

ROCKWELL COLLINS INC

Form 10-K

November 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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

Commission file number 001-16445

Rockwell Collins, Inc.

(Exact name of registrant as specified in its charter)

Delaware

52-2314475

(State or other jurisdiction

(I.R.S. Employer

of incorporation or organization)

Identification No.)

400 Collins Road NE

Cedar Rapids, Iowa

52498

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (319) 295-1000

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class

Name of each exchange on which registered

Common Stock, par value \$.01 per share New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

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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 ☒

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant on March 30, 2018 was approximately \$22.1 billion. For purposes of this calculation, the registrant has assumed that its directors and executive officers are affiliates.

164,629,890 shares of the registrant's Common Stock were outstanding on October 31, 2018.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information contained in the Proxy Statement for the Annual Meeting of Shareowners of the registrant to be held in 2019 is incorporated by reference into Part III.

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ROCKWELL COLLINS, INC.

Annual Report on Form 10-K

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## PART I

### Item 1. Business.

#### General

Rockwell Collins, Inc. (the Company or Rockwell Collins) designs, produces and supports cabin interior, communications and aviation systems and products for commercial and military customers and provides information management services through voice and data communication networks and solutions worldwide. The integrated system solutions and products we provide to our served markets are oriented around a set of core competencies: communications, navigation, automated flight control, displays/surveillance, bespoke interior products, simulation and training, integrated electronics and information management systems. We also provide a wide range of services and support to our customers through a worldwide network of service centers, including equipment repair and overhaul, service parts, field service engineering, training, technical information services and aftermarket used equipment sales. The structure of our business allows us to leverage these core competencies across markets and applications to bring high value solutions to customers. We operate in multiple countries and are headquartered in Cedar Rapids, Iowa.

Our Company's heritage is rooted in the Collins Radio Company, established in 1933. Rockwell Collins, Inc., the parent company, is incorporated in Delaware. As used herein, the terms "we", "us", "our", "Rockwell Collins" or the "Company" include subsidiaries and predecessors unless the context indicates otherwise.

Whenever reference is made in any Item of this Annual Report on Form 10-K to information in our Proxy Statement for the Annual Meeting of Shareowners to be held in 2019 (2019 Proxy Statement), such information shall be deemed to be incorporated herein by such reference.

All date references contained herein relate to our fiscal year ending on the Friday closest to September 30 unless otherwise stated. For ease of presentation, September 30 is utilized consistently throughout this report to represent the fiscal year end date. Fiscal years 2018, 2017 and 2016 were 52-week fiscal years.

#### Proposed Acquisition by United Technologies Corporation

On September 4, 2017, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with United Technologies Corporation, a Delaware corporation ("UTC"), and Riveter Merger Sub Corp., a Delaware corporation and a wholly owned subsidiary of UTC ("Merger Sub"). Upon the terms and subject to the conditions set forth in the Merger Agreement, at the closing, Merger Sub will merge with and into Rockwell Collins, with Rockwell Collins surviving as a wholly owned subsidiary of UTC (the "UTC Merger").

Pursuant to the Merger Agreement, at the effective time of the UTC Merger (the "Effective Time"), each share of Rockwell Collins common stock, par value \$0.01 per share, issued and outstanding immediately prior to the Effective Time (other than (1) shares held by Rockwell Collins as treasury stock, UTC, or any subsidiaries of Rockwell Collins or UTC and (2) shares held by a holder who has properly exercised and perfected (and not effectively withdrawn or lost) such holder's demand for appraisal rights under Section 262 of the General Corporation Law of the State of Delaware, which in each case will be treated as described in the Merger Agreement) will be converted into the right to receive (1) \$93.33 in cash, without interest, plus (2) a fraction of a share of UTC common stock having a value 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 New York Stock Exchange for each of the 20 consecutive trading days ending with the trading day immediately prior to the closing date (the "UTC stock price"), subject to a two-way collar mechanism described below (together, the "Merger Consideration"), less any applicable withholding taxes.

The fraction of a share of UTC common stock into which each such share of Rockwell Collins common stock will be converted is referred to as the exchange ratio. The exchange ratio will depend 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, a two-way collar mechanism will apply, pursuant to which (i) 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 more than \$46.67, and (ii) 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.

The completion of the UTC Merger is subject to customary conditions, including, without limitation, (1) the absence of any order or law that has the effect of enjoining or otherwise prohibiting the completion of the UTC Merger or resulting in the

occurrence of certain conditions specified in the Merger Agreement and (2) the absence of a material adverse effect on Rockwell Collins and UTC. The completion of the UTC Merger is not subject to the approval of UTC's shareowners or the receipt of financing by UTC.

The Company and UTC have made customary representations and warranties in the Merger Agreement. The Merger Agreement also contains customary covenants and agreements, including covenants and agreements relating to (a) the conduct of each of the Company's and UTC's respective businesses between the date of the signing of the Merger Agreement and the consummation of the UTC Merger, and (b) the efforts of the parties to cause the UTC Merger to be completed.

The Merger Agreement includes termination provisions for both Rockwell Collins and UTC. The Merger Agreement provides that the Company may be required to pay UTC a termination fee equal to \$695 million if the Merger Agreement is terminated by the Company under certain circumstances described in the Merger Agreement.

#### Financial Information About Our Operating Segments

Financial information with respect to our operating segments, including product line disclosures, revenues, operating earnings and total assets, is contained under the caption Segment Financial Results in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 below and in Note 21 of the Notes to Consolidated Financial Statements in Item 8 below.

#### Access to the Company's Reports and Governance Information

We maintain an internet website at [www.rockwellcollins.com](http://www.rockwellcollins.com). Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on this site as soon as reasonably practicable after the reports are filed with or furnished to the Securities and Exchange Commission (SEC). All reports we file with the SEC are also available free of charge via EDGAR through the SEC website at [www.sec.gov](http://www.sec.gov). We also post corporate governance information (including our corporate governance guidelines and Board committee charters) and other information related to our Company on our internet website where it is available free of charge. We will provide, without charge, upon written request, copies of our SEC reports and corporate governance information. Our internet website and the information contained therein or connected thereto are not incorporated into this Annual Report on Form 10-K.

#### Description of Business by Segment

We serve a worldwide customer base through our Interior Systems, Commercial Systems, Government Systems and Information Management Services operating segments. These four segments are described in detail below.

##### Interior Systems

On April 13, 2017, we acquired B/E Aerospace and formed the Interior Systems business segment. Our Interior Systems business manufactures cabin interior products for commercial aircraft and business aviation customers. We sell our products and provide our services directly to virtually all of the world's major airlines and aerospace manufacturers. We have achieved a leading global market position in each of our major product categories, which include:

- commercial aircraft seats, including an extensive line of super first class, first class, business class, economy class and regional aircraft seats

a full line of aircraft food and beverage preparation and storage equipment, including coffee and espresso makers, water boilers, beverage containers, refrigerators, freezers, chillers and a line of microwave, high efficiency convection and steam ovens

modular lavatory systems, wastewater management systems and galley systems

both chemical and gaseous aircraft oxygen storage, distribution and delivery systems, protective breathing equipment and a broad range of lighting products

business jet and general aviation interior products, including an extensive line of executive aircraft and helicopter seats, direct and indirect overhead lighting systems, exterior lighting systems, passenger and crew oxygen systems, air valve systems and high-end aircraft monuments



Interior Systems sales are categorized by product type into interior products and services and aircraft seating. Interior products and services includes a portfolio of interior structure products (galley structures, food and beverage preparation equipment, water and waste systems), integrated engineering services, oxygen and passenger service equipment, cabin lighting systems, de-icing equipment and aftermarket services. These products and services are marketed and sold to original equipment manufacturers (OEMs) as well as airliner customers. Aircraft seating includes a portfolio of innovative and bespoke seating products for applications on all classes of commercial, business aviation, executive and helicopter platforms for line fit and retrofit programs. These products are marketed and sold directly to OEMs, airlines and completion centers across the globe.

### Commercial Systems

Our Commercial Systems segment supplies aviation electronics systems, products and services to customers located throughout the world. The customer base is comprised of OEMs of commercial air transport, business and regional aircraft, commercial airlines and business aircraft operators. Our systems and products are used in both OEM applications as well as in retrofit and upgrade applications designed to increase the efficiency and enhance the value of existing aircraft.

Our commercial aviation electronics systems, products and services include:

- integrated avionics systems, such as Pro Line Fusion<sup>®</sup>, which provide advanced avionics capabilities to meet the challenges of operating in the next generation global airspace. Pro Line Fusion<sup>®</sup> capabilities include: touch control primary flight displays, advanced flight and performance management, flight guidance and information management

- integrated cabin electronics solutions, including cabin management systems with touch-screen controls, wireless connectivity equipment, high definition video and audio, and entertainment and information content such as Airshow moving maps

- communications systems and products, such as data link, high frequency (HF), very high frequency (VHF) and satellite communications systems

- navigation systems and products, including landing sensors to enable fully automatic landings, radio navigation and geophysical sensors, as well as flight management systems

- situational awareness and surveillance systems and products, such as synthetic and enhanced vision systems, surface surveillance and guidance solutions, head-up guidance systems, weather radar and collision avoidance systems

- integrated flight controls including fly-by-wire, advanced flight guidance with auto-land capability

- simulation and training systems, including full-flight simulators for crew training, visual system products, training systems and engineering services

- maintenance, repair, parts, after-sales support services and aftermarket used equipment

Commercial Systems sales are categorized into air transport aviation electronics and business and regional aviation electronics. Product category sales are delineated based upon the difference in the underlying customer base, size of aircraft and markets served.

Air transport aviation electronics include avionics, cabin systems and flight control systems for large commercial transport aircraft platforms. We design these items as sub-systems and work with OEMs to integrate with other suppliers' products into the flight deck and broader aircraft systems. Our products offered for OEM applications in the air transport category are marketed directly to aircraft OEMs and airline operators, while our products offered for aftermarket applications are primarily marketed to airline operators.

Business and regional aviation electronics include integrated avionics, cabin management and flight control systems for application on regional and business aircraft platforms. We develop integrated avionics, cabin and flight control solutions for business and regional aircraft OEMs and support them with integration into other aircraft systems. Products offered for OEM applications in the business and regional aircraft category are marketed directly to the aircraft OEMs. Products offered for aftermarket applications are primarily marketed through distributors for business aviation and directly to regional airline operators.

#### Government Systems

Our Government Systems segment provides a broad range of electronic products, systems and services to customers including the U.S. Department of Defense, various ministries of defense, other government agencies and defense contractors around the world. Our defense electronic solutions are designed to meet a wide range of customer requirements, but tend to share certain characteristics including design for rugged environments and use in size, weight and power constrained applications. These applications also typically have stringent product integrity and certification requirements with a high degree of customer oversight. These products, systems and services support airborne, precision weapon, ground and maritime applications on new equipment as well as in retrofit and upgrade applications designed to extend the service life and enhance the capability of existing aircraft, vehicle and weapon platforms.

Our defense-related systems, products and services include:

- communications systems and products designed to enable the transmission of information across the communications spectrum

- navigation products and systems, including radio navigation products, global positioning system (GPS) equipment and multi-mode receivers

- avionics systems for aircraft flight decks, including cockpit display products (multipurpose flat panel head-down displays, wide field of view head-up and helmet-mounted displays), flight controls, information/data processing and communications, navigation, safety and surveillance systems

- precision targeting, electronic warfare and range and training systems

- simulation and training systems, including visual system products, training systems and services

- space wheels for satellite stabilization

- maintenance, repair, parts, after-sales support services and aftermarket used equipment

Government Systems sales are categorized into avionics and communication and navigation products. Product category sales are delineated based upon underlying product technologies.

Avionics consists of electronic solutions for a broad range of airborne platforms including fixed wing aircraft and military and civil rotary wing aircraft, unmanned aerial systems (UAS) and the associated aircrew and maintenance training devices and services. We provide complete avionics solutions, including cockpit avionics, mission system applications and system integration, and also provide individual avionics products to platform integrators. We serve various roles within these markets including system and sub-systems integrator as well as provider of various electronic products. For the UAS market we provide cost effective, high performance integrated flight control, navigation, communication and sensor capabilities. Simulation and training solutions are provided for both fixed and

rotary wing aircraft.

Communication and navigation products include full spectrum communication solutions for voice and data connectivity for government and military use in the air, on the ground and at sea. These communication products support military user requirements for high availability, highly secure, jam resistant wireless communication. Products include radio communication, data links, electronic warfare and networked communication systems. The navigation products are primarily comprised of global positioning system based products used for precision navigation and targeting applications. These applications include airborne, vehicular, maritime, soldier navigation devices, precision targeting subsystems, precision-guided weapons products, range and training systems and a variety of embedded GPS applications. Additional offerings include customized fully integrated thermal and power management solutions for participants in the defense industry, OEMs and the airlines.

## Information Management Services

Our Information Management Services (IMS) segment provides communications services, systems integration and security solutions across the aviation, airport, rail and nuclear security markets to customers located around the world. The customer base includes commercial airlines, business aircraft operators, the U.S. Federal Aviation Administration (FAA), airport and critical infrastructure operators and major passenger and freight railroads. In October 2018, we announced that IMS will become part of the Commercial Systems segment. This reorganization will enable us to further capitalize on customers' increasing need for aviation connectivity solutions. This change will require us to revise our segment reporting beginning in the first quarter of fiscal 2019 to report the IMS business within the Commercial Systems segment.

Our information management services include:

- voice and data communication services, such as air-to-ground GLOBALink<sup>SM</sup> and ground-to-ground AviNet<sup>®</sup> services, which enable satellite, VHF and HF transmissions between the cockpit, air traffic control, airline operation centers, reservation systems and other third parties ensuring safety and efficiency for commercial airlines and other related entities in the aviation ecosystem
- global, high throughput cabin connectivity solutions enabling airlines to provide an enhanced experience for their passengers and improved operational efficiency for crews
- robust connectivity management services that ensure interoperability between smart aircraft and legacy airline systems, allowing airlines to increase efficiency, reduce costs and enhance operations
- cybersecurity as a service to protect the integrity of our customers' information systems across a wide variety of domains including aviation, airports, rail and critical infrastructure
- around the clock global flight support services for business aircraft operators, under the ARINC Direct<sup>SM</sup> brand, including flight planning and datalink, international trip support, cabin connectivity solutions and flight operations management software
- airport communications and information systems designed to ease congestion and improve airport efficiency via airline agent and self-service check-in, airport operations, baggage management, boarding and access control solutions
- train dispatching and information systems including solutions to support positive train control as mandated by the 2008 Railroad Safety Improvement Act
- mission critical security command and control systems for nuclear power facilities with functions such as intrusion detection, access control, video and credential management and vehicle identification

## Customers, Sales and Marketing

We serve a broad range of customers worldwide, including the U.S. Department of Defense, U.S. Coast Guard, civil agencies, airports, defense contractors, foreign ministries of defense, manufacturers of commercial helicopters, manufacturers of commercial air transport, airframe manufacturers, defense manufacturers, business and regional aircraft, commercial airlines, aerospace OEMs, fractional and other business jet operators, the FAA, critical infrastructure operators and major passenger and freight railroads. We market our systems, products and services directly to our customers through an internal marketing and sales force. In addition, we utilize a worldwide dealer network to distribute our products and international sales representatives to assist with international sales and marketing. In 2018, various branches of the U.S. Government, both directly and indirectly through subcontracts, accounted for 23 percent of our total sales. Sales to The Boeing Company represented 16 percent of total sales in 2018.

Our largest customers have substantial bargaining power with respect to price and other commercial terms. Although we believe that we generally enjoy good relations with our customers, the loss of all or a substantial portion of our sales to any of our large volume customers for any reason, including the loss of contracts, bankruptcy, reduced or delayed customer requirements, strikes or other work stoppages affecting production by these customers, could have a

material adverse effect on our business, financial condition, results of operations and cash flows.

## Competition

We operate in a highly competitive environment. Principal competitive factors include total cost of ownership, product and system performance, network coverage, quality, service, warranty and indemnification terms, technology, design engineering capabilities, new product innovation and timely delivery. We compete worldwide with a number of U.S. and non-U.S. companies in each of our businesses. Many of these competitors are also our suppliers or customers. Principal competitors include BAE Systems Aerospace, Inc.; CAE Inc.; Diehl Aerosystems Holding GmbH; Elbit Systems Ltd.; Esterline Technologies Corp.; FlightSafety International; Garmin International Inc.; General Dynamics Corporation; General Electric Co.; Harris Corp.; Honeywell International, Inc.; Jamco America, Inc.; L3 Communications, Inc.; Northrop Grumman Corp.; Raytheon Co.; Recaro Aircraft Seating GmbH & Co. KG; Safran; Satcom Direct, Inc.; SITA; Thales S.A.; The Boeing Company; and Thompson Aero Seating Ltd. Several of our competitors are significantly larger than we are in terms of resources and market share and can offer a broader range of products. We believe that our systems, products and services are well positioned to compete in our served markets.

Industry consolidation has from time to time had a major impact on the competitive environment in which we operate. Our competitors periodically undertake mergers, alliances and realignments that contribute to a dynamic competitive landscape. We have contributed to this changing landscape in the past two years by completing a significant acquisition (B/E Aerospace, Inc.), one smaller acquisition and several strategic alliances to improve our competitive position and expand our market reach.

## Raw Materials, Supplies and Working Capital

We believe we have adequate sources for the supply of raw materials and components for our manufacturing and service needs with suppliers located around the world. Electronic components and other raw materials used in the manufacturing of our products are generally available from several suppliers. We continue to work with our supply base for raw materials and components to ensure an adequate source of supply, utilizing strategic alliances, dual sourcing, identification of substitute or alternate parts that meet performance requirements and life-time buys. These life-time buys involve purchases of multiple years of supply in order to meet production and service requirements over the life span of a product. Although historically we have not experienced any significant difficulties in obtaining an adequate supply of raw materials and components necessary for our manufacturing operations or service needs, the loss of a significant supplier or the inability of a supplier to meet performance and quality specifications or delivery schedules could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our investment in inventory is a significant part of our working capital, and historically we have maintained sufficient inventory to meet our customers' requirements on a timely basis. This investment includes production stock, work-in-process, pre-production engineering costs, finished goods, spare parts and goods on consignment. Our accounts receivable also constitute a significant part of our working capital. Accounts receivable includes unbilled receivables which are primarily related to sales recorded under the percentage-of-completion method of accounting in accordance with applicable contract terms that have not been billed to customers. The critical accounting policies involving pre-production engineering costs and long-term contracts are discussed under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 below. Additional information relating to accounts receivable and inventory is contained in Notes 2, 5 and 6 of the Notes to Consolidated Financial Statements in Item 8 below.

## Backlog

The following table summarizes our backlog:

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	September 30	
(in billions)	2018	2017
Interior Systems	\$ 3.9	\$ 3.6
Commercial Systems	2.4	2.2
Government Systems:		
Funded orders	2.8	2.7
Unfunded orders	0.7	0.8
Information Management Services	0.3	0.3
Total backlog	\$ 10.1	\$ 9.6



Our backlog represents the aggregate of the sales price of orders received from customers, but not recognized as revenue, and excludes unexercised options. Although we believe that the orders included in backlog are firm, most of our backlog orders can be modified or terminated by the customer. Our backlog at September 30, 2018 includes approximately \$4.4 billion of orders that are expected to be filled after 2019.

#### Joint Ventures

Joint ventures, strategic alliances, strategic investments and other cooperative arrangements are part of our business strategies to broaden the market for our products and develop new technologies.

We have a 50 percent ownership interest in each of the following:

• ACCEL (Tianjin) Flight Simulation Co., Ltd, a joint venture with Haite Group, for the joint development and production of commercial flight simulators in China

• ADARI Aviation Technology Company Limited, a joint venture with Aviation Data Communication Corporation Co., LTD, operates remote ground stations around China and develops certain content delivery management software

• AVIC Leihua Rockwell Collins Avionics Company, a joint venture with China Leihua Electronic Technology Research Institute, a subsidiary of the Aviation Industry Corporation of China (AVIC), which provides integrated surveillance system products for the C919 aircraft in China

• Data Link Solutions LLC, a joint venture with BAE Systems, plc, for joint pursuit of the worldwide military data link market

• ESA Vision Systems LLC, a joint venture with Elbit Systems, Ltd., for joint pursuit of helmet-mounted cueing systems for the worldwide military fixed wing aircraft market

• Quest Flight Training Limited, a joint venture with Quadrant Group, plc, which provides aircrew training services primarily for the United Kingdom Ministry of Defence

• Rockwell Collins CETC Avionics Co., Ltd. a joint venture with CETC Avionics Co., Ltd. to develop, produce and maintain communication and navigation products on Chinese commercial OEM platforms

#### Acquisitions and Dispositions

We regularly consider various business opportunities, including strategic acquisitions and alliances, licenses and marketing arrangements. We review the prospects of our existing businesses to determine whether any of them should be modified, sold or otherwise discontinued.

We completed two acquisitions in the past two years to augment our growth plans. These acquisitions were:

• in April 2017, we acquired B/E Aerospace, which provides aircraft cabin interior products and services

• in December 2016, we acquired Pulse.aero, a company specializing in self-bag drop technologies used by airlines and airports

We reached definitive agreements to divest the following three businesses, each of which is still subject to certain conditions to closing:

in August 2018, we reached an agreement to sell our air transport in-flight entertainment (IFE) business, which designs, manufactures and services in-seat video, overhead video and content services and other products for the air transport IFE market

in July 2018, we reached an agreement to sell our ElectroMechanical Systems business, which designs, manufactures and services actuation, pilot control and other specialty products for commercial and military aerospace applications. The business is being sold in order to comply with regulatory commitments associated with the pending UTC merger

in May 2018, we reached an agreement to sell our engineered components business, which manufactures, sells and services diversified engineering components for niche aerospace, military and industrial applications. The business is being sold in order to comply with regulatory commitments associated with the pending UTC merger

Additional information relating to our acquisitions, dispositions and joint ventures is contained in Notes 3, 4 and 8 of the Notes to Consolidated Financial Statements in Item 8 below.

### Intellectual Property

Our intellectual property rights include valuable patents, trademarks, copyrights, trade secrets, inventions and other proprietary rights. We own numerous U.S. and foreign patents and have numerous pending patent applications, including patents and patent applications purchased in our acquisitions. We also license certain patents relating to our manufacturing and other activities. While in the aggregate we consider our patents and licenses important to the operation of our business, we do not consider any individual patent or license to be of such importance that the loss or termination of any one patent or license would materially affect us.

Rockwell Automation, Inc. (Rockwell) owns the "Rockwell" name. In connection with our spin-off from Rockwell in 2001, we were granted the exclusive right to continue to use the Rockwell Collins name for use in our business other than in connection with the Rockwell Automation business or industrial automation products. Unless extended, this exclusive right would terminate following certain change of control events, including the completion of the UTC Merger, as described in our distribution agreement with Rockwell.

### Employees

As of September 30, 2018, we had approximately 31,200 employees and approximately 67 percent of them were located in the U.S. Approximately 10 percent of our employees located within the U.S. and 9 percent of our employees located outside of the U.S. are covered by collective bargaining agreements. Many of our employees located outside of the U.S. who are not covered by a collective bargaining agreement are represented by workers' councils or statutory labor unions. The collective bargaining agreements for most of our employees covered by collective bargaining were negotiated in 2018 and have varying contract terms between 3 and 5 years.

### Cyclical and Seasonality

The markets in which we sell our products are, to varying degrees, cyclical and have experienced periodic upswings and downturns. For example, markets for our commercial aerospace products have experienced downturns during periods of slowdowns in the commercial airline industry and during periods of weak conditions in the economy in general, as demand for new aircraft generally declines during these periods. We believe that we are currently benefiting from robust backlogs in commercial air transportation and increasing content as next generation aircraft enter into service. While we believe our Government Systems business is well positioned, it is also subject to some cyclical, primarily as a result of U.S. Government defense budget cycles. Additional information related to the defense budget environment can be found under the caption Risk Factors in Item 1A below.

Our business tends to be seasonal with our fourth quarter usually producing relatively higher sales and cash flow and our first quarter usually producing relatively lower sales and cash flow. A large part of this seasonality variance is attributable to our Government Systems business and relates to the U.S. Government procurement cycle.

### Regulatory Matters

As a defense contractor, our contract costs are audited and reviewed on a continual basis by the Defense Contract Management Agency and the Defense Contract Audit Agency. Audits and investigations are conducted from time to time to determine if our performance and administration of our U.S. Government contracts are compliant with applicable contractual requirements and procurement regulations and other applicable federal statutes and regulations. Under present U.S. Government procurement regulations, if indicted or adjudged in violation of procurement or other federal civil laws, a contractor, such as us, could be subject to fines, penalties, repayments or other damages. U.S. Government regulations also provide that certain findings against a contractor may lead to suspension or debarment from eligibility for awards of new U.S. Government contracts for up to three years. In addition, we are subject to various non-U.S. governmental contracting requirements.

The sale, installation and operation of our products in commercial aviation applications is subject to continued compliance with applicable regulatory requirements and future changes to those requirements. In the U.S., our commercial aviation products are

required to comply with FAA regulations governing production and quality systems, airworthiness and installation approvals, repair procedures and continuing operational safety. Some of our products, such as radio frequency transmitters and receivers, must also comply with Federal Communications Commission (FCC) regulations governing authorization and operational approval of telecommunications equipment. Our communication services offered in the Information Management Services business are also subject to certain FCC regulations.

Internationally, similar requirements exist for communication services, airworthiness, installation and operational approvals. These requirements are administered by the national aviation authorities of each country and, in the case of Europe, coordinated by the European Joint Aviation Authorities. Many countries also impose specific telecommunications equipment requirements, administered through their national aviation authorities or telecommunications authorities. In Europe, approval to import products also requires compliance with European Commission directives, such as those associated with electrical safety, electro-magnetic compatibility, use of metric units of measurement and restrictions on the use of lead.

Products already in service may also become subject to mandatory changes for continued regulatory compliance as a result of any identified safety issue, which can arise from an aircraft accident, incident or service difficulty report.

Our products and technical data are controlled for export and import under various regulatory agencies. Audits and investigations by these agencies are a regular occurrence to ensure compliance with applicable federal statutes and regulations. Violations, including as a successor to an acquired business, can result in fines and penalties assessed against the Company as well as individuals, and the most egregious acts may result in a complete loss of export privileges.

Various anti-bribery and anti-corruption laws, as well as data privacy laws, are applicable to our business operations throughout the world.

Although we do not have any significant regulatory action pending against us, any such action could have a material adverse impact on our business, financial condition, results of operations and cash flows.

#### Environmental Matters

Federal, state and local requirements relating to the discharge of substances into the environment, the disposal of hazardous waste and other activities affecting the environment have had and will continue to have an impact on our manufacturing operations. To date, compliance with environmental requirements and resolution of environmental claims have been accomplished without material effect on our liquidity and capital resources, competitive position or financial condition. We believe that our expenditures for environmental capital investment and remediation necessary to comply with present regulations governing environmental protection and other expenditures for the resolution of environmental claims will not have a material adverse effect on our business or financial condition. Additional information on environmental matters is contained in Note 18 of the Notes to Consolidated Financial Statements in Item 8 below.

#### Item 1A. Risk Factors.

##### Risks Related to Our Business/Industry:

Reduction in U.S. Government spending adversely impacts Government Systems sales and profitability.

In 2018, 23 percent of our sales were derived from U.S. Government contracts, both directly and indirectly through subcontracts. While in 2018 the U.S. Congress acted to increase defense funding for the government's fiscal 2018 and

2019 budget periods, U.S. defense funding is expected to continue to be under pressure due to the overall economic environment, budget deficits and competing budget priorities. Cost cutting, efficiency initiatives, reprioritization and other affordability analysis by the U.S. Government on defense spending could present opportunities for us, but continued pressure on U.S. Government spending on defense could also adversely impact our Government Systems sales and profitability.

The U.S. Government has implemented various initiatives to address its fiscal challenges. In August 2011, Congress enacted the Budget Control Act (BCA) of 2011 which imposed spending caps and certain reductions in defense spending over a ten-year period through 2021. These spending caps and reductions, referred to as sequestration, went into effect in March 2013. Through a series of bipartisan agreements, Congress has been able to temporarily lift discretionary spending limits every year through 2019. However, unless a new agreement is enacted, the BCA will again be in force beginning in 2020. The continued uncertainty surrounding the U.S. defense budget could have a material adverse effect on the Company and the defense industry in general.

In years when the U.S. Government does not complete its annual budget and appropriations process prior to the beginning of its fiscal year (October 1), government operations are typically funded through a continuing resolution that authorizes agencies of the U.S. Government to continue to operate in the new year, but generally does not authorize new spending initiatives. During periods covered by a continuing resolution (or until the regular appropriation bills are passed), we may experience delays by the government in the procurement of new or existing products and services which can adversely impact our results of operations and cause variability in the timing of revenue between periods. During 2018, the U.S. Government completed the fiscal year 2019 Defense budget authorization and approval timeline on schedule and thus avoided the need for a continuing resolution for this part of government operations. Should the U.S. Government not complete fiscal year 2020 budgeting and appropriations in the same manner, we expect to be exposed to the effects of a continuing resolution in the future.

We offer a diverse range of defense products and services. We believe that this makes it less likely that cuts in any specific contract or program will have a long-term effect on our business; however, delays or termination of multiple or large programs or contracts could adversely affect our business and future financial performance. Potential changes in funding priorities may afford new or additional opportunities for our businesses in terms of existing, follow-on or replacement programs. While we would expect to compete and be well positioned as the incumbent on existing programs, we may not be successful, and any replacement programs may be funded at lower levels.

We depend to a significant degree on U.S. Government contracts, which are subject to unique risks.

In addition to normal business risks, our supply of systems and products to the U.S. Government is subject to unique risks which are largely beyond our control. These risks include:

- dependence on Congressional appropriations and administrative allotment of funds
- the ability of the U.S. Government to terminate, without prior notice, partially completed government programs and contracts that were previously authorized (although we may recover certain costs if terminated for convenience)
- changes in governmental procurement legislation and regulations and other policies which may reflect military and political developments, including U.S. Government initiatives to gain increased access to intellectual property
- significant changes in contract scheduling or program structure, which generally result in delays or reductions in deliveries or timing of cash receipts
- intense competition for available U.S. Government business necessitating increases in time and investment for design and development
- difficulty of forecasting costs and schedules when bidding on developmental and highly sophisticated technical work
- changes over the life of U.S. Government contracts, particularly development contracts, which generally result in adjustments of contract prices
- claims based on U.S. Government work and violation of associated compliance and other requirements, which may result in fines, the cancellation or suspension of payments or suspension or debarment proceedings affecting potential further business with the U.S. Government

We are subject to risks arising from changes in the competitive environment in which we operate.

We operate in a highly competitive environment. Many of our competitors are also our suppliers or customers on our programs and may be significantly larger than us. Among others, risks in the competitive environment include:

- increased competition resulting from industry consolidation and original equipment manufacturers' efforts to vertically integrate

- customers seeking more rights in intellectual property developed in connection with their program, price concessions, extensive liability protections and other customer favorable contract terms

- competitors offering lower prices and new solutions, developing new technologies or otherwise capturing more market share



International conflicts and terrorism may adversely affect our business.

Conflicts and political turmoil in certain regions outside the United States and the possibility of future terrorist attacks cause significant uncertainty with respect to business and financial markets and may adversely affect our business. These international conflicts also affect the price of oil, which has a significant impact on the financial health of our commercial customers. Although our Government Systems business may experience greater demand for its products as a result of increased government defense spending, factors arising (directly or indirectly) from international conflicts or terrorism which may adversely affect our commercial business include reduced aircraft build rates, upgrades, maintenance and spending on discretionary products, as well as increases in the cost of property and aviation products insurance and increased restrictions placed on our insurance policies.

Our business is heavily concentrated in the aviation industry.

As a provider of products and services to the aviation industry, we are significantly affected by the overall economic condition of that industry. The aviation industry is historically cyclical.

Our business, financial condition, results of operations and cash flows may be adversely impacted, among other things, by the following:

- reductions in demand for aircraft and delayed aircraft delivery schedules
- increased vertical integration efforts of the original equipment manufacturers of aircraft
- bankruptcy or other significant financial difficulties of our existing and potential customers
- reductions in the need for, or the deferral of, aircraft maintenance and repair services and spare parts support
- deferral of discretionary spending by our airline customers for cabin retrofit activities
- retirement or storage of older generation aircraft, resulting in fewer retrofits and less demand for services for those aircraft, as well as the increased availability of used or recycled equipment on the market
- limited availability of financing for airlines or aircraft
- impact on the aviation industry due to the volatility of fuel prices
- disruptions to commercial air travel demand

A global or regional recession may adversely affect us.

If a recession emerges that impacts where we do business, risks may include:

- declines in revenues, profitability and cash flows from reduced orders, payment delays or other factors caused by the economic problems of our customers
- adverse impacts on our access to short-term commercial paper borrowings or other credit sources
- supply problems associated with any financial constraints faced by our suppliers

We derive a significant portion of our revenues from international sales and are subject to the risks of doing business outside the U.S.

In 2018, 48 percent of our total revenues were from sales of our products and services internationally, including foreign military sales. We expect that international sales will continue to account for a significant portion of our total sales. As a result, we are subject to risks of doing business internationally, including:

• laws, regulations and policies of non-U.S. governments relating to investments and operations, as well as U.S. laws affecting the activities of U.S. companies abroad

the imposition of tariffs or embargoes, export controls and other trade restrictions, including the recent tariffs imposed by the U.S. and China and the possibility of additional tariffs or other trade restrictions relating to trade between the two countries

regulatory requirements and potential changes, including anti-bribery, anti-money laundering, antitrust and data privacy requirements

changes in government spending on defense programs

uncertainties and restrictions concerning the availability of funding, credit or guarantees

requirements of certain customers which obligate us to specified levels of in-country purchases, manufacturing or investments, known as offsets, and penalties in the event we fail to perform in accordance with the offset requirements

impacts associated with foreign currency volatility

uncertainties as to local laws and enforcement of contract and intellectual property rights

rapid changes in government, economic and political policies, political or civil unrest or the threat of international boycotts or U.S. anti-boycott legislation

We have made, and expect to continue to make, strategic acquisitions and partnerships that involve risks and uncertainties.

We completed two acquisitions in the past two fiscal years. We will consider making minor acquisitions and partnerships in the future in an effort to enhance shareholder value. Acquisitions and partnerships involve certain risks and uncertainties, such as:

difficulty in integrating newly-acquired businesses and commencing partnership operations in an efficient and cost-effective manner and the risk that we encounter significant unanticipated costs or other problems associated with integration or commencement

challenges in achieving strategic objectives, cost and revenue synergies and other expected benefits

risk that our markets do not evolve as anticipated and the targeted technologies do not prove to be those needed to be successful in those markets

risk that we assume significant liabilities that exceed the limitations of any applicable indemnification provisions or the financial resources of any indemnifying parties

loss of key employees of the acquired businesses or joint venture

risk of diverting the attention of senior management from our existing operations

risk of litigation associated with an acquisition

We enter into fixed-price contracts that could subject us to losses in the event that we have cost overruns.

During 2018, approximately 94 percent of our total sales were, and a significant portion of our anticipated future sales will be, from fixed-price contracts. This allows us to benefit from cost savings, but it carries the burden of potential cost overruns since we assume all of the cost risk. If our initial cost estimates are incorrect, we can incur losses on these contracts. These fixed-price contracts can expose us to potentially large losses because the customer may compel us to complete a project or, in the event of a termination for default, pay the entire incremental cost of its replacement by another provider regardless of the size of any cost overruns that occur over the life of the contract. Because many of these projects involve new technologies and applications and can last for years, unforeseen events such as technological difficulties, fluctuations in the price of raw materials (including added tariffs), problems with subcontractors and cost overruns can result in the contractual price becoming less favorable or even unprofitable to us over time. Furthermore, if we do not meet project deadlines or specifications, we may need to renegotiate contracts on less favorable terms, be forced to pay penalties or liquidated damages or suffer major losses if the customer exercises its right to terminate. In addition, some of our contracts have provisions relating to cost controls and audit rights, and if we fail to meet the terms specified in those contracts we may not realize their full benefits. Our results of operations are dependent on our ability to maximize earnings from our contracts. Lower earnings caused by cost overruns could have an adverse impact on our financial condition, results of operations and cash flows.

We are subject to risks in our integration processes and production systems, including potential issues in meeting stringent performance and reliability standards.

The aerospace and defense business is complex, involving extensive coordination and integration with U.S. and non-U.S. suppliers and customers, highly-skilled labor, stringent regulatory and contractual requirements and performance and reliability standards. As a result, our ability to deliver products and systems on time, satisfy regulatory and customer requirements, and achieve or maintain program profitability is subject to significant risk. Operational delays or defects could result in increased production costs, as well as delayed deliveries and disruption to our customers.

Tax changes could affect our effective tax rate and future profitability.

Our future results could be adversely affected by changes in the effective tax rate as a result of changes in our overall profitability and changes in the mix of earnings in countries with differing statutory tax rates, changes in tax legislation, the results of audits and examination of previously filed tax returns and continuing assessment of our tax exposures. For example, in 2018 the U.S. Government enacted the Tax Cuts and Jobs Act (the Act), which contains significant changes to the U.S. tax system. We are analyzing the Act to determine the full impact of the new tax law, and to the extent any future guidance differs from our preliminary interpretation of the law, it could have a material effect on our financial position and results of operations.

We depend on critical suppliers and subcontractors.

We do not always have alternate sources of supply readily available for certain goods or services, such as liquid crystal displays. A shortage of raw materials or components, the loss of a significant supplier or subcontractor or their inability to meet performance, quality or delivery requirements due to natural disaster, financial stress, capacity constraints, military conflicts or other causes could have a material adverse effect on our business, financial condition, results of operations and cash flows.

We depend on specialized test equipment.

Some of our specialized test equipment that supports the reliability of our products and systems is the result of significant investment. Back-up test equipment may not be readily available. Damage to our specialized test equipment may result in protracted production recovery and may adversely impact our ability to service our products.

A cybersecurity incident, network failure, data privacy breach or other business disruption could have negative impacts.

We face cyber threats, threats to the physical security of our facilities, potential cyber attacks to the integrity of our networks and/or products, and the potential release or theft of our intellectual property or other important data as well as the potential for business disruptions associated with information technology (IT) failures. Possible areas of significant exposure to cyber threats or other disruptions include our enterprise information technology resources, our information management network that provides communication services to customers and our flight deck communication products and solutions. Any of these threats or disruptions may result in a material adverse effect on our business, financial condition, results of operations and cash flows. Risks may include:

• adverse effects to future results due to the theft, destruction, loss, corruption or release of personal data, confidential information or intellectual property

• operational or business disruptions resulting from the failure of IT or other systems and subsequent mitigation activities

• fines, penalties or negative publicity resulting in reputation or brand damage with our customers, suppliers, employees, shareowners and others

#### Risks Related to Our B/E Aerospace Transaction:

We may be unable to successfully integrate B/E Aerospace's business and realize the anticipated benefits of the merger.

The success of the merger will depend, in part, on our ability to successfully combine our business with B/E Aerospace's business and realize the anticipated benefits, including synergies, cost savings, innovation and operational efficiencies, from the combination. If we are unable to achieve these objectives within the anticipated time frame, or at all, the anticipated benefits may not be realized fully, or at all, or may take longer to realize than expected.

The merger involves the integration of B/E Aerospace's business with our existing business, which is a complex, costly and time-consuming process. We have not previously completed a transaction comparable in size or scope to the merger. The integration of the two companies may result in material challenges, including, without limitation:

• the diversion of management's attention from ongoing business concerns and performance shortfalls at one or both of the companies as a result of the devotion of management's attention to the integration

• maintaining employee morale and retaining key management and other employees

• the possibility of faulty assumptions underlying expectations

• retaining existing business and operational relationships and attracting new business and operational relationships

• consolidating corporate and administrative infrastructures and eliminating duplicative operations

• coordinating geographically separate organizations

• unanticipated issues in integrating information technology, communications and other systems

• unforeseen expenses or delays associated with the integration

Many of these factors are outside of our control and any one of them could result in delays, increased costs, decreases in the amount of expected revenues and diversion of management's time and energy, which could materially affect our financial position, results of operations and cash flows.

#### Risks Related to the Pending Acquisition of the Company by UTC:

The UTC Merger is subject to conditions, some or all of which may not be satisfied, or completed on a timely basis, if at all. Failure to complete the UTC Merger could have material adverse effects on us.

The completion of the UTC Merger is subject to a number of conditions. On November 23, 2018, UTC announced that the final regulatory approval required to close its acquisition of Rockwell Collins had been received and that the acquisition was expected to close within three business days.

The failure to satisfy all of the required conditions could delay the completion of the UTC Merger or prevent it from occurring at all. There can be no assurance that the conditions to the closing of the UTC Merger will be satisfied or waived or that the UTC Merger will be completed. Also, subject to limited exceptions, either we or UTC may terminate the Merger Agreement if the UTC Merger has not been completed by 5:00 p.m. (Eastern time) on March 4, 2019.

If the UTC Merger is not completed, our ongoing business may be materially adversely affected and, without realizing any of the benefits of having completed the UTC Merger, we will be subject to a number of risks, including the following:

- the market price of our common stock could decline

- we could owe a \$695 million termination fee to UTC under certain circumstances, including a material breach by us

- time and resources, financial and other, committed by our management to integration planning or other matters relating to the UTC Merger could otherwise have been devoted to pursuing other beneficial opportunities

- we may experience negative reactions from the financial markets or from our customers, suppliers or employees

- we will be required to pay our costs relating to the UTC Merger, such as legal, accounting, financial advisory and printing fees, whether or not the UTC Merger is completed

In addition, if the UTC Merger is not completed, we could be subject to litigation related to any failure to complete the UTC Merger or related to any enforcement proceeding commenced against us to perform our obligations under the UTC Merger Agreement. Any of these risks could materially and adversely impact our ongoing business, financial condition, financial results and stock price.

Similarly, delays in the completion of the UTC Merger could, among other things, result in additional transaction costs, loss of revenue or other negative effects associated with uncertainty about completion of the UTC Merger and could materially and adversely affect our ongoing business, financial condition, financial results and stock price.

The Merger Agreement contains provisions that limit our ability to pursue alternatives to the UTC Merger, could discourage a potential competing acquiror of the Company from making a favorable alternative transaction proposal and, in specified circumstances, could require us to pay a substantial termination fee to UTC.

The Merger Agreement contains provisions that make it more difficult for us to be acquired by any company other than UTC. The Merger Agreement contains certain provisions that restrict our ability to, among other things, initiate, seek, solicit, knowingly facilitate, knowingly encourage, knowingly induce or knowingly take any other action reasonably expected to lead to, or engage in negotiations or discussions relating to, or approve or recommend, any third-party acquisition proposal.

In some circumstances, including a material breach by us, upon termination of the Merger Agreement, we would be required to pay a termination fee of \$695 million to UTC.

These provisions could discourage a potential third-party acquiror or merger partner that might have an interest in acquiring all or a significant portion of us or pursuing an alternative transaction from considering or proposing such a transaction, even if it were prepared to pay consideration with a higher per share value than the value proposed to be received in the UTC Merger. In particular, the termination fee, if applicable, would be substantial, and could result in a potential third-party acquiror or merger partner proposing to pay a lower price to our shareowners than it might otherwise have proposed to pay absent such a fee.

If the Merger Agreement is terminated and we determine to seek another business combination, we may not be able to negotiate a transaction with another party on terms comparable to, or better than, the terms of the UTC Merger.

The value of the stock portion of the Merger Consideration is subject to changes based on fluctuations in the value of UTC common stock.



Upon completion of the UTC Merger, each issued and outstanding share of Rockwell Collins common stock (other than certain excluded shares) will be converted into the right to receive the Merger Consideration, which is equal to \$93.33 in cash, without interest, plus a fraction of a share of UTC common stock having a value 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, subject to adjustment based on a two-way collar mechanism as described below. 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 (1) \$46.67 divided by (2) the UTC stock price. However, 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 (a) if the UTC stock price is greater than or equal to \$124.37, the exchange ratio will be fixed at 0.37525 and result in more than \$46.67 in value, and (b) if the UTC stock price is less than or equal to \$107.01, the exchange ratio will be fixed at 0.43613 and result in less than \$46.67 in value. Accordingly, the actual number of shares and the value of UTC common stock

delivered to our shareowners will depend on the UTC stock price, and the value of the shares of UTC common stock delivered for each such share of our common stock may be greater than, less than or equal to \$46.67. On November 23, 2018, UTC announced that the final regulatory approval required to close its acquisition of Rockwell Collins had been received and that the acquisition was expected to close within three business days.

We are subject to business uncertainties and contractual restrictions while the UTC Merger is pending, which could adversely affect our business and operations.

In connection with the pendency of the UTC Merger, it is possible that some customers, suppliers and other persons with whom we have a business relationship may delay or defer certain business decisions or might decide to seek to terminate, change or renegotiate their relationships with us as a result of the UTC Merger, which could negatively affect our revenues, earnings and/or cash flows, as well as the market price of our common stock, regardless of whether the UTC Merger is completed.

Under the terms of the Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to completing the UTC Merger which may adversely affect our ability to execute certain of our business strategies, including the ability in certain cases to enter into or amend contracts, acquire or dispose of assets, incur indebtedness or incur capital expenditures. Such limitations could adversely affect our business and operations prior to the completion of the UTC Merger. Each of the risks described above may be exacerbated by delays or other adverse developments with respect to the completion of the UTC Merger.

Completion of the UTC Merger will trigger change in control or other provisions in certain customer and other agreements to which we are a party, which may have an adverse impact on our or UTC's business and results of operations following completion of the UTC Merger.

The completion of the UTC Merger will trigger change in control and other provisions in certain customer and other agreements to which we are a party. If we or UTC are unable to negotiate waivers of those provisions, customers or other counterparties may exercise their rights and remedies under the agreements, potentially terminating the agreements or seeking monetary damages or equitable remedies. Even if we and UTC are able to negotiate consents or waivers, the customers or other counterparties may require a fee for such waivers or seek to renegotiate the agreements on terms less favorable to us or the combined company. Certain of our customers have commented on the potential impact of the UTC Merger, including potential benefits, questions and concerns. Any of the foregoing or similar developments may have an adverse impact on our or UTC's business and results of operations following completion of the UTC Merger.

Uncertainties associated with the UTC Merger may cause a loss of management personnel and other key employees, which could adversely affect our future business and operations.

We are dependent on the experience and industry knowledge of our officers and other key employees to execute their business plans. Our success will depend in part upon our ability to retain certain key management personnel and employees. Prior to completion of the UTC Merger, current and prospective employees of us and UTC may experience uncertainty about their roles within UTC following the completion of the UTC Merger, which may have an adverse effect on our ability to attract or retain key management and other key personnel. In addition, no assurance can be given that UTC, after the completion of the UTC Merger, will be able to attract or retain key management personnel and other key employees to the same extent that we and UTC have previously been able to attract or retain their own employees.

The UTC common stock to be received by our shareowners upon completion of the UTC Merger will have different rights from shares of Rockwell Collins common stock.

Upon completion of the UTC Merger, our shareowners will no longer be shareowners of Rockwell Collins, but will instead become shareowners of UTC and their rights as UTC shareowners will be governed by the terms of UTC's certificate of incorporation and by-laws. The terms of UTC's certificate of incorporation and by-laws are in some respects materially different than the terms of our certificate of incorporation and by-laws, which currently govern the rights of our shareowners.

## Cautionary Statement

This Annual Report on Form 10-K, and documents that are incorporated by reference in this Annual Report on Form 10-K, contains statements, including statements regarding certain projections, business trends and the proposed acquisition of Rockwell Collins by UTC, that are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to those disclosed in Risk Factors in Item 1A above and otherwise detailed herein, as well as other risks and uncertainties, including but not limited to those detailed from time to time in our SEC filings and, with respect to the proposed acquisition of Rockwell Collins, UTC's filings with the SEC. With respect to the business and operations of Rockwell Collins, these risks include but are not limited to: the financial condition of our customers and suppliers, including bankruptcies; the health of the global economy, including potential deterioration in economic and financial market conditions; adjustments to the commercial OEM production rates and the aftermarket; the impacts of natural disasters and pandemics, including operational disruption, potential supply shortages and other economic impacts; cybersecurity threats, including the potential misappropriation of assets or sensitive information, corruption of data or operational disruption; delays related to the award of domestic and international contracts; delays in customer programs, including new aircraft programs entering service later than anticipated; the continued support for military transformation and modernization programs; potential impact of volatility in oil prices, currency exchange rates or interest rates on the commercial aerospace industry or our business; the impact of terrorist events, regional conflicts or governmental sanctions on other nations on the commercial aerospace industry; changes in domestic and foreign government spending, budgetary, procurement and trade policies adverse to our businesses; market acceptance of our new and existing technologies, products and services; reliability of and customer satisfaction with our products and services; potential unavailability of our mission-critical data and voice communication networks; unfavorable outcomes on or potential cancellation or restructuring of contracts, orders or program priorities by our customers; recruitment and retention of qualified personnel; regulatory restrictions on air travel due to environmental concerns; effective negotiation of collective bargaining agreements by us, our customers, and our suppliers; performance of our customers and subcontractors; risks inherent in development and fixed-price contracts, particularly the risk of cost overruns; risk of significant reduction to air travel or aircraft capacity beyond our forecasts; our ability to execute to internal performance plans such as restructuring activities, productivity and quality improvements and cost reduction initiatives; achievement of B/E Aerospace integration and synergy plans; continuing to maintain our planned effective tax rates; our ability to develop contract compliant systems and products on schedule and within anticipated cost estimates; risk of fines and penalties related to noncompliance with laws and regulations including compliance requirements associated with U.S. Government work, export control, anticorruption and environmental regulations; risk of asset impairments; our ability to win new business and convert those orders to sales within the fiscal year in accordance with our annual operating plan; the uncertainties of the outcome of lawsuits, claims and legal proceedings. With respect to the proposed acquisition, these risks include but are not limited to: the ability of Rockwell Collins and UTC to satisfy the conditions to the closing of the transaction; the occurrence of events that may give rise to a right of one or both of the parties to terminate the merger agreement; negative effects of the announcement or the consummation of the transaction on the market price of UTC and/or Rockwell Collins common stock and/or on their respective businesses, financial conditions, results of operations and financial performance; risks relating to the value of UTC's shares to be issued in the transaction, significant transaction costs and/or unknown liabilities; the possibility that the anticipated benefits from the proposed transaction cannot be realized in full or at all or may take longer to realize than expected; risks associated with third party contracts containing consent and/or other provisions that may be triggered by the proposed transaction; risks associated with transaction-related litigation; the possibility that costs or difficulties related to the integration of Rockwell Collins' operations with those of UTC will be greater than expected; the outcome of legally required consultation with employees, their works councils or other employee representatives; and the ability of Rockwell Collins and the combined company to retain and hire key personnel. There can be no assurance that the proposed acquisition will in fact be consummated in the manner described or at all. For additional information on risks associated with the proposed merger and on other identifying factors that may cause actual results to vary materially from those stated in

forward-looking statements, see the reports of United Technologies and Rockwell Collins on Forms 10-K, 10-Q and 8-K filed with or furnished to the SEC from time to time. In addition, in connection with the pending merger, UTC has filed a registration statement that includes a prospectus from UTC and a proxy statement from Rockwell Collins, which is effective and contains important information about UTC, Rockwell Collins, the transaction and related matters. Readers are cautioned not to place undue reliance on forward-looking statements. These forward-looking statements are made only as of the date hereof and Rockwell Collins assumes no obligation to update any forward-looking statement, except as otherwise required by law.

Item 1B. Unresolved Staff Comments.

None.

## Item 2. Properties.

As of September 30, 2018, we operated various manufacturing and engineering facilities, sales offices, warehouses and service locations throughout the U.S. and around the world. These facilities have aggregate floor space of approximately 10.8 million square feet. Of this floor space, 47 percent is owned and 53 percent is leased. There are no major encumbrances on any of our plants or equipment. In the opinion of management, our properties have been well maintained, are in sound operating condition and contain all equipment and facilities necessary to operate at present levels. A summary of floor space of these facilities at September 30, 2018 is as follows:

Location (in thousands of square feet)	Owned Facilities	Leased Facilities	Total
Interior Systems			
U.S.	394	2,016	2,410
Europe / Africa / Middle East			