

HONEYWELL INTERNATIONAL INC
Form 10-Q
April 22, 2016
United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2016

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 1-8974

Honeywell International Inc.

(Exact name of registrant as specified in its charter)

Delaware

22-2640650

Edgar Filing: HONEYWELL INTERNATIONAL INC - Form 10-Q

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

115 Tabor Road
Morris Plains, New Jersey 07950
(Address of principal executive offices) (Zip Code)

(973) 455-2000
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-Accelerated filer Smaller reporting company

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

There were 762,115,463 shares of Common Stock outstanding at March 31, 2016.

Honeywell International Inc.**Index**

<u>Part I.</u>	<u>Financial Information</u>	<u>Page No.</u>
	<u>Item 1. Financial Statements:</u>	
	<u>Consolidated Statement of Operations (unaudited) – Three Months Ended March 31, 2016 and 2015</u>	3
	<u>Consolidated Statement of Comprehensive Income (unaudited) – Three Months Ended March 31, 2016 and 2015</u>	4
	<u>Consolidated Balance Sheet (unaudited) – March 31, 2016 and December 31, 2015</u>	5
	<u>Consolidated Statement of Cash Flows (unaudited) – Three Months Ended March 31, 2016 and 2015</u>	6
	<u>Notes to Financial Statements (unaudited)</u>	7
	<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operation</u>	22
	<u>Item 3. Quantitative and Qualitative Disclosures About Market Risks</u>	28
	<u>Item 4. Controls and Procedures</u>	28
<u>Part II.</u>	<u>Other Information</u>	
	<u>Item 1. Legal Proceedings</u>	29
	<u>Item 2. Changes in Securities and Use of Proceeds</u>	29
	<u>Item 6. Exhibits</u>	29
	<u>Signatures</u>	30

Cautionary Statement about Forward-Looking Statements

This report contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are those that address activities, events or developments that we or our management intends, expects, projects, believes or anticipates will or may occur in the future. They are based on management’s assumptions and assessments in the light of past experience and trends, current economic and industry conditions, expected future developments and other relevant factors. They are not guarantees of future performance,

and actual results, developments and business decisions may differ from those envisaged by our forward-looking statements. Our forward-looking statements are also subject to risks and uncertainties, which can affect our performance in both the near- and long-term. These forward-looking statements should be considered in the light of the information included in this report and our other filings with the Securities and Exchange Commission, including, without limitation, the Risk Factors, as well as the description of trends and other factors in Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in our 2015 Annual Report on Form 10-K.

PART I. FINANCIAL INFORMATION

The financial statements and related footnotes as of March 31, 2016 should be read in conjunction with the financial statements for the year ended December 31, 2015 contained in our 2015 Annual Report on Form 10-K.

ITEM 1. FINANCIAL STATEMENTS**Honeywell International Inc.****Consolidated Statement of Operations****(Unaudited)**

	Three Months Ended March 31, 2016 2015	
	(Dollars in millions, except per share amounts)	
Product sales	\$7,619	\$7,364
Service sales	1,903	1,849
Net sales	9,522	9,213
Costs, expenses and other		
Cost of products sold	5,349	5,213
Cost of services sold	1,198	1,149
	6,547	6,362
Selling, general and administrative expenses	1,280	1,230
Other (income) expense	(18)	(20)
Interest and other financial charges	85	77
	7,894	7,649
Income before taxes	1,628	1,564
Tax expense	432	418
Net income	1,196	1,146
Less: Net income attributable to the noncontrolling interest	10	30
Net income attributable to Honeywell	\$1,186	\$1,116

Edgar Filing: HONEYWELL INTERNATIONAL INC - Form 10-Q

Earnings per share of common stock - basic	\$1.54	\$1.42
Earnings per share of common stock - assuming dilution	\$1.53	\$1.41
Cash dividends per share of common stock	\$0.5950	\$0.5175

The Notes to Financial Statements are an integral part of this statement.

3

Honeywell International Inc.**Consolidated Statement of Comprehensive Income****(Unaudited)**

	Three Months Ended March 31, 2016 2015	
	(Dollars in millions)	
Net income	\$1,196	\$1,146
Other comprehensive income (loss), net of tax		
Foreign exchange translation adjustment	122	(721)
Actuarial losses (gains) recognized	3	(2)
Prior service (credits) costs recognized	(19)	5
Pension and other postretirement benefits adjustments	(16)	3
Effective portion of cash flow hedges recognized in other comprehensive income (loss)	(32)	105
Less: Reclassification adjustment for gains (losses) included in net income	(6)	27
Changes in fair value of effective cash flow hedges	(26)	78
Other comprehensive income (loss), net of tax	80	(640)
Comprehensive income	1,276	506
Less: Comprehensive income attributable to the noncontrolling interest	10	30
Comprehensive income attributable to Honeywell	\$1,266	\$476

The Notes to Financial Statements are an integral part of this statement.

Honeywell International Inc.**Consolidated Balance Sheet****(Unaudited)**

	March 31, 2016	December 31, 2015
	(Dollars in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$4,473	\$ 5,455
Accounts, notes and other receivables	8,397	8,075
Inventories	4,743	4,420
Investments and other current assets	1,919	2,103
Total current assets	19,532	20,053
Investments and long-term receivables	592	517
Property, plant and equipment - net	6,027	5,789
Goodwill	16,708	15,895
Other intangible assets - net	4,706	4,577
Insurance recoveries for asbestos related liabilities	431	426
Deferred income taxes	318	283
Other assets	2,051	1,776
Total assets	\$50,365	\$ 49,316
LIABILITIES		
Current liabilities:		
Accounts payable	\$5,511	\$ 5,580
Commercial paper and other short-term borrowings	3,631	5,937
Current maturities of long-term debt	626	577
Accrued liabilities	5,891	6,277
Total current liabilities	15,659	18,371
Long-term debt	9,700	5,554
Deferred income taxes	626	558
Postretirement benefit obligations other than pensions	506	526
Asbestos related liabilities	1,252	1,251
Other liabilities	4,247	4,348
Redeemable noncontrolling interest	3	290
SHAREOWNERS' EQUITY		
Capital - common stock issued	958	958
- additional paid-in capital	5,539	5,377
Common stock held in treasury, at cost	(12,719)	(11,664)
Accumulated other comprehensive loss	(2,455)	(2,535)

Edgar Filing: HONEYWELL INTERNATIONAL INC - Form 10-Q

Retained earnings	26,874	26,147
Total Honeywell shareowners' equity	18,197	18,283
Noncontrolling interest	175	135
Total shareowners' equity	18,372	18,418
Total liabilities, redeemable noncontrolling interest and shareowners' equity	\$50,365	\$49,316

The Notes to Financial Statements are an integral part of this statement.

Honeywell International Inc.**Consolidated Statement of Cash Flows****(Unaudited)**

	Three Months Ended March 31, 2016 2015	
	(Dollars in millions)	
Cash flows from operating activities:		
Net income	\$1,196	\$1,146
Less: Net income attributable to the noncontrolling interest	10	30
Net income attributable to Honeywell	1,186	1,116
Adjustments to reconcile net income attributable to Honeywell to net cash provided by operating activities:		
Depreciation	179	163
Amortization	74	53
Repositioning and other charges	125	131
Net payments for repositioning and other charges	(134)	(100)
Pension and other postretirement income	(159)	(91)
Pension and other postretirement benefit payments	(38)	(9)
Stock compensation expense	53	52
Deferred income taxes	48	93
Excess tax benefits from share based payment arrangements	(30)	(47)
Other	86	(102)
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts, notes and other receivables	(203)	(170)
Inventories	(241)	(86)
Other current assets	(59)	58
Accounts payable	(113)	(112)
Accrued liabilities	(517)	(528)
Net cash provided by operating activities	257	421
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(194)	(165)
Proceeds from disposals of property, plant and equipment	1	1
Increase in investments	(836)	(1,501)
Decrease in investments	880	1,106
Cash paid for acquisitions, net of cash acquired	(1,056)	(185)
Proceeds from sales of businesses, net of fees paid	-	2
Other	9	(178)
Net cash used for investing activities	(1,196)	(920)
Cash flows from financing activities:		
Net (decrease) increase in commercial paper and other short-term borrowings	(2,450)	1,052
Proceeds from issuance of common stock	105	78
Proceeds from issuance of long-term debt	4,448	3

Edgar Filing: HONEYWELL INTERNATIONAL INC - Form 10-Q

Payments of long-term debt	(419)	(35)
Excess tax benefits from share based payment arrangements	30	47
Repurchases of common stock	(1,156)	(363)
Cash dividends paid	(499)	(415)
Payments to purchase the noncontrolling interest	(238)	-
Other	18	-
Net cash (used for) provided by financing activities	(161)	367
Effect of foreign exchange rate changes on cash and cash equivalents	118	(252)
Net decrease in cash and cash equivalents	(982)	(384)
Cash and cash equivalents at beginning of period	5,455	6,959
Cash and cash equivalents at end of period	\$4,473	\$6,575

The Notes to Financial Statements are an integral part of this statement.

Honeywell International Inc.

Notes to Financial Statements

(Unaudited)

(Dollars in millions, except per share amounts)

Note 1. Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of Honeywell International Inc. and its consolidated subsidiaries (Honeywell or the Company) at March 31, 2016, the results of operations for the quarter and three months ended March 31, 2016 and 2015 and the cash flows for the three months ended March 31, 2016 and 2015. The results of operations for the three months ended March 31, 2016 should not necessarily be taken as indicative of the results of operations expected for the entire year.

We report our quarterly financial information using a calendar convention; the first, second and third quarters are consistently reported as ending on March 31, June 30 and September 30. It has been our practice to establish actual quarterly closing dates using a predetermined fiscal calendar, which requires our businesses to close their books on a Saturday in order to minimize the potentially disruptive effects of quarterly closing on our business processes. The effects of this practice are generally not significant to reported results for any quarter and only exist within a reporting year. In the event that differences in actual closing dates are material to year-over-year comparisons of quarterly or year-to-date results, we will provide appropriate disclosures. Our actual closing dates for the three months ended March 31, 2016 and 2015 were April 2, 2016 and March 28, 2015. We estimate that our sales in the first quarter of 2016 compared to the first quarter of 2015 include an approximate 3 percent benefit from additional reporting days in the current year period resulting from our normal quarterly closing procedures.

Note 2. Recent Accounting Pronouncements

Accounting pronouncements not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing

estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The effective date was deferred for one year to the interim and annual periods beginning on or after December 15, 2017. Early adoption is permitted as of the original effective date – interim and annual periods beginning on or after December 15, 2016. The guidance permits the use of either a retrospective or cumulative effect transition method. We have not yet selected a transition method and are currently evaluating the impact of the amended guidance on our consolidated financial position, results of operations and related disclosures.

In February 2016, the FASB issued guidance on accounting for leases which requires lessees to recognize most leases on their balance sheets for the rights and obligations created by those leases. The guidance requires enhanced disclosures regarding the amount, timing, and uncertainty of cash flows arising from leases and will be effective for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The guidance requires the use of a modified retrospective approach. We are evaluating the impact of the guidance on our consolidated financial position, results of operations and related disclosures.

In March 2016, the FASB issued amended guidance related to employee share-based payment accounting. The guidance requires all income tax effects of awards to be recognized in the income statement when the awards vest or are settled and will be applied on a prospective basis. The guidance also requires presentation of excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity, and can be applied retrospectively or prospectively. The guidance increases the amount companies can withhold to cover income taxes on awards without triggering liability classification for shares used to satisfy statutory income tax withholding obligations and requires application of a modified retrospective transition method. The amended guidance will be effective for interim and annual periods beginning after

Honeywell International Inc.

Notes to Financial Statements

(Unaudited)

(Dollars in millions, except per share amounts)

December 15, 2016; early adoption is permitted if all provisions are adopted in the same period. We are evaluating the impact of the amended guidance on our consolidated financial position, results of operations and related disclosures.

Note 3. Acquisitions

During the first quarter of 2016, we acquired businesses for an aggregate cost (net of cash acquired and debt assumed) of \$1,053 million.

On April 1, 2016, the Company completed the acquisition of Xtralis International Holdings Limited (Xtralis), a leading global provider of aspiration smoke detection and perimeter security technologies, for an aggregate cost, net of cash acquired and debt assumed, of approximately \$515 million. Xtralis is part of Automation and Control Solutions (ACS).

In February 2016, the Company acquired 100 percent of the issued and outstanding shares of COM DEV International (COM DEV), a leading satellite and space components provider, for an aggregate value, net of cash acquired and debt assumed, of approximately \$347 million. COM DEV is part of Aerospace and had reported 2015 fiscal year revenues of approximately \$159 million.

The assets and liabilities of Xtralis and COM DEV have been included in the Consolidated Balance Sheet as of March 31, 2016, including \$331 million and \$177 million allocated to goodwill, which is non-deductible for tax purposes.

In December 2015, the Company acquired the Elster Division of Melrose Industries plc (Elster) for an aggregate value, net of cash acquired, of approximately \$4,899 million. Elster is part of ACS and PMT. The following table summarizes the updated estimate of fair values of the Elster assets and liabilities acquired as of the acquisition date:

Current assets	\$533
Intangible assets	2,255

Other noncurrent assets	209
Current liabilities	(426)
Noncurrent liabilities	(929)
Net assets acquired	1,642
Noncontrolling interest	(3)
Goodwill	3,260
Purchase Price	\$4,899

The purchase accounting for Xtralis, COM DEV and Elster is subject to final adjustment, primarily for the valuation of intangible assets, amounts allocated to goodwill, tax balances and certain pre-acquisition contingencies.

Honeywell International Inc.**Notes to Financial Statements****(Unaudited)****(Dollars in millions, except per share amounts)****Note 4. Repositioning and Other Charges**

A summary of repositioning and other charges follows:

	Three Months Ended March 31,	
	2016	2015
Severance	\$28	\$37
Asset impairments	7	8
Exit costs	2	1
Adjustments	(17)	(7)
Total net repositioning charge	20	39
Asbestos related litigation charges, net of insurance	53	46
Probable and reasonably estimable environmental liabilities	52	46
Total net repositioning and other charges	\$125	\$131

The following table summarizes the pretax distribution of total net repositioning and other charges by income statement classification:

	Three Months Ended March 31,	
	2016	2015
Cost of products and services sold	\$105	\$122
Selling, general and administrative expenses	20	9
	\$125	\$131

The following table summarizes the pretax impact of total net repositioning and other charges by segment:

	Three Months Ended March 31,	
	2016	2015
Aerospace	\$49	\$48
Automation and Control Solutions	7	24
Performance Materials and Technologies	9	7
Corporate	60	52
	\$125	\$131

In the quarter ended March 31, 2016, we recognized repositioning charges totaling \$37 million including severance costs of \$28 million related to workforce reductions of 293 manufacturing and administrative positions mainly in ACS and Performance Materials and Technologies (PMT). The workforce reductions were primarily related to achieving acquisition-related synergies and outsourcing of certain packaging operations. Also, \$17 million of previously established accruals, primarily for severance, in ACS and PMT, were returned to income primarily as a result of higher attrition than anticipated in prior severance programs resulting in lower required severance payments.

In the quarter ended March 31, 2015, we recognized repositioning charges totaling \$46 million including severance costs of \$37 million related to workforce reductions of 3,040 manufacturing and administrative positions across our segments. The workforce reductions were primarily related to cost savings actions taken in

Honeywell International Inc.**Notes to Financial Statements****(Unaudited)****(Dollars in millions, except per share amounts)**

connection with our productivity and ongoing functional transformation initiatives and outsourcing of certain component manufacturing in ACS.

The following table summarizes the status of our total repositioning reserves:

	Severance Costs	Asset Impairments	Exit Costs	Total
December 31, 2015	\$ 329	\$ -	\$ 21	\$ 350
Charges	28	7	2	37
Usage - cash	(53)	-	(1)	(54)
Usage - noncash	-	(7)	-	(7)
Foreign currency translation	6	-	-	6
Adjustments	(16)	-	(1)	(17)
March 31, 2016	\$ 294	\$ -	\$ 21	\$ 315

Certain repositioning projects in 2016 and 2015 included exit or disposal activities, the costs related to which will be recognized in future periods when the actual liability is incurred. Such exit and disposal costs are not expected to be significant.

Note 5. Earnings Per Share

	Three Months Ended March 31,	
<u>Basic</u>	2016	2015
Net income attributable to Honeywell	\$ 1,186	\$ 1,116
Weighted average shares outstanding	767.9	783.8
Earnings per share of common stock	\$ 1.54	\$ 1.42

	Three Months Ended March 31, 2016 2015	
<u>Assuming Dilution</u>		
Net income attributable to Honeywell	\$1,186	\$1,116

Average Shares

Weighted average shares outstanding	767.9	783.8
Dilutive securities issuable - stock plans	9.0	10.2
Total weighted average shares outstanding	776.9	794.0
Earnings per share of common stock	\$1.53	\$1.41

The diluted earnings per share calculations exclude the effect of stock options when the options' assumed proceeds exceed the average market price of the common shares during the period. For the three months ended March 31, 2016 and 2015, the weighted average number of stock options excluded from the computations was 8.4 million and 7.8 million. These stock options were outstanding at the end of each of the respective periods.

Honeywell International Inc.**Notes to Financial Statements****(Unaudited)****(Dollars in millions, except per share amounts)****Note 6. Accounts, Notes and Other Receivables**

	March 31, 2016	December 31, 2015
Trade	\$8,238	\$ 7,901
Other	450	436
	8,688	8,337
Less: Allowance for doubtful accounts	(291)	(262)
	\$8,397	\$ 8,075

Trade receivables include \$1,654 and \$1,590 million of unbilled balances under long-term contracts as of March 31, 2016 and December 31, 2015. These amounts are billed in accordance with the terms of customer contracts to which they relate.

Note 7. Inventories

	March 31, 2016	December 31, 2015
Raw materials	\$1,195	\$ 1,120
Work in process	871	826
Finished products	2,768	2,590
	4,834	4,536
Reduction to LIFO cost basis	(91)	(116)
	\$4,743	\$ 4,420

Honeywell International Inc.**Notes to Financial Statements****(Unaudited)****(Dollars in millions, except per share amounts)****Note 8. Long-term Debt and Credit Agreements**

	March 31, 2016	December 31, 2015
5.40% notes due 2016	\$-	\$ 400
5.30% notes due 2017	400	400
Floating rate Euro notes due 2018	1,134	-
5.30% notes due 2018	900	900
5.00% notes due 2019	900	900
0.65% Euro notes due 2020	1,134	-
4.25% notes due 2021	800	800
1.30% Euro notes due 2023	1,416	-
3.35% notes due 2023	300	300
2.25% Euro notes due 2028	850	-
5.70% notes due 2036	550	550
5.70% notes due 2037	600	600
5.375% notes due 2041	600	600
Industrial development bond obligations, floating rate maturing at various dates through 2037	30	30
6.625% debentures due 2028	216	216
9.065% debentures due 2033	51	51
Other (including capitalized leases and debt issuance costs), 0.6%-9.5% maturing at various dates through 2023	445	384
	10,326	6,131
Less: current portion	(626)	(577)
	\$9,700	\$ 5,554

In February 2016, the Company issued €1,000 million Floating Rate Senior Notes due 2018, €1,000 million 0.65% Senior Notes due 2020, €1,250 million 1.30% Senior Notes due 2023 and €750 million 2.25% Senior Notes due 2028 (collectively, the “Notes”). The Notes are senior unsecured and unsubordinated obligations of Honeywell and rank equally with all of Honeywell’s existing and future senior unsecured debt and senior to all of Honeywell’s subordinated debt. The offering resulted in gross proceeds of \$4,438 million, offset by \$17 million in discount and closing costs related to the offering.

We have entered into a \$3 billion 364-Day Credit Agreement (364-Day Credit Agreement) with a syndicate of banks. The 364-Day Credit Agreement is maintained for general corporate purposes.

We have also entered into a \$4 billion Amended and Restated Five Year Credit Agreement (Credit Agreement) with a syndicate of banks. The Credit Agreement is maintained for general corporate purposes. Commitments under the Credit Agreement can be increased pursuant to the terms of the Credit Agreement to an aggregate amount not to exceed \$4.5 billion.

There have been no borrowings under the 364-Day Credit Agreement or the Credit Agreement.

Note 9. Financial Instruments and Fair Value Measures

Our credit, market, foreign currency and interest rate risk management policies are described in Note 14, Financial Instruments and Fair Value Measures, of Notes to Financial Statements in our 2015 Annual Report on Form 10-K.

The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis:

12

Honeywell International Inc.**Notes to Financial Statements****(Unaudited)****(Dollars in millions, except per share amounts)**

	March 31, 2016	December 31, 2015
Assets:		
Foreign currency exchange contracts	\$22	\$ 28
Available for sale investments	1,352	1,501
Interest rate swap agreements	121	92
Liabilities:		
Foreign currency exchange contracts	\$62	\$ 17

The foreign currency exchange contracts and interest rate swap agreements are valued using broker quotations or market transactions in either the listed or over-the-counter markets. These derivative instruments are classified within level 2. The Company holds investments in certificates of deposits, time deposits and commercial paper that are designated as available for sale and are valued using published prices based on observable market data. These investments are classified within level 2. The Company also holds available for sale investments in U.S. government and corporate debt securities valued utilizing published prices based on quoted market pricing, which are classified within level 1.

The carrying value of cash and cash equivalents, trade accounts and notes receivables, payables, commercial paper and short-term borrowings contained in the Consolidated Balance Sheet approximates fair value. The following table sets forth the Company's financial assets and liabilities that were not carried at fair value:

	March 31, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Long-term receivables	\$299	\$294	\$292	\$283
Liabilities				
Long-term debt and related current maturities	\$10,326	\$10,976	\$6,131	\$6,721

The Company determined the fair value of the long-term receivables by discounting based upon the terms of the receivable and counterparty details including credit quality. The fair value of these receivables is considered level 2. The Company determined the fair value of the long-term debt and related current maturities utilizing transactions in the listed markets for identical or similar liabilities. The fair value of the long-term debt and related current maturities

is also considered level 2.

Interest rate swap agreements are designated as hedge relationships with gains or losses on the derivative recognized in Interest and other financial charges offsetting the gains and losses on the underlying debt being hedged. For the three months ended March 31, 2016 and 2015, we recognized \$29 million and \$15 million of gains in the Consolidated Statement of Operations on interest rate swap agreements. Gains and losses are fully offset by losses and gains on the underlying debt being hedged.

We also economically hedge our exposure to changes in foreign exchange rates principally with forward contracts. These contracts are marked-to-market with the resulting gains and losses recognized in earnings offsetting the gains and losses on the non-functional currency denominated monetary assets and liabilities being hedged. We recognized \$32 million and \$162 million of expense in Other (income) expense for the three months ended March 31, 2016 and 2015.

Honeywell International Inc.**Notes to Financial Statements****(Unaudited)****(Dollars in millions, except per share amounts)****Note 10. Accumulated Other Comprehensive Income (Loss)****Changes in Accumulated Other Comprehensive Income by Component**

	Foreign Exchange Translation Adjustment	Pension and Other Postretirement Benefits Adjustments	Changes in Fair Value of Effective Cash Flow Hedges	Total
Balance at December 31, 2015	(1,892)	\$ (644)	\$ 1	\$(2,535)
Other comprehensive income (loss) before reclassifications	122	-	(32)	90
Amounts reclassified from accumulated other comprehensive income	-	(16)	6	(10)
Net current period other comprehensive income (loss)	122	(16)	(26)	80
Balance at March 31, 2016	\$ (1,770)	\$ (660)	\$ (25)	\$(2,455)
	Foreign Exchange Translation Adjustment	Pension and Other Postretirement Benefits Adjustments	Changes in Fair Value of Effective Cash Flow Hedges	Total
Balance at December 31, 2014	\$ (740)	\$ (728)	\$ 9	\$(1,459)
Other comprehensive income (loss) before reclassifications	(721)	-	105	(616)
Amounts reclassified from accumulated other comprehensive income	-	3	(27)	(24)
Net current period other comprehensive income (loss)	(721)	3	78	(640)
Balance at March 31, 2015	\$ (1,461)	\$ (725)	\$ 87	\$(2,099)

Honeywell International Inc.
Notes to Financial Statements
(Unaudited)
(Dollars in millions, except per share amounts)

Note 11. Segment Financial Data

We globally manage our business operations through three reportable operating segments. Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance.

Honeywell's senior management evaluates segment performance based on segment profit. Segment profit is measured as business unit income (loss) before taxes excluding general corporate unallocated expense, other income (expense), interest and other financial charges, pension and other postretirement income (expense), stock compensation expense, repositioning and other charges.

	Three Months Ended March 31, 2016 2015	
Net Sales		
Aerospace		
Products	\$2,490	\$2,463
Services	1,215	1,144
Total	3,705	3,607
Automation and Control Solutions		
Products	3,386	2,979
Services	291	285
Total	3,677	3,264
Performance Materials and Technologies		
Products	1,743	1,922
Services	397	420
Total	2,140	2,342
	\$9,522	\$9,213
Segment Profit		
Aerospace	\$798	\$752
Automation and Control Solutions	530	516
Performance Materials and Technologies	441	503
Corporate	(49)	(50)
Total segment profit	1,720	1,721
Other income ^(a)	12	12
Interest and other financial charges	(85)	(77)
Stock compensation expense ^(b)	(53)	(52)

Edgar Filing: HONEYWELL INTERNATIONAL INC - Form 10-Q

Pension ongoing income ^(b)	150	100
Other postretirement income (expense) ^(b)	9	(9)
Repositioning and other charges ^(b)	(125)	(131)
Income before taxes	\$1,628	\$1,564

(a) Equity income (loss) of affiliated companies is included in segment profit.

(b) Amounts included in cost of products and services sold and selling, general and administrative expenses.

15

Honeywell International Inc.
Notes to Financial Statements
(Unaudited)
(Dollars in millions, except per share amounts)

Note 12. Pension Benefits

Net periodic pension benefit income for our significant defined benefit plans include the following components:

	Three Months Ended			
	U.S. Plans		Non-U.S. Plans	
	March 31, 2016	2015	March 31, 2016	2015
Service cost	\$48	\$57	\$12	\$13
Interest cost	150	178	47	44
Expected return on plan assets	(306)	(320)	(99)	(90)
Amortization of prior service cost	(11)	6	(1)	-
	\$(119)	\$(79)	\$(41)	\$(33)

Note 13. Commitments and Contingencies

Environmental Matters

Our environmental matters are described in Note 19, Commitments and Contingencies, of Notes to Financial Statements in our 2015 Annual Report on Form 10-K.

The following table summarizes information concerning our recorded liabilities for environmental costs:

December 31, 2015	\$	518
Accruals for environmental matters deemed probable and reasonably estimable		52
Environmental liability payments	(31)	

March 31, 2016 \$ 539

Environmental liabilities are included in the following balance sheet accounts:

	March 31, 2016	December 31, 2015
Accrued liabilities	\$ 253	\$ 253
Other liabilities	286	265
	\$ 539	\$ 518

We do not currently possess sufficient information to reasonably estimate the amounts of environmental liabilities to be recorded upon future completion of studies, litigation or settlements, and neither the timing nor the amount of the ultimate costs associated with environmental matters can be determined although they could be material to our consolidated results of operations and operating cash flows in the periods recognized or paid. However, considering our past experience and existing reserves, we do not expect that environmental matters will have a material adverse effect on our consolidated financial position.

Onondaga Lake, Syracuse, NY—We are implementing a combined dredging/capping remedy of Onondaga Lake pursuant to a consent decree approved by the United States District Court for the Northern District of New York in January 2007. We have accrued for our estimated cost of remediating Onondaga Lake based on currently available information and analysis performed by our engineering consultants. Honeywell is also conducting remedial investigations and activities at other sites in Syracuse. We have recorded reserves for these investigations and activities where appropriate, consistent with the accounting policy described above.

Honeywell has entered into a cooperative agreement with potential natural resource trustees to assess alleged natural resource damages relating to this site. It is not possible to predict the outcome or duration of this

Honeywell International Inc.
Notes to Financial Statements
(Unaudited)
(Dollars in millions, except per share amounts)

assessment, or the amounts of, or responsibility for, any damages.

Asbestos Matters

Honeywell is a defendant in asbestos related personal injury actions related to two predecessor companies:

North American Refractories Company (NARCO), which was sold in 1986, produced refractory products (bricks and cement used in high temperature applications). Claimants consist largely of individuals who allege exposure to NARCO asbestos-containing refractory products in an occupational setting.

Bendix Friction Materials (Bendix) business, which was sold in 2014, manufactured automotive brake parts that contained chrysotile asbestos in an encapsulated form. Claimants consist largely of individuals who allege exposure to asbestos from brakes from either performing or being in the vicinity of individuals who performed brake replacements.

The following tables summarize information concerning NARCO and Bendix asbestos related balances:

Asbestos Related Liabilities

	Bendix	NARCO	Total
December 31, 2015	\$ 622	\$ 921	\$1,543
Accrual for update to estimated liability	52	1	53
Asbestos related liability payments	(50)	(2)	(52)
March 31, 2016	\$ 624	\$ 920	\$1,544

Insurance Recoveries for Asbestos Related Liabilities

	Bendix	NARCO	Total
December 31, 2015	\$ 124	\$ 325	\$ 449
Probable insurance recoveries related to estimated liability	8	-	8
Insurance receivables settlements	-	-	-
Insurance receipts for asbestos related liabilities	(1)	(2)	(3)
March 31, 2016	\$ 131	\$ 323	\$ 454

NARCO and Bendix asbestos related balances are included in the following balance sheet accounts:

	March 31, 2016	December 31, 2015
Other current assets	\$23	\$ 23
Insurance recoveries for asbestos related liabilities	431	426
	\$454	\$ 449
Accrued liabilities	\$292	\$ 292
Asbestos related liabilities	1,252	1,251
	\$1,544	\$ 1,543

NARCO Products –In connection with NARCO’s emergence from bankruptcy on April 30, 2013, a federally authorized 524(g) trust (NARCO Trust) was established for the evaluation and resolution of all existing and future NARCO asbestos claims. Both Honeywell and NARCO are protected by a permanent channeling injunction barring all present and future individual actions in state or federal courts and requiring all asbestos related claims based on exposure to NARCO asbestos-containing products to be made against the NARCO Trust. The NARCO Trust reviews submitted claims and determines award amounts in accordance with established Trust Distribution Procedures approved by the Bankruptcy Court which set forth the criteria claimants

Honeywell International Inc.
Notes to Financial Statements

(Unaudited)

(Dollars in millions, except per share amounts)

must meet to qualify for compensation including, among other things, exposure and medical criteria that determine the award amount. In addition, Honeywell provided, and continues to provide, input to the design of control procedures for processing NARCO claims, and has on-going audit rights to review and monitor the claims processors' adherence to the established requirements of the Trust Distribution Procedures.

Honeywell is obligated to fund NARCO asbestos claims submitted to the NARCO Trust which qualify for payment under the Trust Distribution Procedures (Annual Contribution Claims), subject to annual caps of \$140 million in the years 2016 through 2018 and \$145 million for each year thereafter. However, the initial \$100 million of claims processed through the NARCO Trust (the Initial Claims Amount) will not count against the annual cap and any unused portion of the Initial Claims Amount will roll over to subsequent years until fully utilized. In 2015, Honeywell filed suit against the NARCO Trust in Bankruptcy Court alleging breach of certain provisions of the Trust Agreement and Trust Distribution Procedures. The parties agreed to dismiss the proceeding without prejudice pursuant to an 18 month Standstill Agreement. Claims processing will continue during this period subject to a defined dispute resolution process. As of March 31, 2016, Honeywell has not made any payments to the NARCO Trust for Annual Contribution Claims.

Honeywell is also responsible for payments due to claimants pursuant to settlement agreements reached during the pendency of the NARCO bankruptcy proceedings that provide for the right to submit claims to the NARCO Trust subject to qualification under the terms of the settlement agreements and Trust Distribution Procedures criteria (Pre-established Unliquidated Claims), which amounts are estimated at \$150 million and are expected to be paid during the initial years of trust operations (\$5 million of which has been paid since the effective date of the NARCO Trust). Such payments are not subject to the annual cap described above.

Our consolidated financial statements reflect an estimated liability for pre-established unliquidated claims (\$145 million), unsettled claims pending as of the time NARCO filed for bankruptcy protection (\$32 million) and for the estimated value of future NARCO asbestos claims expected to be asserted against the NARCO Trust through 2018 (\$743 million). In the absence of actual trust experience on which to base the estimate, Honeywell projected the probable value of asbestos related future liabilities, including trust claim handling costs, based on a commonly accepted methodology used by numerous bankruptcy courts addressing 524(g) trusts. Some critical assumptions underlying this methodology include claims filing rates, disease criteria and payment values contained in the Trust Distribution Procedures, estimated approval rates of claims submitted to the NARCO Trust and epidemiological studies estimating disease instances. This projection resulted in a range of estimated liability of \$743 million to \$961 million. We believe that no amount within this range is a better estimate than any other amount and accordingly, we have recorded the minimum amount in the range. In light of the uncertainties inherent in making long-term projections and in connection with the recent implementation of the Trust Distribution Procedures by the NARCO Trust, as well as the stay of all NARCO asbestos claims which remained in place throughout NARCO's Chapter 11 case, we do not believe that we have a reasonable basis for estimating NARCO asbestos claims beyond 2018.

Our insurance receivable corresponding to the estimated liability for pending and future NARCO asbestos claims reflects coverage which reimburses Honeywell for portions of NARCO-related indemnity and defense costs and is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. We conduct analyses to estimate the probable amount of insurance that is recoverable for asbestos claims. While the substantial majority of our insurance carriers are solvent, some of our individual carriers are insolvent, which has been considered in our analysis of probable recoveries. We made judgments concerning insurance coverage that we believe are reasonable and consistent with our historical dealings and our knowledge of any pertinent solvency issues surrounding insurers.

Projecting future events is subject to many uncertainties that could cause the NARCO-related asbestos liabilities or assets to be higher or lower than those projected and recorded. Given the uncertainties, we review our estimates periodically, and update them based on our experience and other relevant factors. Similarly, we will reevaluate our projections concerning our probable insurance recoveries in light of any changes to the projected liability or other developments that may impact insurance recoveries.

Friction Products—The following tables present information regarding Bendix related asbestos claims activity:

Honeywell International Inc.
Notes to Financial Statements
(Unaudited)

(Dollars in millions, except per share amounts)

	Three Months Ended March 31, 2016			Years Ended December 31, 2015 2014	
	<u>Claims Activity</u>				
Claims Unresolved at the beginning of period	7,779	9,267	12,302		
Claims Filed	733	2,862	3,694		
Claims Resolved ⁽¹⁾	(762)	(4,350)	(6,729)		
Claims Unresolved at the end of period	7,750	7,779	9,267		

(1) Claims resolved in 2014 include 2,110 cancer claims which were determined to have no value. Also, claims resolved in 2015 and 2014 include significantly aged (i.e., pending for more than six years) claims totaling 153 and 1,266.

<u>Disease Distribution of Unresolved Claims</u>	March 31, 2016			December 31, 2015 2014	
	Mesothelioma and Other Cancer Claims	3,678	3,772	3,933	
Nonmalignant Claims	4,072	4,007	5,334		
Total Claims	7,750	7,779	9,267		

Honeywell has experienced average resolution values per claim excluding legal costs as follows:

	Years Ended December 31,				
	2015	2014	2013	2012	2011
	(in whole dollars)				
Malignant claims	\$44,000	\$53,500	\$51,000	\$49,000	\$48,000
Nonmalignant claims	\$100	\$120	\$850	\$1,400	\$1,000

It is not possible to predict whether resolution values for Bendix-related asbestos claims will increase, decrease or stabilize in the future.

Our consolidated financial statements reflect an estimated liability for resolution of pending (claims actually filed as of the financial statement date) and future Bendix-related asbestos claims. We have valued Bendix pending and future

claims using average resolution values for the previous five years. We update the resolution values used to estimate the cost of Bendix pending and future claims during the fourth quarter each year.

The liability for future claims represents the estimated value of future asbestos related bodily injury claims expected to be asserted against Bendix over the next five years. Such estimated cost of future Bendix-related asbestos claims is based on historic claims filing experience and dismissal rates, disease classifications, and resolution values in the tort system for the previous five years. In light of the uncertainties inherent in making long-term projections, as well as certain factors unique to friction product asbestos claims, we do not believe that we have a reasonable basis for estimating asbestos claims beyond the next five years. The methodology used to estimate the liability for future claims is similar to that used to estimate the liability for future NARCO-related asbestos claims.

Our insurance receivable corresponding to the liability for settlement of pending and future Bendix asbestos claims reflects coverage which is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. Based on our ongoing analysis of the probable insurance recovery, insurance receivables are recorded in the financial statements simultaneous with the recording of the estimated liability for the underlying asbestos claims. This determination is based on our analysis of the underlying insurance policies, our historical experience with our insurers, our ongoing review of the solvency of our insurers, judicial determinations relevant to our insurance programs, and our consideration of the impacts of any settlements reached with our insurers.

Honeywell believes it has sufficient insurance coverage and reserves to cover all pending Bendix-related

Honeywell International Inc.
Notes to Financial Statements

(Unaudited)

(Dollars in millions, except per share amounts)

asbestos claims and Bendix-related asbestos claims estimated to be filed within the next five years. Although it is impossible to predict the outcome of either pending or future Bendix-related asbestos claims, we do not believe that such claims would have a material adverse effect on our consolidated financial position in light of our insurance coverage and our prior experience in resolving such claims. If the rate and types of claims filed, the average resolution value of such claims and the period of time over which claim settlements are paid (collectively, the Variable Claims Factors) do not substantially change, Honeywell would not expect future Bendix-related asbestos claims to have a material adverse effect on our results of operations or operating cash flows in any fiscal year. No assurances can be given, however, that the Variable Claims Factors will not change.

Other Matters

We are subject to a number of other lawsuits, investigations and disputes (some of which involve substantial amounts claimed) arising out of the conduct of our business, including matters relating to commercial transactions, government contracts, product liability, prior acquisitions and divestitures, employee benefit plans, intellectual property, and environmental, health and safety matters. We recognize a liability for any contingency that is probable of occurrence and reasonably estimable. We continually assess the likelihood of adverse judgments of outcomes in these matters, as well as potential ranges of possible losses (taking into consideration any insurance recoveries), based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts. Included in these other matters are the following:

Honeywell v. United Auto Workers (UAW) et. al—In July 2011, Honeywell filed an action in federal court (District of New Jersey) against the UAW and all former employees who retired under a series of Master Collective Bargaining Agreements (MCBAs) between Honeywell and the UAW seeking a declaratory judgment that certain express limitations on its obligation to contribute toward the healthcare coverage of such retirees (the CAPS) set forth in the MCBAs may be implemented, effective January 1, 2012. The UAW and certain retiree defendants filed a mirror suit in the Eastern District of Michigan alleging that the MCBAs do not provide for CAPS on the Company's liability for healthcare coverage. The New Jersey action was dismissed and Honeywell subsequently answered the UAW's complaint in Michigan and asserted counterclaims for fraudulent inducement, negligent misrepresentation and breach of implied warranty. The UAW filed a motion to dismiss these counterclaims. The court dismissed Honeywell's fraudulent inducement and negligent misrepresentation claims, but let stand the claim for breach of implied warranty. In the second quarter of 2014, the parties agreed to stay the proceedings with respect to those retirees who retired before the initial inclusions of the CAPS in the 2003 MCBA until the Supreme Court decided the *M&G Polymers USA, LLC v. Tackett* case. In a ruling on January 26, 2015, the Supreme Court held that retiree health insurance benefits provided in collective bargaining agreements do not carry an inference that they are vested or guaranteed to continue for life and that the "vesting" issue must be decided pursuant to ordinary principles of contract law. The stay of the proceedings has been lifted and the case is again proceeding. Based on the Supreme Court's ruling, Honeywell is confident that the CAPS will be upheld and that its liability for healthcare coverage premiums with respect to the putative class will be limited as negotiated and expressly set forth in the applicable MCBAs. In the event of an adverse

ruling, however, Honeywell's other postretirement benefits for pre-2003 retirees would increase by approximately \$176 million, reflecting the estimated value of these CAPS.

In December 2013, the UAW and certain of the plaintiffs filed a motion for partial summary judgment with respect to those retirees who retired after the initial inclusion of the CAPS in the 2003 MCBA. The UAW sought a ruling that the 2003 MCBA did not limit Honeywell's obligation to contribute to healthcare coverage for the post-2003 retirees. That motion remains pending. Honeywell is confident that the Court will find that the 2003 MCBA does, in fact, limit Honeywell's retiree healthcare obligation for post-2003 retirees. In the event of an adverse ruling, however, Honeywell's other postretirement benefits for post-2003 retirees would increase by approximately \$110 million, reflecting the estimated value of these CAPS.

Joint Strike Fighter Investigation - In 2013 the Company received subpoenas from the Department of Justice requesting information relating primarily to parts manufactured in the United Kingdom and China used in the F-35 fighter jet. The Company is cooperating fully with the investigation. While we believe that Honeywell has complied with all relevant U.S. laws and regulations regarding the manufacture of these sensors, it is not possible to predict the outcome of the investigation or what action, if any, may result from it.

Given the uncertainty inherent in litigation and investigations (including the specific matters referenced

Honeywell International Inc.

Notes to Financial Statements

(Unaudited)

(Dollars in millions, except per share amounts)

above), we do not believe it is possible to develop estimates of reasonably possible loss in excess of current accruals for these matters (other than as specifically set forth above). Considering our past experience and existing accruals, we do not expect the outcome of these matters, either individually or in the aggregate, to have a material adverse effect on our consolidated financial position. Because most contingencies are resolved over long periods of time, potential liabilities are subject to change due to new developments, changes in settlement strategy or the impact of evidentiary requirements, which could cause us to pay damage awards or settlements (or become subject to equitable remedies) that could have a material adverse effect on our results of operations or operating cash flows in the periods recognized or paid.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)
(Dollars in millions, except per share amounts)**

The following MD&A is intended to help the reader understand the results of operations and financial condition of Honeywell International Inc. and its consolidated subsidiaries (Honeywell or the Company) for the three months ended March 31, 2016. The financial information as of March 31, 2016 should be read in conjunction with the financial statements for the year ended December 31, 2015 contained in our 2015 Annual Report on Form 10-K.

A. Results of Operations – three months ended March 31, 2016 compared with the three months ended March 31, 2015

Net Sales

	Three Months Ended March 31,	
	2016	2015
Net sales	\$9,522	\$9,213
% change compared with prior period	3	%

The change in net sales compared to the prior year period is attributable to the following:

	Three Months
Foreign Exchange	(2)%
Acquisitions/Divestitures	5 %
	3 %

A discussion of net sales by segment can be found in the Review of Business Segments section of this MD&A.

See Note 1 Basis of Presentation of Notes to Financial Statements for further discussion, including the estimated impact from additional reporting days in the current year period resulting from our normal quarterly closing procedures.

A discussion of net sales by segment can be found in the Review of Business Segments section of this MD&A. The foreign currency translation impact is principally driven by the weakening of the Euro and Canadian Dollar against the

U.S. Dollar.

Cost of Products and Services Sold

	Three Months Ended March 31,	
	2016	2015
Cost of products and services sold	\$6,547	\$6,362
% change compared with prior period	3	%
Gross margin percentage	31.2	% 30.9 %

Cost of products and services sold increased principally due to an increase in direct material and labor costs of approximately \$220 million (driven primarily by acquisitions, partially offset by the favorable impact from productivity and foreign currency translation) and increased amortization and depreciation expense of approximately \$35 million, partially offset by higher pension and other postretirement income of approximately \$55 million.

Gross margin percentage increased primarily due to higher segment gross margin in Aerospace and Performance Materials and Technologies (PMT) (approximately 0.6 percentage point impact collectively) and increased pension and other postretirement benefits income allocated to cost of products and services sold

(approximately 0.5 percentage point impact), partially offset by lower segment gross margin in Automation and Control Solutions (ACS) (approximately 0.8 percentage point impact), principally attributed to acquisitions.

Selling, General and Administrative Expenses

	Three Months Ended March 31, 2016 2015	
Selling, general and administrative expenses	\$1,280	\$1,230
% of sales	13.4 %	13.4 %

Selling, general and administrative expenses increased primarily driven by an increase in labor costs (principally attributed to acquisitions and merit increases, partially offset by a reduction in incentive compensation), partially offset by the favorable impact from foreign currency translation.

Tax Expense

	Three Months Ended March 31, 2016 2015	
Tax expense	\$432	\$418
Effective tax rate	26.5 %	26.7 %

The effective tax rates for the three months ended in 2016 and 2015 were lower than the U.S. federal statutory rate of 35% due, in part, to non-U.S. earnings taxed at lower rates, the vast majority of which we intend to permanently reinvest outside the United States, and benefits from manufacturing incentives.

The Company currently expects the effective tax rate for 2016 to be approximately 26.5%. The effective tax rate can vary from quarter to quarter due to unusual or infrequently occurring items, the resolution of income tax audits, changes in tax laws or other items such as pension mark-to-market adjustments.

Net Income Attributable to Honeywell

	Three Months Ended March 31, 2016 2015	
Net income attributable to Honeywell	\$1,186	\$1,116
Earnings per share of common stock – assuming dilution	\$1.53	\$1.41

Earnings per share of common stock – assuming dilution increased primarily due to increased segment profit in Aerospace and ACS, offset by decreased segment profit in PMT, higher pension and other postretirement income and a decrease in the weighted average shares outstanding.

Review of Business Segments

	Three Months Ended		
	March 31,		%
	2016	2015	Change
Aerospace Sales			
Commercial Aviation Original Equipment	\$701	\$683	3%
Commercial Aviation Aftermarket	1,148	1,082	6%
Defense and Space	1,069	1,075	(1)%
Transportation Systems	787	767	3%
Total Aerospace Sales	3,705	3,607	
Automation and Control Solutions Sales			
Energy Safety & Security	2,598	2,234	16%
Building Solutions & Distribution	1,079	1,030	5%
Total Automation and Control Solution Sales	3,677	3,264	
Performance Materials and Technologies			
UOP	568	914	(38)%
Process Solutions	696	632	10%
Advanced Materials	876	796	10%
Total Performance Materials and Technologies Sales	2,140	2,342	
Net Sales	\$9,522	\$9,213	

Aerospace

	Three Months Ended		
	March 31,		%
	2016	2015	Change
Net sales	\$3,705	\$3,607	3%
Cost of products and service sold	2,682	2,619	
Selling, general and administrative expenses	145	161	
Other	80	75	
Segment profit	\$798	\$752	6%

	2016 vs. 2015	
	Three Months Ended	
	March 31,	
Factors Contributing to Year-Over-Year Change	Sales	Segment Profit

Edgar Filing: HONEYWELL INTERNATIONAL INC - Form 10-Q

Organic growth/ Operational segment profit	3	%	8	%
Foreign exchange	(1)%	(2)%
Acquisitions and divestitures, net	1	%	-	
Total % Change	3	%	6	%

Aerospace sales increased primarily driven by growth from organic sales and acquisitions, net of divestitures, partially offset by the unfavorable impact of foreign currency translation.

Commercial Aviation Original Equipment sales increased by 3% (increased 4% organic) driven primarily by higher business and general aviation engine shipments and demand from air transport and regional customers, partially offset by higher incentives to air transport and regional original equipment manufacturers (OEM Incentives).

Commercial Aviation Aftermarket sales increased by 6% (increased 6% organic) driven primarily by higher repair and overhaul activities and increased spares shipments to air transport and regional customers.

Defense and Space sales decreased by 1% (decreased 2% organic) primarily due to declines in international programs and lower U.S. government services revenue, partially offset by sales from the COM DEV acquisition.

Transportation Systems sales increased by 3% (increased 6% organic) driven primarily by growth from new platform launches and higher global turbo penetration, partially offset by the unfavorable impact from foreign currency translation.

Aerospace segment profit increased primarily due to an increase in operational segment profit, partially offset by the unfavorable impact from foreign currency translation. The increase in operational segment profit is driven primarily by productivity, net of inflation, and favorable pricing, partially offset by continued investments for growth. Cost of products and services sold increased primarily due to higher organic sales volumes, partially offset by productivity, net of inflation, and foreign currency translation.

Automation and Control Solutions

	Three Months Ended March 31,			
	2016	2015	% Change	
Net sales	\$3,677	\$3,264	13%	
Cost of products and services sold	2,445	2,089		
Selling, general and administrative expenses	623	587		
Other	79	72		
Segment profit	\$530	\$516	3%	
	2016 vs. 2015 Three Months Ended March 31,			
Factors Contributing to Year-Over-Year Change	Sales		Segment Profit	
Organic growth/ Operational segment profit	4	%	3	%
Foreign currency translation	(3))%	(2))%
Acquisitions and divestitures, net	12	%	2	%
Total % Change	13	%	3	%

ACS sales increased primarily due to growth from acquisitions and organic sales growth, partially offset by the unfavorable impact of foreign currency translation.

Sales in Energy, Safety & Security increased by 16% (flat organic) principally due to the Elster acquisition partially offset by the unfavorable impact of foreign currency translation. Flat organic sales were primarily the result of increased sales volumes in Security and Fire across all regions offset by decreased sales volumes in Sensing & Productivity Solutions.

Sales in Building Solutions & Distribution increased by 5% (increased 11% organic) principally due to increased sales volume in the Americas Distribution business and growth in the project installation and services businesses, partially offset by the unfavorable impact of foreign currency translation.

25

ACS segment profit increased due to higher operational segment profit and acquisitions, partially offset by the unfavorable impact of foreign currency translation. The increase in operational segment profit is primarily due to the positive impact of price and productivity net of inflation, partially offset by continued investments for growth. Cost of products and services sold increased primarily due to acquisitions and higher sales volume partially offset by the favorable impact of foreign currency translation and productivity net of inflation.

Performance Materials and Technologies

	Three Months Ended March 31,		
	2016	2015	% Change
Net sales	\$2,140	\$2,342	(9)%
Cost of products and services sold	1,430	1,582	
Selling, general and administrative expenses	232	222	
Other	37	35	
Segment profit	\$441	\$503	(12)%

Factors Contributing to Year-Over-Year Change	2016 vs. 2015 Three Months Ended March 31,			
	Sales		Segment Profit	
Organic growth/ Operational segment profit	(10))%	(12))%
Foreign currency translation	(2))%	(2))%
Acquisitions and divestitures, net	3	%	2	%
Total % Change	(9))%	(12))%

PMT sales decreased due to a decrease in organic sales volumes and the unfavorable impact of foreign currency translation, partially offset by growth from acquisitions.

UOP sales decreased 38% (decreased 37% organic) driven primarily by lower gas processing revenues due to a significant slowdown in customer projects, which is expected to continue, decreased catalyst volumes, which are expected to moderate during the year, and decreased equipment sales.

Process Solutions sales increased 10% (increased 9% organic) driven primarily by higher revenues in projects and increased volumes in field products driven by the Elster acquisition, partially offset by the unfavorable impact of foreign currency translation.

Advanced Materials sales increased 10% (increased 7% organic) primarily driven by increased volumes in Fluorine Products and Specialty Products, partially offset by lower raw material pass-through pricing in Resins and Chemicals.

PMT segment profit decreased due to a decrease in operational segment profit and the unfavorable impact of foreign currency translation, partially offset by acquisitions. The decrease in operational segment profit is primarily due to lower organic sales volume, particularly in UOP as described above. Cost of products and services sold decreased primarily due to the favorable impacts of lower organic sales volumes, foreign currency translation, productivity and inflation, partially offset by acquisitions.

Repositioning Charges

Our repositioning actions are expected to generate incremental pretax savings of \$175 million to \$200 million in 2016 compared with 2015 principally from planned workforce reductions. Cash spending related to our repositioning actions was \$54 million in the three months ended March 31, 2016 and was funded through

operating cash flows. In 2016, we expect cash spending for repositioning actions to be approximately \$175 million and to be funded through operating cash flows.

B. Liquidity and Capital Resources

Cash Flow Summary

	Three Months Ended March 31, 2016 2015	
Cash provided by (used for):		
Operating activities	\$257	\$421
Investing activities	(1,196)	(920)
Financing activities	(161)	367
Effect of exchange rate changes on cash	118	(252)
Net (decrease) increase in cash and cash equivalents	\$(982)	\$(384)

Cash provided by operating activities decreased by \$164 million primarily due to increased cash tax payments of \$202 million, partially offset by the absence of \$151 million in OEM incentive payments in 2015.

Cash used for investing activities increased by \$276 million primarily due to an increase in cash paid for acquisitions of \$871 million most significantly Xtralis International Holdings Limited and COM DEV International, partially offset by a net \$439 million decrease in investments, primarily short term marketable securities and a decrease of \$187 million in settlement payments of foreign currency exchange contracts used as economic hedges on certain non-functional currency denominated monetary assets and liabilities.

Cash used for financing activities increased by \$528 million primarily due to (i) an increase in net repurchases of common stock of \$766 million, (ii) the acquisition of the remaining 30% noncontrolling interest of UOP Russell LLC for \$238 million and (iii) an increase in cash dividends paid of \$84 million including amounts paid to former UOP Russell LLC noncontrolling shareholder, partially offset by an increase in the net proceeds from debt issuances of \$559 million.

Liquidity

The Company continues to manage its businesses to maximize operating cash flows as the primary source of liquidity. In addition to our available cash and operating cash flows, additional sources of liquidity include committed credit

lines, short-term debt from the commercial paper market, long-term borrowings, as well as access to the public debt and equity markets. We continue to balance our cash and financing uses through investment in our existing core businesses, debt reduction, acquisition activity, share repurchases and dividends.

We continuously assess the relative strength of each business in our portfolio as to strategic fit, market position, profit and cash flow contribution in order to upgrade our combined portfolio and identify business units that will most benefit from increased investment. We identify acquisition candidates that will further our strategic plan and strengthen our existing core businesses. We also identify business units that do not fit into our long-term strategic plan based on their market position, relative profitability or growth potential. These businesses are considered for potential divestiture, restructuring or other repositioning actions subject to regulatory constraints.

In 2016, we are not required to make contributions to our U.S. pension plans. We plan to make contributions of cash and/or marketable securities of approximately \$160 million (\$106 million of marketable securities were contributed in January 2016) to our non-U.S. plans to satisfy regulatory funding requirements. The timing and amount of contributions to both our U.S. and non-U.S. plans may be impacted by a number of factors, including the funded status of the plans.

In the three months ended March 31, 2016, the Company repurchased \$1,156 million of outstanding shares. Under the Company's previously reported \$5 billion share repurchase program, \$1.0 billion remained

available as of March 31, 2016 for additional share repurchases. Honeywell presently expects to repurchase outstanding shares from time to time to offset the dilutive impact over the long-term of employee stock based compensation plans, including future option exercises, restricted unit vesting and matching contributions under our savings plans. The amount and timing of future repurchases may vary depending on market conditions and the level of operating, financing and other investing activities.

See Note 3 Acquisitions and Note 8 Long-term Debt and Credit Agreements of Notes to Financial Statements for additional discussion of items impacting our liquidity.

C. Other Matters

Litigation

We are subject to a number of lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of our business. See Note 13 Commitments and Contingencies of Notes to Financial Statements for further discussion of environmental, asbestos and other litigation matters.

Critical Accounting Policies

The financial information as of March 31, 2016 should be read in conjunction with the financial statements for the year ended December 31, 2015 contained in our 2015 Annual Report on Form 10-K.

For a discussion of the Company's critical accounting policies, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2015 Annual Report on Form 10-K.

Recent Accounting Pronouncements

See Note 2 Recent Accounting Pronouncements of Notes to Financial Statements for a discussion of recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risks

For a discussion of the Company's quantitative and qualitative disclosures about market risks, see Item 7A. Quantitative and Qualitative Disclosures About Market Risks, in our 2015 Annual Report on Form 10-K. As of March 31, 2016, there has been no material change in this information.

Item 4. Controls and Procedures

Honeywell management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that such disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q to ensure information required to be disclosed in the reports that Honeywell files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that it is accumulated and communicated to our management, including our CEO, our CFO, and our Controller, as appropriate, to allow timely decisions regarding required disclosure. There have been no changes that have materially affected, or are reasonably likely to materially affect, Honeywell's internal control over financial reporting that have occurred during the period covered by this Quarterly Report on Form 10-Q.

Part II. Other InformationItem 1. Legal ProceedingsGeneral Legal Matters

We are subject to a number of lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of our business. See Note 13 Commitments and Contingencies of Notes to Financial Statements for a discussion of environmental, asbestos and other litigation matters.

Environmental Matters Involving Potential Monetary Sanctions in Excess of \$100,000

None

Item 2. Changes in Securities and Use of Proceeds

Honeywell purchased 11,156,747 shares of its common stock, par value \$1 per share, in the quarter ended March 31, 2016. The following table summarizes Honeywell's purchase of its common stock for the quarter ended March 31, 2016:

Issuer Purchases of Equity Securities				
	(a)	(b)	(c)	(d)
Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs (Dollars in millions)
January 2016	1,402,596	\$ 96.04	1,402,596	\$2,057
February 2016	8,754,151	\$104.96	8,754,151	\$1,138
March 2016	1,000,000	\$102.52	1,000,000	\$1,036

Item 6. Exhibits

(a) See the Exhibit Index on page 31 of this Quarterly Report on Form 10-Q.

29

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Honeywell International Inc.

Date: April 22, 2016 By: /s/ Adam M. Matteo
Adam M. Matteo
Vice President and Controller
(on behalf of the Registrant
and as the Registrant's
Principal Accounting Officer)

30

EXHIBIT INDEX

Exhibit No.	Description
10.1*	Letter Agreement dated February 24, 2012 between Honeywell and Darius Adamczyk (filed herewith)
11	Computation of Per Share Earnings ⁽¹⁾
12	Computation of Ratio of Earnings to Fixed Charges (filed herewith)
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
101.INS	XBRL Instance Document (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (filed herewith)

(1)Data required is provided in Note 5, Earnings Per Share, of Notes to Financial Statements.

The Exhibits identified above with an asterisk () are management contracts or compensatory plans or arrangements.