plus 0.80% floating rate notes due in 2018.

In connection with the merger agreement with Rockwell Collins announced on September 4, 2017, we have entered into a $6.5 billion 364-day unsecured bridge loan credit agreement that would be funded only to the extent certain anticipated debt issuances are not completed prior to the completion of the merger. See Note 1 for additional discussion.

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Long-term debt consisted of the following:

(dollars in millions)	June 30, 2018	December 31, 2017
6.800% notes due 2018	$—	$ 99
EURIBOR plus 0.800% floating rate notes due 2018 (€750 million principal value)[2]	—	890
1.778% junior subordinated notes due 2018	—	1,100
LIBOR plus 0.350% floating rate notes due 2019 [3]	350	350
1.500% notes due 2019 [1]	650	650
EURIBOR plus 0.15% floating rate notes due 2019 (€750 million principal value)[2]	876	890
8.875% notes due 2019	271	271
4.875% notes due 2020 [1]	171	171
4.500% notes due 2020 [1]	1,250	1,250
1.900% notes due 2020 [1]	1,000	1,000
EURIBOR plus 0.20% floating rate notes due 2020 (€750 million principal value)[2]	876	—
8.750% notes due 2021	250	250
1.950% notes due 2021 [1]	750	750
1.125% notes due 2021 (€950 million principal value)[1]	1,110	1,127
2.300% notes due 2022 [1]	500	500
3.100% notes due 2022 [1]	2,300	2,300
1.250% notes due 2023 (€750 million principal value)[1]	876	890
2.800% notes due 2024 [1]	800	800
1.150% notes due 2024 (€750 million principal value)[1]	876	—
1.875% notes due 2026 (€500 million principal value)[1]	584	593
2.650% notes due 2026 [1]	1,150	1,150
3.125% notes due 2027 [1]	1,100	1,100
7.100% notes due 2027	141	141
6.700% notes due 2028	400	400
7.500% notes due 2029 [1]	550	550
2.150% notes due 2030 (€500 million principal value)[1]	584	—
5.400% notes due 2035 [1]	600	600
6.050% notes due 2036 [1]	600	600
6.800% notes due 2036 [1]	134	134
7.000% notes due 2038	159	159
6.125% notes due 2038 [1]	1,000	1,000
5.700% notes due 2040 [1]	1,000	1,000
4.500% notes due 2042 [1]	3,500	3,500
4.150% notes due 2045 [1]	850	850
3.750% notes due 2046 [1]	1,100	1,100
4.050% notes due 2047 [1]	600	600
Project financing obligations	206	158
Other (including capitalized leases)	197	195
Total principal long-term debt	27,361	27,118
Other (fair market value adjustments and discounts)	(37)	(25)
Total long-term debt	27,324	27,093
Less: current portion	78	2,104
Long-term debt, net of current portion	$27,246	$ 24,989

1 We may redeem these notes at our option pursuant to their terms.

2 The three-month EURIBOR rate as of June 30, 2018 was approximately -0.321%. The notes may be redeemed at our option in whole, but not in part, at any time in the event of certain developments affecting U.S. taxation.

[3] The three-month LIBOR rate as of June 30, 2018 was approximately 2.336%.

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The average maturity of our long-term debt at June 30, 2018 is approximately 11 years. The average interest expense rate on our total borrowings for the quarter and six months ended June 30, 2018 and 2017 were as follows:

	Quarter Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Average interest expense rate	3.5%	3.6%	3.5%	3.6%

We have an existing universal shelf registration statement filed with the Securities and Exchange Commission (SEC) for an indeterminate amount of equity and debt securities for future issuances, subject to our internal limitations on the amount of equity and debt to be issued under this shelf registration statement.

Note 6: Income Taxes

On December 22, 2017 Public Law 115-97 “An Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018” was enacted. This law is commonly referred to as the Tax Cuts and Jobs Act of 2017 (TCJA). In accordance with Staff Accounting Bulletin 118 (SAB 118) issued on December 22, 2017, the U.S. income tax amounts recorded attributable to the TCJA’s deemed repatriation provision, the revaluation of U.S. deferred taxes and the tax consequences relating to states with current conformity to the Internal Revenue Code are provisional amounts. Due to the enactment date and tax complexities of the TCJA, the Company has not completed its accounting related to these items.

Prior to enactment of the TCJA, with few exceptions, U.S. income taxes had not been provided on undistributed earnings of UTC's international subsidiaries as the Company had intended to reinvest such earnings permanently outside the U.S. or to repatriate such earnings only when it was tax effective to do so. The Company continues to evaluate the impact of the TCJA on its existing accounting position related to the undistributed earnings. Due to the inherent complexities in determining any incremental U.S. Federal and State taxes and the non-U.S. taxes that may be due if all of these earnings were remitted to the U.S. and as provided for by SAB 118 this evaluation has not yet been completed and no provisional amount has been recorded in regard to the undistributed amounts. After completing its evaluation, the Company will accrue any additional taxes due on previously undistributed earnings to be distributed in the future.

The Company will continue to accumulate and refine the relevant data and computational elements needed to finalize its accounting for the effects of the TCJA by December 22, 2018.

We conduct business globally and, as a result, UTC or one or more of our subsidiaries files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as Australia, Belgium, Brazil, Canada, China, France, Germany, Hong Kong, India, Italy, Japan, Mexico, Netherlands, Poland, Singapore, South Korea, Spain, Switzerland, 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 2006.

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. It is reasonably possible that a net reduction within the range of $50 million to $625 million of unrecognized tax benefits may occur within the next 12 months as a result of additional worldwide uncertain tax positions, the closure of tax statutes, or the revaluation of current uncertain tax positions arising from the issuance of legislation, regulatory or other guidance or developments in examinations, in appeals, or in the courts. The range of potential change includes provisional amounts related to the TCJA based on currently available information. See Note 15, Contingent Liabilities, for discussion regarding uncertain tax positions, included in the above range, related to pending litigation with respect to certain deductions claimed in Germany.

The Examination Division of the Internal Revenue Service is currently auditing UTC tax years 2014, 2015 and 2016, and the audit is expected to continue beyond 2018.

Note 7: Employee Benefit Plans

Pension and Postretirement Plans. We sponsor both funded and unfunded domestic and foreign defined pension and other postretirement benefit plans, and defined contribution plans.
In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU requires an employer to report the service cost component of net periodic pension benefit cost in the same line item or items as other compensation

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costs arising from services rendered by the pertinent employees during the period, with other cost components presented separately from the service cost component and outside of income from operations. This ASU also allows only the service cost component of net periodic pension benefit cost to be eligible for capitalization when applicable. This ASU was effective for years beginning after December 15, 2017. The Company adopted this standard on January 1, 2018 applying the presentation requirements retrospectively. We elected to apply the practical expedient, which allows us to reclassify amounts disclosed previously in the employee benefit plans note as the basis for applying retrospective presentation for comparative periods as it is impracticable to determine the disaggregation of the cost components for amounts capitalized and amortized in those periods. Provisions related to presentation of the service cost component eligibility for capitalization were applied prospectively.
The effect of the retrospective presentation change related to the net periodic benefit cost of our defined benefit pension and postretirement plans on our condensed consolidated statement of operations was as follows:

	Quarter Ended June 30, 2017		
(dollars in millions)	Previously Reported	Effect of Change Higher/(Lower)	As Revised
Cost of product sold	$7,907	$ 50	$7,957
Cost of services sold	3,193	14	3,207
Research and development	609	10	619
Selling, general and administrative	1,538	52	1,590
Non-service pension (benefit)	—	(126)	(126)

	Six Months Ended June 30, 2017		
(dollars in millions)	Previously Reported	Effect of Change Higher/(Lower)	As Revised
Cost of product sold	15,170	98	15,268
Cost of services sold	6,007	25	6,032
Research and development	1,186	19	1,205
Selling, general and administrative	3,020	107	3,127
Non-service pension (benefit)	—	(249)	(249)

Contributions to our plans were as follows:

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in millions)	2018	2017	2018	2017
Defined benefit plans	$22	$ 33	$59	$ 79
Defined contribution plans	105	86	199	176

There were no contributions to our domestic defined benefit pension plans in the quarter and six months ended June 30, 2018 and 2017. The following table illustrates the components of net periodic benefit cost for our defined pension and other postretirement benefit plans:

	Pension Benefits Quarter Ended June 30,		Other Postretirement Benefits Quarter Ended June 30,	
(dollars in millions)	2018	2017	2018	2017
Service cost	$93	$93	$ —	$ 1
Interest cost	278	279	6	6
Expected return on plan assets	(562)	(541)	—	—
Amortization of prior service credit	(10)	(9)	(1)	—

Recognized actuarial net loss (gain)	101	143	(2)	(2)
Net settlement and curtailment gain	(2)	(2)	—	—
Total net periodic benefit (income) cost	$ (102)	$ (37)	$ 3	$ 5

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(dollars in millions)	Pension Benefits Six Months Ended June 30, 2018	2017	Other Postretirement Benefits Six Months Ended June 30, 2018	2017
Service cost	$186	$186	$ 1	$ 2
Interest cost	557	557	12	13
Expected return on plan assets	(1,125)	(1,081)	—	—
Amortization of prior service credit	(20)	(18)	(2)	—
Recognized actuarial net loss (gain)	202	286	(4)	(5)
Net settlement and curtailment gain	(3)	(1)	—	—
Total net periodic benefit (income) cost	$(203)	$(71)	$ 7	$ 10

As approved in 2016, effective January 1, 2017, a voluntary lump-sum option is available for the frozen final average earnings benefits of certain U.S. salaried employees upon termination of employment after 2016. This option provides participants with the choice of electing to receive a lump-sum payment in lieu of receiving a future monthly pension benefit. This plan change reduced the projected benefit obligation by $170 million as of December 31, 2016.

Note 8: Restructuring Costs

During the six months ended June 30, 2018, we recorded net pre-tax restructuring costs totaling $149 million for new and ongoing restructuring actions. We recorded charges in the segments as follows:

(dollars in millions)	
Otis	$47
UTC Climate, Controls & Security	35
Pratt & Whitney	3
UTC Aerospace Systems	60
Eliminations and other	4
Total	$149

Restructuring charges incurred during the six months ended June 30, 2018 primarily relate to actions initiated during 2018 and 2017, and were recorded as follows:

(dollars in millions)	
Cost of sales	$86
Selling, general and administrative	65
Non-service pension (benefit)	(2)
Total	$149

2018 Actions. During the six months ended June 30, 2018, we recorded net pre-tax restructuring costs of $73 million, comprised of $38 million in cost of sales, $37 million in selling, general and administrative expenses, and $2 million in non-service pension benefit. The 2018 actions relate to ongoing cost reduction efforts, including workforce reductions and the consolidation of field and manufacturing operations.

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We are targeting to complete the majority of the remaining workforce and facility related cost reduction actions during 2018 and 2019. No specific plans for other significant actions have been finalized at this time. The following table summarizes the accrual balance and utilization for the 2018 restructuring actions for the quarter and six months ended June 30, 2018:

(dollars in millions)	Severance	Facility Exit, Lease Termination and Other Costs	Total
Quarter Ended June 30, 2018			
Restructuring accruals at March 31, 2018	$ 8	$ —	$ 8
Net pre-tax restructuring costs	60	1	61
Utilization and foreign exchange	(20)	(1)	(21)
Balance at June 30, 2018	$ 48	$ —	$ 48
Six Months Ended June 30, 2018			
Net pre-tax restructuring costs	$ 71	$ 2	$ 73
Utilization and foreign exchange	(23)	(2)	(25)
Balance at June 30, 2018	$ 48	$ —	$ 48

The following table summarizes expected, incurred and remaining costs for the 2018 restructuring actions by segment:

(dollars in millions)	Expected Costs	Costs Incurred Quarter Ended March 31, 2018	Costs Incurred Quarter Ended June 30, 2018	Remaining Costs at June 30, 2018
Otis	$ 31	$ (9)	$ (18)	$ 4
UTC Climate, Controls & Security	77	(1)	(23)	53
Pratt & Whitney	3	—	(3)	—
UTC Aerospace Systems	20	—	(15)	5
Eliminations and other	4	(2)	(2)	—
Total	$ 135	$ (12)	$ (61)	$ 62

2017 Actions. During the six months ended June 30, 2018, we recorded net pre-tax restructuring costs totaling $67 million for restructuring actions initiated in 2017, including $42 million in cost of sales and $25 million in selling, general and administrative expenses. The 2017 actions relate to ongoing cost reduction efforts, including workforce reductions, consolidation of field operations, and costs to exit legacy programs. The following table summarizes the accrual balances and utilization for the 2017 restructuring actions for the quarter and six months ended June 30, 2018:

(dollars in millions)	Severance	Facility Exit, Lease Termination and Other Costs	Total
Quarter Ended June 30, 2018			
Restructuring accruals at March 31, 2018	$ 88	$ (2)	$ 86
Net pre-tax restructuring costs	8	8	16
Utilization and foreign exchange	(23)	(9)	(32)
Balance at June 30, 2018	$ 73	$ (3)	$ 70
Six Months Ended June 30, 2018			

Restructuring accruals at December 31, 2017	$ 84	$ 1	$ 85
Net pre-tax restructuring costs	47	20	67
Utilization and foreign exchange	(58)	(24)	(82)
Balance at June 30, 2018	$ 73	$ (3)	$ 70

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The following table summarizes expected, incurred and remaining costs for the 2017 restructuring actions by segment:

(dollars in millions)	Expected Costs	Costs Incurred in 2017	Costs Incurred Quarter Ended March 31, 2018	Costs Incurred Quarter Ended June 30, 2018	Remaining Costs at June 30, 2018
Otis	$ 73	$ (43)	$ (15)	$ (4)	$ 11
UTC Climate, Controls & Security	81	(76)	(7)	5	3
Pratt & Whitney	7	(7)	—	—	—
UTC Aerospace Systems	157	(43)	(29)	(17)	68
Eliminations and other	7	(7)	—	—	—
Total	$ 325	$ (176)	$ (51)	$ (16)	$ 82

2016 and Prior Actions. During the six months ended June 30, 2018, we recorded net pre-tax restructuring costs totaling $9 million for restructuring actions initiated in 2016 and prior. As of June 30, 2018, we have approximately $91 million of accrual balances remaining related to 2016 and prior actions.

Note 9: Financial Instruments

We enter into derivative instruments primarily for risk management purposes, 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.

The four quarter rolling average of the notional amount of foreign exchange contracts hedging foreign currency transactions was $20.5 billion and $19.1 billion at June 30, 2018 and December 31, 2017, respectively.

The following table summarizes the fair value and presentation in the Condensed Consolidated Balance Sheets for derivative instruments as of June 30, 2018 and December 31, 2017:

(dollars in millions)	Balance Sheet Location	June 30, 2018	December 31, 2017
Derivatives designated as hedging instruments:			
Foreign exchange contracts	Asset Derivatives:		
	Other assets, current	$ 23	$ 77
	Other assets	27	101
	Total asset derivatives	$ 50	$ 178
	Liability Derivatives:		
	Accrued liabilities	(43)	(10)
	Other long-term liabilities	(75)	(8)
	Total liability derivatives	$ (118)	$ (18)
Derivatives not designated as hedging instruments:			
Foreign exchange contracts	Asset Derivatives:		
	Other assets, current	39	70
	Other assets	22	5
	Total asset derivatives	$ 61	$ 75
	Liability Derivatives:		
	Accrued liabilities	(93)	(57)
	Other long-term liabilities	(3)	(3)
	Total liability derivatives	$ (96)	$ (60)

The effect of cash flow hedging relationships on accumulated other comprehensive income for the quarter and six months ended June 30, 2018 and 2017 are presented in the table below. The amounts of gain or (loss) are attributable

to foreign

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exchange contract activity and are recorded as a component of Product sales when reclassified from accumulated other comprehensive income.

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in millions)	2018	2017	2018	2017
Gain (loss) recorded in Accumulated other comprehensive loss	$(245)	$ 66	$(200)	$130
(Gain) loss reclassified from Accumulated other comprehensive loss into Product sales	(1)	5	(28)	10

The table above reflects the effect of cash flow hedging relationships on the Condensed Consolidated Statements of Operations for the quarter and six months ended June 30, 2018 and 2017. The Company utilizes the critical terms match method in assessing derivatives for hedge effectiveness. Accordingly, the hedged items and derivatives designated as hedging instruments are highly effective.

We have approximately €4.95 billion of euro-denominated long-term debt and €750 million of euro-denominated commercial paper borrowings outstanding, which qualify as a net investment hedge against our investments in European businesses. As of June 30, 2018, the net investment hedge is deemed to be effective.

Assuming current market conditions continue, a $33 million pre-tax loss is expected to be reclassified from Accumulated other comprehensive loss into Product sales to reflect the fixed prices obtained from foreign exchange hedging within the next 12 months. At June 30, 2018, all derivative contracts accounted for as cash flow hedges will mature by July 2022.

The effect of derivatives not designated as hedging instruments that is included below within Other income, net, on the Condensed Consolidated Statement of Operations was as follows:

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in millions)	2018	2017	2018	2017
Foreign exchange contracts	$19	$ 28	$70	$ 40

Note 10: Fair Value Measurements

In accordance with the provisions of ASC 820, the following tables provide the valuation hierarchy classification of assets and liabilities that are carried at fair value and measured on a recurring and nonrecurring basis in our Condensed Consolidated Balance Sheet as of June 30, 2018 and December 31, 2017:

June 30, 2018 (dollars in millions)	Total	Level 1	Level 2	Level 3
Recurring fair value measurements:				
Available-for-sale securities	$42	$ 42	$ —	$ —
Derivative assets	111	—	111	—
Derivative liabilities	(214)	—	(214)	—

December 31, 2017 (dollars in millions)	Total	Level 1	Level 2	Level 3
Recurring fair value measurements:				
Available-for-sale securities	$64	$ 64	$ —	$ —
Derivative assets	253	—	253	—
Derivative liabilities	(78)	—	(78)	—

Valuation Techniques. Our available-for-sale securities include equity investments that are traded in active markets, either domestically or internationally, and are measured at fair value using closing stock prices from active markets. Our derivative assets and liabilities include foreign exchange contracts that are measured at fair value using internal models based on observable market inputs such as forward rates, interest rates, our own credit risk and our counterparties' credit risks. As of June 30, 2018, there were no significant transfers in or out of Level 1 and Level 2.

As of June 30, 2018, there has not been any significant impact to the fair value of our derivative liabilities due to our own credit risk. Similarly, there has not been any significant adverse impact to our derivative assets based on our evaluation of our counterparties' credit risks.

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The following table provides carrying amounts and fair values of financial instruments that are not carried at fair value in our Condensed Consolidated Balance Sheet at June 30, 2018 and December 31, 2017:

(dollars in millions)	June 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term receivables	$ 132	$ 122	$ 127	$ 121
Customer financing notes receivable	577	554	609	596
Short-term borrowings	(985)	(985)	(392)	(392)
Long-term debt (excluding capitalized leases)	(27,301)	(27,755)	(27,067)	(29,180)
Long-term liabilities	(307)	(271)	(362)	(330)

The following table provides the valuation hierarchy classification of assets and liabilities that are not carried at fair value in our Condensed Consolidated Balance Sheet at June 30, 2018 and December 31, 2017:

(dollars in millions)	June 30, 2018			
	Total	Level 1	Level 2	Level 3
Long-term receivables	$ 122	$ —	$ 122	$ —
Customer financing notes receivable	554	—	554	—
Short-term borrowings	(985)	—	(876)	(109)
Long-term debt (excluding capitalized leases)	(27,755)	—	(27,496)	(259)
Long-term liabilities	(271)	—	(271)	—

(dollars in millions)	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Long-term receivables	$ 121	$ —	$ 121	$ —
Customer financing notes receivable	596	—	596	—
Short-term borrowings	(392)	—	(300)	(92)
Long-term debt (excluding capitalized leases)	(29,180)	—	(28,970)	(210)
Long-term liabilities	(330)	—	(330)	—

We had commercial aerospace financing and other contractual commitments totaling approximately $15.2 billion and $15.3 billion as of June 30, 2018 and December 31, 2017, respectively, related to commercial aircraft and certain contractual rights to provide product on new aircraft platforms. Associated risks on these commitments from changes in interest rates are mitigated because 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.

Note 11: Long-Term Financing Receivables

Our long-term financing receivables primarily represent balances related to our aerospace businesses, such as long-term trade accounts receivable, notes receivable, and leases receivable. We also have other long-term receivables related to our commercial businesses; however, both the individual and aggregate amounts of those other receivables are not significant.

Prior to the adoption of the New Revenue Standard, long-term trade accounts receivable, including unbilled receivables related to long-term aftermarket contracts, were principally amounts arising from the sale of goods and the delivery of services with a contract maturity date or realization period of greater than one year and were recognized as "Other assets" in our Condensed Consolidated Balance Sheet. With the adoption of the New Revenue Standard, these unbilled receivables are classified as non-current contract assets and are recognized as "Other assets" in our Condensed Consolidated Balance Sheet. Notes and leases receivable represent notes and lease receivables other than receivables related to operating leases, and are recognized as "Customer financing assets" in our Condensed Consolidated Balance Sheet. The following table summarizes the balance by class of aerospace business related long-term receivables as of June 30, 2018 and December 31, 2017.

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(dollars in millions)	June 30, 2018	December 31, 2017
Long-term trade accounts receivable	$ 71	$ 973
Notes and leases receivable	435	424
Total long-term receivables	$ 506	$ 1,397

Customer credit ratings range from customers with an extremely strong capacity to meet financial obligations to customers whose uncollateralized receivables are in default. There can be no assurance that actual results will not differ from estimates or that consideration of these factors in the future will not result in an increase or decrease to the allowance for credit losses on long-term receivables. The decrease in Long-term trade accounts receivable from December 31, 2017 is primarily driven by the reclassification of unbilled receivables related to long-term aftermarket contracts to contract assets in accordance with the New Revenue Standard as described above. Based upon the customer credit ratings, approximately $140 million and $170 million of our total long-term receivables were considered to bear high credit risk as of June 30, 2018 and December 31, 2017, respectively.

For long-term trade accounts receivable, we evaluate credit risk and collectability individually to determine if an allowance is necessary. Our long-term receivables reflected in the table above, which include reserves of $17 million as of both June 30, 2018 and December 31, 2017, are individually evaluated for impairment. At June 30, 2018 and December 31, 2017, we did not have any significant balances that are considered to be delinquent, on non-accrual status, past due 90 days or more, or are considered to be unrecoverable.

Note 12: Shareowners' Equity and Noncontrolling Interest

A summary of the changes in shareowners' equity and noncontrolling interest comprising total equity for the quarter and six months ended June 30, 2018 and 2017 is provided below:

	Quarter Ended June 30,					
	2018			2017		
(dollars in millions)	Share-owners' Equity	Non-controlling Interest	Total Equity	Share-owners' Equity	Non-controlling Interest	Total Equity
Equity, beginning of period	$30,534	$ 1,958	$32,492	$27,594	$ 1,678	$29,272
Comprehensive (loss) income for the period:						
Net income	2,048	91	2,139	1,439	93	1,532
Total other comprehensive (loss) income	(747)	(38)	(785)	369	18	387
Total comprehensive income for the period	1,301	53	1,354	1,808	111	1,919
Common Stock issued under employee plans	110	—	110	91	—	91
Common Stock repurchased	(27)	—	(27)	(437)	—	(437)
Dividends on Common Stock	(535)	—	(535)	(503)	—	(503)
Dividends on ESOP Common Stock	(17)	—	(17)	(17)	—	(17)
Dividends attributable to noncontrolling interest	—	(73)	(73)	—	(64)	(64)
Capital contributions	—	42	42	—	—	—
Purchase of subsidiary shares from noncontrolling interest, net	—	—	—	(1)	(4)	(5)
Redeemable noncontrolling interest fair value adjustment	—	—	—	(94)	—	(94)
Other	(2)	2	—	1	(8)	(7)
Equity, end of period	$31,364	$ 1,982	$33,346	$28,442	$ 1,713	$30,155

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(Dollars in millions)	Six Months Ended June 30, 2018 Share-owners' Equity	Non-controlling Interest	Total Equity	2017 Share-owners' Equity	Non-controlling Interest	Total Equity
Equity, beginning of period	$29,610	$ 1,811	$31,421	$27,579	$ 1,590	$29,169
Comprehensive (loss) income for the period:						
Net income	3,345	162	3,507	2,825	175	3,000
Total other comprehensive (loss) income	(159)	(5)	(164)	370	43	413
Total comprehensive income for the period	3,186	157	3,343	3,195	218	3,413
Common Stock issued under employee plans	181	—	181	170	—	170
Common Stock repurchased	(52)	—	(52)	(1,370)	—	(1,370)
Dividends on Common Stock	(1,070)	—	(1,070)	(1,008)	—	(1,008)
Dividends on ESOP Common Stock	(35)	—	(35)	(35)	—	(35)
Dividends attributable to noncontrolling interest	—	(139)	(139)	—	(112)	(112)
Capital contributions	—	162	162	—	43	43
Purchase of subsidiary shares from noncontrolling interest, net	(1)	(1)	(2)	(1)	(5)	(6)
Disposition of noncontrolling interest	—	(8)	(8)	—	—	—
Redeemable noncontrolling interest fair value adjustment	(2)	—	(2)	(95)	—	(95)
New Revenue Standard adoption impact	(480)	—	(480)	—	—	—
Other	27	—	27	7	(21)	(14)
Equity, end of period	$31,364	$ 1,982	$33,346	$28,442	$ 1,713	$30,155

A summary of the changes in each component of Accumulated other comprehensive (loss) income, net of tax for the quarter and six months ended June 30, 2018 and 2017 is provided below:

(dollars in millions)	Foreign Currency Translation	Defined Benefit Pension and Post-retirement Plans	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrealized Hedging (Losses) Gains	Accumulated Other Comprehensive (Loss) Income
Quarter Ended June 30, 2018					
Balance at March 31, 2018	$ (2,444)	$ (4,579)	$ —	$ 86	$ (6,937)
Other comprehensive income (loss) before reclassifications, net	(564)	18	—	(245)	(791)
Amounts reclassified, pre-tax	(3)	88	—	(1)	84
Tax (benefit) expense reclassified	(74)	(26)	—	60	(40)
Balance at June 30, 2018	$ (3,085)	$ (4,499)	$ —	$ (100)	$ (7,684)
Six Months Ended June 30, 2018					
Balance at December 31, 2017	$ (2,950)	$ (4,652)	$ 5	$ 72	$ (7,525)
Other comprehensive income (loss) before reclassifications, net	(188)	26	—	(200)	(362)
Amounts reclassified, pre-tax	(3)	176	—	(28)	145
Tax (benefit) expense reclassified	56	(49)	—	56	63
ASU 2016-01 adoption impact	—	—	(5)	—	(5)
Balance at June 30, 2018	$ (3,085)	$ (4,499)	$ —	$ (100)	$ (7,684)

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(dollars in millions)	Foreign Currency Translation	Defined Benefit Pension and Post-retirement Plans	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrealized Hedging (Losses) Gains	Accumulated Other Comprehensive (Loss) Income
Quarter Ended June 30, 2017					
Balance at March 31, 2017	$ (3,359)	$ (4,962)	$ 96	$ (108)	$ (8,333)
Other comprehensive income (loss) before reclassifications, net	231	(2)	20	50	299
Amounts reclassified, pre-tax	—	132	(24)	5	113
Tax (benefit) expense reclassified	—	(50)	8	(1)	(43)
Balance at June 30, 2017	$ (3,128)	$ (4,882)	$ 100	$ (54)	$ (7,964)
Six Months Ended June 30, 2017					
Balance at December 31, 2016	$ (3,480)	$ (5,045)	$ 353	$ (162)	$ (8,334)
Other comprehensive income (loss) before reclassifications, net	352	(2)	(1)	100	449
Amounts reclassified, pre-tax	—	263	(407)	10	(134)
Tax (benefit) expense reclassified	—	(98)	155	(2)	55
Balance at June 30, 2017	$ (3,128)	$ (4,882)	$ 100	$ (54)	$ (7,964)

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. This ASU modifies how entities measure equity investments and present changes in the fair value of financial liabilities. Upon adoption, investments that do not result in consolidation and are not accounted for under the equity method generally must be carried at fair value, with changes in fair value recognized in net income. We had approximately $5 million of unrealized gains on these securities recorded in Accumulated other comprehensive loss in our Consolidated Balance Sheet as of December 31, 2017. We adopted this standard effective January 1, 2018, with these amounts recorded directly to retained earnings as of that date.

Amounts reclassified that relate to our defined benefit pension and postretirement plans include the amortization of prior service costs and actuarial net losses recognized during each period presented. These costs are recorded as components of net periodic pension cost for each period presented (see Note 7 for additional details).

Amounts reclassified that relate to unrealized gains (losses) on available-for-sale securities, pre-tax includes approximately $380 million of previously unrealized gains reclassified to other income as a result of sales of significant investments in available-for-sale securities in the six months ended June 30, 2017, including UTC Climate, Controls & Security's sale of investments in Watsco, Inc.

All noncontrolling interests with redemption features, such as put options, that are not solely within our control (redeemable noncontrolling interests) are reported in the mezzanine section of the Condensed Consolidated Balance Sheet, between liabilities and equity, at the greater of redemption value or initial carrying value.

Note 13: Variable Interest Entities

Pratt & Whitney holds a net 61% interest in the IAE International Aero Engines AG (IAE) collaboration with MTU Aero Engines AG (MTU) and Japanese Aero Engines Corporation (JAEC) and a 49.5% ownership interest in IAE. IAE's business purpose is to coordinate the design, development, manufacturing and product support of the V2500 program through involvement with the collaborators. Additionally, Pratt & Whitney, JAEC and MTU are participants in International Aero Engines, LLC (IAE LLC), whose business purpose is to coordinate the design, development, manufacturing and product support for the PW1100G-JM engine for the Airbus A320neo aircraft and the PW1400G-JM engine for the Irkut MC21 aircraft. Pratt & Whitney holds a 59% net interest and a 59% ownership interest in IAE LLC. IAE and IAE LLC retain limited equity with the primary economics of the programs passed to the participants. As such, we have determined that IAE and IAE LLC are variable interest entities with Pratt & Whitney the primary beneficiary. IAE and IAE LLC have, therefore, been consolidated. The carrying amounts and

classification of assets and liabilities for variable interest entities in our Condensed Consolidated Balance Sheet are as follows:

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(dollars in millions)	June 30, 2018	December 31, 2017
Current assets	$ 4,127	