

HONEYWELL INTERNATIONAL INC

Form 10-Q

April 18, 2019

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, 2019

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

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

115 Tabor Road 07950  
Morris Plains, New Jersey  
(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 every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See 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

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 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

There were 727,742,035 shares of Common Stock outstanding at March 31, 2019.

Honeywell International Inc.  
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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 2018 Annual Report on Form 10-K.

## PART I. FINANCIAL INFORMATION

The financial statements and related footnotes as of March 31, 2019 should be read in conjunction with the financial statements for the year ended December 31, 2018 contained in our 2018 Annual Report on Form 10-K.

## ITEM 1. FINANCIAL STATEMENTS

Honeywell International Inc.  
Consolidated Statement of Operations  
(Unaudited)

	Three Months Ended March 31,	
	2019	2018
	(Dollars in millions, except per share amounts)	
Product sales	\$6,713	\$8,234
Service sales	2,171	2,158
Net sales	8,884	10,392
Costs, expenses and other		
Cost of products sold	4,622	5,905
Cost of services sold	1,257	1,286
	5,879	7,191
Selling, general and administrative expenses	1,363	1,475
Other (income) expense	(285 )	(268 )
Interest and other financial charges	85	83
	7,042	8,481
Income before taxes	1,842	1,911
Tax expense	406	459
Net income	1,436	1,452
Less: Net income attributable to the noncontrolling interest	20	13
Net income attributable to Honeywell	\$1,416	\$1,439
Earnings per share of common stock - basic	\$1.94	\$1.92
Earnings per share of common stock - assuming dilution	\$1.92	\$1.89

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

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

	Three Months Ended March 31,	
	2019	2018
	(Dollars in millions)	
Net income	\$1,436	\$1,452
Other comprehensive income (loss), net of tax		
Foreign exchange translation adjustment	205	91
Actuarial (gains) losses recognized	—	2
Prior service (credit) cost recognized	(19)	(18)
Pension and other postretirement benefits adjustments	(19)	(16)
Cash flow hedges recognized in other comprehensive income (loss)	38	(32)
Less: Reclassification adjustment for gains (losses) included in net income	32	(18)
Changes in fair value of cash flow hedges	6	(14)
Other comprehensive income (loss), net of tax	192	61
Comprehensive income	1,628	1,513
Less: Comprehensive income attributable to the noncontrolling interest	24	18
Comprehensive income attributable to Honeywell	\$1,604	\$1,495

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

Honeywell International Inc.  
Consolidated Balance Sheet  
(Unaudited)

	March 31, 2019	December 31, 2018
	(Dollars in millions)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$8,625	\$9,287
Short-term investments	2,059	1,623
Accounts receivable - net	7,307	7,508
Inventories	4,548	4,326
Other current assets	1,795	1,618
Total current assets	24,334	24,362
Investments and long-term receivables	747	742
Property, plant and equipment - net	5,276	5,296
Goodwill	15,555	15,546
Other intangible assets - net	4,039	4,139
Insurance recoveries for asbestos related liabilities	429	437
Deferred income taxes	362	382
Other assets	7,818	6,869
Total assets	\$58,560	\$57,773
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$5,582	\$5,607
Commercial paper and other short-term borrowings	3,514	3,586
Current maturities of long-term debt	4,000	2,872
Accrued liabilities	6,497	6,859
Total current liabilities	19,593	18,924
Long-term debt	8,598	9,756
Deferred income taxes	1,850	1,713
Postretirement benefit obligations other than pensions	333	344
Asbestos related liabilities	2,246	2,269
Other liabilities	6,977	6,402
Redeemable noncontrolling interest	7	7
<b>SHAREOWNERS' EQUITY</b>		
Capital - common stock issued	958	958
- additional paid-in capital	6,652	6,452
Common stock held in treasury, at cost	(20,392 )	(19,771 )
Accumulated other comprehensive loss	(3,245 )	(3,437 )
Retained earnings	34,794	33,978
Total Honeywell shareowners' equity	18,767	18,180
Noncontrolling interest	189	178
Total shareowners' equity	18,956	18,358
Total liabilities, redeemable noncontrolling interest and shareowners' equity	\$58,560	\$57,773

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



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

	Three Months Ended March 31,	
	2019	2018
	(Dollars in millions)	
Cash flows from operating activities:		
Net income	\$1,436	\$1,452
Less: Net income attributable to the noncontrolling interest	20	13
Net income attributable to Honeywell	1,416	1,439
Adjustments to reconcile net income attributable to Honeywell to net cash provided by operating activities:		
Depreciation	163	179
Amortization	98	109
Repositioning and other charges	84	191
Net payments for repositioning and other charges	(34 )	(141 )
Pension and other postretirement income	(163 )	(254 )
Pension and other postretirement benefit payments	(30 )	(36 )
Stock compensation expense	41	52
Deferred income taxes	80	47
Other	(4 )	2
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts receivable	198	(61 )
Inventories	(221 )	(163 )
Other current assets	(217 )	(43 )
Accounts payable	(29 )	57
Accrued liabilities	(248 )	(242 )
Net cash provided by operating activities	1,134	1,136
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(141 )	(140 )
Proceeds from disposals of property, plant and equipment	2	2
Increase in investments	(1,226 )	(583 )
Decrease in investments	796	1,838
Other	(40 )	(123 )
Net cash (used for) provided by investing activities	(609 )	994
Cash flows from financing activities:		
Proceeds from issuance of commercial paper and other short-term borrowings	3,318	6,676
Payments of commercial paper and other short-term borrowings	(3,319 )	(5,329 )
Proceeds from issuance of common stock	145	60
Proceeds from issuance of long-term debt	20	3
Payments of long-term debt	(13 )	(1,246 )
Repurchases of common stock	(750 )	(940 )
Cash dividends paid	(606 )	(556 )
Other	(30 )	(116 )
Net cash used for financing activities	(1,235 )	(1,448 )
Effect of foreign exchange rate changes on cash and cash equivalents	48	156



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Net (decrease) increase in cash and cash equivalents	(662 )	838
Cash and cash equivalents at beginning of period	9,287	7,059
Cash and cash equivalents at end of period	\$8,625	7,897

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

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Honeywell International Inc.  
Consolidated Statement of Shareowners' Equity  
(Unaudited)

	Three Months Ended March 31,			
	2019		2018	
	Shares	\$	Shares	\$
	(Dollars in millions, except per share amounts)			
Common stock, par value	957.6	958	957.6	958
Additional paid-in capital				
Beginning balance		6,452		6,212
Issued for employee savings and option plans		159		(14 )
Stock-based compensation expense		41		52
Ending balance		6,652		6,250
Treasury stock				
Beginning balance	(228.0)	(19,771)	(206.7)	(15,914)
Reacquired stock or repurchases of common stock	(5.1 )	(750 )	(6.1 )	(940 )
Issued for employee savings and option plans	3.2	129	2.1	20
Ending balance	(229.9)	(20,392)	(210.7)	(16,834)
Retained earnings				
Beginning balance		33,978		27,481
Adoption of new accounting standards		—		264
Net income attributable to Honeywell		1,416		1,439
Dividends on common stock		(600 )		(561 )
Ending balance		34,794		28,623
Accumulated other comprehensive income (loss)				
Beginning balance	(3,437 )		(2,235 )	
Foreign exchange translation adjustment		205		91
Pensions and other postretirement benefit adjustments	(19 )		(16 )	
Changes in fair value of cash flow hedges		6		(14 )
Ending balance	(3,245 )		(2,174 )	
Noncontrolling interest				
Beginning balance		178		163
Acquisitions, divestitures, and other		—		1
Net income attributable to noncontrolling interest		20		14
Foreign exchange translation adjustment		4		4
Dividends paid		(13 )		(3 )
Ending balance		189		179
Total shareowners' equity	727.7	18,956	746.9	17,002
Cash dividends per share of common stock		\$0.820		\$0.745

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



Honeywell International Inc.  
Notes to Consolidated 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, 2019 and December 31, 2018, the cash flows for the three months ended March 31, 2019 and 2018 and the results of operations for the three months ended March 31, 2019 and 2018. The results of operations for the three months ended March 31, 2019 and cash flows for the three months ended March 31, 2019 should not necessarily be taken as indicative of 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, 2019 and 2018 were March 30, 2019 and March 31, 2018.

On October 1, 2018, the Company completed the tax-free spin-off to Honeywell shareowners of its Transportation Systems business, previously part of Aerospace, into a standalone publicly-traded company, Garrett Motion Inc. (“Garrett”). The assets and liabilities associated with Garrett have been removed from the Company’s Consolidated Balance Sheet as of the effective date of the spin-off. The results of operations for Garrett are included in the Consolidated Statement of Operations through the effective date of the spin-off.

On October 29, 2018, the Company completed the tax-free spin-off to Honeywell shareowners of its Homes and Global Distribution business, previously part of Home and Building Technologies (renamed Honeywell Building Technologies following the spin-off), into a standalone publicly-traded company, Resideo Technologies, Inc. (“Resideo”). The assets and liabilities associated with Resideo have been removed from the Company’s Consolidated Balance Sheet as of the effective date of the spin-off. The results of operations for Resideo are included in the Consolidated Statement of Operations through the effective date of the spin-off.

#### Note 2. Summary of Significant Accounting Policies

The accounting policies of the Company are set forth in Note 1 to Consolidated Financial Statements contained in the Company’s 2018 Annual Report on Form 10-K. We include herein certain updates to those policies.

Reclassifications—Certain prior year amounts have been reclassified to conform to the current year presentation.

Leases—All significant lease arrangements are generally recognized at lease commencement. Operating lease right-of-use (“ROU”) assets and lease liabilities are recognized at commencement. An ROU asset and corresponding lease liability are not recorded for leases with an initial term of 12 months or less (short term leases) and we recognize lease expense for these leases as incurred over the lease term.

ROU assets represent our right to use an underlying asset during the reasonably certain lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. We primarily use our incremental borrowing rate, which is updated quarterly, based on the information available at commencement date, in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments related to initial direct cost and prepayments and excludes lease incentives. Lease expense is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components, which are generally accounted for separately.

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

Recent Accounting Pronouncements—We consider the applicability and impact of all Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board (FASB). ASUs not yet adopted that are not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated result of operations, financial position and cash flows.

In February 2018, the FASB issued guidance that allows for an entity to elect to reclassify from accumulated other comprehensive income to retained earnings the income tax effects on items resulting from what is commonly referred to as the U.S. Tax Cuts and Jobs Act (“U.S. Tax Reform”). The guidance is effective for fiscal years beginning after December 15, 2018 with early adoption permitted, including interim periods within those years. The Company has elected to not reclassify the stranded income tax effects of U.S. Tax Reform from accumulated other comprehensive income to retained earnings.

Note 3. Repositioning and Other Charges

A summary of repositioning and other charges follows:

	Three Months Ended March 31, 2019 2018	
Severance	\$31	\$31
Asset impairments	11	47
Exit costs	18	8
Reserve adjustments	(2)	(1)
Total net repositioning charge	58	85
Asbestos related litigation charges, net of insurance and indemnities	11	49
Probable and reasonably estimable environmental liabilities, net of indemnities	14	57
Other	1	—
Total net repositioning and other charges	\$84	\$191

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

	Three Months Ended March 31, 2019 2018	
Cost of products and services sold	\$55	\$128
Selling, general and administrative expenses	29	22
Other (income) expense	—	41
	\$84	\$191

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

Three  
Months

	Ended	
	March 31,	
	2019	2018
Aerospace	\$16	\$68
Honeywell Building Technologies	8	4
Performance Materials and Technologies	(1 )	4
Safety and Productivity Solutions	5	7
Corporate	56	108
	\$84	\$191

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

In the quarter ended March 31, 2019, we recognized gross repositioning charges totaling \$60 million including severance costs of \$31 million related to workforce reductions of 1,047 manufacturing and administrative positions mainly in Corporate, Aerospace and Honeywell Building Technologies. The workforce reductions were primarily related to our productivity and ongoing functional initiatives and to site transitions in Aerospace to more cost-effective locations.

In the quarter ended March 31, 2018, we recognized gross repositioning charges totaling \$86 million including severance costs of \$31 million related to workforce reductions of 1,153 manufacturing and administrative positions mainly in Aerospace and Safety and Productivity Solutions. The workforce reductions were primarily related to site transitions to more cost-effective locations. The repositioning charges included asset impairments of \$47 million primarily in our Corporate segment related to the write-down of a legacy property in connection with its planned disposition.

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

	Severance Costs	Asset Impairments	Exit Costs	Total
December 31, 2018	\$ 489	\$ —	\$ 77	\$ 566
Charges	31	11	18	60
Usage - cash	(35 )	—	(9 )	(44 )
Usage - noncash	—	(11 )	—	(11 )
Foreign currency translation	1	—	—	1
Adjustments	(1 )	—	(1 )	(2 )
March 31, 2019	\$ 485	\$ —	\$ 85	\$ 570

Certain repositioning projects will recognize exit costs in future periods when the actual liability is incurred. Such exit costs incurred in the quarters ended March 31, 2019 and 2018 were not significant.

#### Note 4. Other (Income) Expense

	Three Months Ended March 31, 2019	2018
Interest income	(67 )	(50 )
Pension ongoing income – non-service	(184)	(304)
Other postretirement income – non-service	(12 )	(6 )
Equity income of affiliated companies	(9 )	(11 )
Foreign exchange	(11 )	(1 )
Separation costs	—	55
Other (net)	(2 )	49
	(285)	(268)

Separation costs are associated with the spin-offs of our Homes and Global Distribution business and Transportation Systems business, and are primarily associated with third party services.



Note 5. Income Taxes

The effective tax rate decreased for the quarter ended March 31, 2019 compared to the quarter ended March 31, 2018 primarily from increased tax benefits for employee share-based compensation, fewer tax reserves and lower tax costs related to the 2018 spin-offs.

The effective tax rate for the quarter ended March 31, 2019 was higher than the U.S. federal statutory rate of 21% primarily from incremental tax reserves and state taxes, partially offset by foreign earnings taxed at lower foreign tax rates.

Note 6. Earnings Per Share

	Three Months Ended March 31,	
Basic	2019	2018
Net income attributable to Honeywell	\$1,416	\$1,439
Weighted average shares outstanding	729.7	750.6
Earnings per share of common stock	\$1.94	\$1.92

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Honeywell International Inc.

Notes to Consolidated Financial Statements

(Unaudited)

(Dollars in millions, except per share amounts)

	Three Months Ended March 31,	
Assuming Dilution	2019	2018
Net income attributable to Honeywell	\$1,416	\$1,439
Average Shares		
Weighted average shares outstanding	729.7	750.6
Dilutive securities issuable - stock plans	9.1	10.4
Total weighted average shares outstanding	738.8	761.0
Earnings per share of common stock	\$1.92	\$1.89

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, 2019 and 2018, the weighted average number of stock options excluded from the computations were 3.7 million and 1.1 million. These stock options were outstanding at the end of each of the respective periods.

As of March 31, 2019 and 2018, total shares outstanding were 727.7 million and 746.9 million and as of March 31, 2019 and 2018, total shares issued were 957.6 million.

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

#### Note 7. Revenue Recognition and Contracts with Customers

Honeywell has a comprehensive offering of products and services, including software and technologies, that are sold to a variety of customers in multiple end markets. See the following table and related discussions by operating segment for details.

	Three Months Ended March 31,	
	2019	2018
Aerospace		
Commercial Aviation Original Equipment	\$759	\$695
Commercial Aviation Aftermarket	1,361	1,268
Defense and Space	1,221	1,086
Transportation Systems	—	928
	3,341	3,977
Honeywell Building Technologies		
Homes Products and Software	—	519
Distribution (ADI)	—	638
Products	810	714
Building Solutions	579	562
	1,389	2,433
Performance Materials and Technologies		
UOP	610	612
Process Solutions	1,246	1,214
Specialty Products	269	277
Fluorine Products	447	431
	2,572	2,534
Safety and Productivity Solutions		
Safety and Retail	538	551
Productivity Products	271	329
Warehouse and Workflow Solutions	558	367
Sensing & Internet-of-Things (IoT)	215	201
	1,582	1,448
Net sales	\$8,884	\$10,392

Aerospace – A global supplier of products, software and services for aircraft. Products include aircraft propulsion engines, auxiliary power units, environmental control systems, integrated avionics, electric power systems, hardware for engine controls, flight safety, communications, and navigation, satellite and space components, aircraft wheels and brakes, and thermal systems. Software includes engine controls, flight safety, communications, navigation, radar and surveillance systems, internet connectivity and aircraft instrumentation. Services are provided to customers for the repair, overhaul, retrofit and modification of propulsion engines, auxiliary power units, avionics and mechanical systems and aircraft wheels and brakes.

Honeywell Building Technologies – A global provider of products, software, solutions and technologies for buildings. Products include controls and displays for heating, cooling, indoor air quality, ventilation, humidification, combustion, and lighting; sensors, switches, control systems and instruments for measuring pressure, air flow, temperature and electrical current; access control; video surveillance; fire detection; and installation, maintenance and upgrades of systems that keep buildings safe, comfortable and productive. Software includes monitoring and managing heating, cooling, indoor air quality, ventilation, humidification, combustion, and lighting; advanced applications for

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

building control and optimization; video surveillance; and remote patient monitoring systems. Installation, maintenance and upgrade services of products used in commercial building applications for heating, cooling, maintaining indoor air quality, ventilation, humidification, combustion, lighting, video surveillance and fire safety.

Performance Materials and Technologies – A global provider of products, software, solutions and technologies. Products include catalysts, absorbents, equipment and high-performance materials, devices for measurement, regulation, control and metering of gases and electricity, and metering and communications systems for water utilities and industries. Software is provided to support process technologies supporting automation and to monitor a variety of industrial processes used in industries such as oil and gas, chemicals, petrochemicals, metals, minerals and mining industries. Services are provided for installation and maintenance of products.

Safety and Productivity Solutions – A global provider of products, software and solutions. Products include personal protection equipment and footwear, gas detection devices, mobile computing, data collection and thermal printing devices, automation equipment for supply chain and warehouse automation and custom-engineered sensors, switches and controls. Software and solutions are provided to customers for supply chain and warehouse automation, to manage data and assets to drive productivity and for computing, data collection and thermal printing.

For a summary by disaggregated product and services sales for each segment, refer to Note 14 Segment Financial Data.

We recognize revenue arising from performance obligations outlined in contracts with our customers that are satisfied at a point in time and over time. The disaggregation of our revenue based off timing of recognition is as follows:

	Three Months Ended March 31, 2019 2018	
Products, transferred point in time	61 %	69 %
Products, transferred over time	15	10
Net product sales	76	79
Services, transferred point in time	9	7
Services, transferred over time	15	14
Net service sales	24	21
Net sales	100 %	100 %

#### Contract Balances

Progress on satisfying performance obligations under contracts with customers and the related billings and cash collections are recorded on the Consolidated Balance Sheet in Accounts receivable - net and Other assets (the current and noncurrent portions, respectively, of unbilled receivables (contract assets) and billed receivables) and Accrued liabilities and Other liabilities (the current and noncurrent portions, respectively, of customer advances and deposits (contract liabilities)). Unbilled receivables (contract assets) arise when the timing of cash collected from customers differs from the timing of revenue recognition, such as when contract provisions require specific milestones to be met before a customer can be billed. Those assets are recognized when the revenue associated with the contract is

recognized prior to billing and derecognized when billed in accordance with the terms of the contract. Contract liabilities are recorded when customers remit contractual cash payments in advance of us satisfying performance obligations under contractual arrangements, including those with performance obligations to be satisfied over a period of time. Contract liabilities are derecognized when revenue is recorded, either when a milestone is met triggering the contractual right to bill or when the performance obligation is satisfied.

Contract balances are classified as assets or liabilities on a contract-by-contract basis at the end of each reporting period.

The following table summarizes our contract assets and liabilities balances:

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

	2019	2018
Contract assets - Beginning period	\$1,548	\$1,721
Contract assets - March 31	1,700	1,672
Change in contract assets - increase (decrease)	\$152	\$(49 )
Contract liabilities - Beginning period	\$(3,378)	\$(2,973)
Contract liabilities - March 31	(3,426 )	(3,081 )
Change in contract liabilities - (increase) decrease	\$(48 )	\$(108 )
Net change	\$104	\$(157 )

The net change for the quarter ended March 31, 2019 was primarily driven by the recognition of revenue as performance obligations were satisfied prior to billing exceeding receipt of advance payments from customers.

The net change for the quarter ended March 31, 2018 was primarily driven by the receipt of advance payments from customers exceeding reductions from recognition of revenue as performance obligations were satisfied and related billings.

For the three months ended March 31, 2019 and 2018, we recognized revenue of \$720 million and \$581 million that was previously included in the beginning balance of contract liabilities.

When contracts are modified to account for changes in contract specifications and requirements, we consider whether the modification either creates new or changes the existing enforceable rights and obligations. Contract modifications that are for goods or services that are not distinct from the existing contract, due to the significant integration with the original good or service provided, are accounted for as if they were part of that existing contract. The effect of a contract modification on the transaction price and our measure of progress for the performance obligation to which it relates, is recognized as an adjustment to revenue (either as an increase in or a reduction of revenue) on a cumulative catch-up basis. When the modifications include additional performance obligations that are distinct and at relative stand-alone selling price, they are accounted for as a new contract and performance obligation, which are recognized prospectively.

#### Performance Obligations

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is defined as the unit of account. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. When our contracts with customers require highly complex integration or manufacturing services that are not separately identifiable from other promises in the contracts and, therefore, not distinct, then the entire contract is accounted for as a single performance obligation. In situations when our contract includes distinct goods or services that are substantially the same and have the same pattern of transfer to the customer over time, they are recognized as a series of distinct goods or services. For any contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation based on the estimated relative standalone selling price of each distinct good or service in the contract. For product sales, each product sold to a customer typically represents a distinct performance obligation. In such cases, the observable standalone sales are used to determine the stand alone selling price.

Performance obligations are satisfied as of a point in time or over time. Performance obligations are supported by contracts with customers, providing a framework for the nature of the distinct goods, services or bundle of goods and services. The timing of satisfying the performance obligation is typically indicated by the terms of the contract. The following table outlines our performance obligations disaggregated by segment.

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	March 31, 2019
Aerospace	\$ 10,890
Honeywell Building Technologies	5,657
Performance Materials and Technologies	6,347
Safety and Productivity Solutions	1,850
	\$24,744

Performance obligations recognized as of March 31, 2019 will be satisfied over the course of future periods. Our disclosure of the timing for satisfying the performance obligation is based on the requirements of contracts with customers. However, from time to time, these contracts may be subject to modifications, impacting the timing of satisfying the performance obligations. Performance obligations expected to be satisfied within one year and greater than one year are 56% and 44%, respectively.

The timing of satisfaction of our performance obligations does not significantly vary from the typical timing of payment. Typical payment terms of our fixed-price over time contracts include progress payments based on specified events or milestones, or based on project progress. For some contracts we may be entitled to receive an advance payment.

We have applied the practical expedient for certain revenue streams to exclude the value of remaining performance obligations for (i) contracts with an original expected term of one year or less or (ii) contracts for which we recognize revenue in proportion to the amount we have the right to invoice for services performed.

Note 8. Accounts Receivable - Net

	March 31, 2019	December 31, 2018
Trade	\$7,499	\$ 7,705
Less - Allowance for doubtful accounts	(192 )	(197 )
	\$7,307	\$ 7,508

Trade receivables include \$1,696 million and \$1,543 million of unbilled balances under long-term contracts as of March 31, 2019 and December 31, 2018. These amounts are billed in accordance with the terms of the customer contracts to which they relate.

Note 9. Inventories

	March 31, 2019	December 31, 2018
Raw materials	\$ 1,170	\$ 1,109
Work in process	847	811
Finished products	2,577	2,445
	4,594	4,365

Reduction to LIFO cost basis (46 ) (39 )  
\$4,548 \$ 4,326

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## Note 10. Leases

### Adoption

Effective January 1, 2019, the Company adopted the new lease accounting standard using the modified retrospective method of applying the new standard at the adoption date. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard. This allowed us to carry forward the historical lease classification. Adoption of this standard resulted in the recording of net operating lease right-of-use (ROU) assets and corresponding operating lease liabilities of \$0.7 billion. Financial position for reporting periods beginning on or after January 1, 2019 are presented under the new guidance, while prior periods amounts are not adjusted and continue to be reported in accordance with previous guidance.

A significant portion of our operating and finance lease portfolio includes corporate offices, research and development facilities, manufacturing sites, information technology (IT) equipment, and automobiles. The majority of our leases have remaining lease terms of 1 year to 20 years, some of which include options to extend the leases for 5 years or more. Operating lease ROU assets are presented within Other assets. The current portion of operating lease liabilities are presented within Accrued liabilities, and the non-current portion of operating lease liabilities are presented within Other liabilities on the Consolidated Balance Sheet. Finance lease assets are included in Property, plant and equipment - net, and the finance lease obligations are included in Current maturities of long-term debt, and in Long-term debt on the Consolidated Balance Sheet.

A portion of our real estate leases is generally subject to annual changes in the Consumer Price Index (CPI). The changes to the CPI are treated as variable lease payments and recognized in the period in which the obligation for those payments was incurred. In addition, a subset of our automobile leases is considered variable. The variable lease payments for such automobiles leases are based on actual mileage incurred at the stated contractual rate.

	Three Months Ended March 31, 2019
Operating lease cost	\$ 54
Variable lease cost	8
Short-term lease cost	3
Financing lease cost:	
Amortization of right-of-use assets	14
Interest on lease liability	8
Total financing lease cost	22
Total lease cost	\$ 87

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Supplemental cash flow information related to leases was as follows:

	Three Months Ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	\$ 61
Operating cash flows from finance leases	1
Financing cash flows from finance leases	10
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	\$ 10
Finance leases	4

Supplemental balance sheet information related to leases was as follows:

	March 31, 2019
Operating leases	
Other assets	\$669
Accrued liabilities	177
Other liabilities	527
Total operating lease liabilities	\$704
Financing leases	
Property, plant and equipment	\$313
Accumulated depreciation	(100 )
Property, plant and equipment - net	\$213
Current maturities of long-term debt	51
Long-term debt	162
Total financing lease liabilities	\$213
Weighted-average remaining lease term	
Operating leases	6 years
Financing leases	5 years
Weighted-average discount rate	
Operating leases	3.2 %
Financing leases	17.0 %

As of March 31, 2019, maturities of lease liabilities were as follows:

	Operating Leases	Financing Leases
2019	\$ 161	\$ 61

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2020	168	71
2021	137	60
2022	103	45
2023	72	39
Thereafter	157	48
Total lease payments	798	324
Less: interest	(94 )	(111 )
Total	\$ 704	\$ 213

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As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous lease accounting standard, future minimum lease payments for operating leases having initial or remaining noncancellable lease terms in excess of one year would have been as follows:

	At
	December
	31, 2018
2019	\$ 210
2020	168
2021	142
2022	109
2023	80
Thereafter	147
	\$ 856

#### Note 11. Long-term Debt and Credit Agreements

	March 31, 2019	December 31, 2018
1.40% notes due 2019	\$ 1,250	\$ 1,250
Three year floating rate notes due 2019	250	250
Two year floating rate notes due 2019	450	450
1.80% notes due 2019	750	750
0.65% Euro notes due 2020	1,123	1,145
4.25% notes due 2021	800	800
1.85% notes due 2021	1,500	1,500
1.30% Euro notes due 2023	1,404	1,432
3.35% notes due 2023	300	300
2.50% notes due 2026	1,500	1,500
2.25% Euro notes due 2028	842	859
5.70% notes due 2036	441	441
5.70% notes due 2037	462	462
5.375% notes due 2041	417	417
3.812% notes due 2047	445	445
Industrial development bond obligations, floating rate maturing at various dates through 2037	22	22
6.625% debentures due 2028	201	201
9.065% debentures due 2033	51	51
Other (including capitalized leases and debt issuance costs), 5.2% weighted average maturing at various dates through 2025	390	353
	12,598	12,628
Less: current portion	(4,000 )	(2,872 )
	\$ 8,598	\$ 9,756

On April 27, 2018, the Company entered into a \$4.0 billion Amended and Restated Five Year Credit Agreement (the “5-Year Credit Agreement”), with a syndicate of banks. The 5-Year Credit Agreement is maintained for general corporate purposes. Commitments under the 5-Year Credit Agreement can be increased pursuant to the terms of the 5-Year Credit Agreement to an aggregate amount not to exceed \$4.5 billion.

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On April 27, 2018, the Company entered into a \$1.5 billion 364-Day Credit Agreement with a syndicate of banks. This 364-Day Credit Agreement is maintained for general corporate purposes.

As of March 31, 2019, there are no outstanding borrowings under any of our credit agreements.

#### Note 12. Financial Instruments and Fair Value Measures

Our credit, market, foreign currency and interest rate risk management policies are described in Note 15, Financial Instruments and Fair Value Measures of Notes to Consolidated Financial Statements in our 2018 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:

	March 31, 2019	December 31, 2018
Assets:		
Foreign currency exchange contracts	\$ 180	\$ 119
Available for sale investments	2,214	1,784
Interest rate swap agreements	25	20
Cross currency swap agreements	45	32
Liabilities:		
Foreign currency exchange contracts	\$ 9	\$ 4
Interest rate swap agreements	46	65

The foreign currency exchange contracts, interest rate swap agreements, and cross currency swap agreements are valued using broker quotations, or market transactions in either the listed or over-the-counter markets. As such, these derivative instruments are classified within level 2. The Company also holds investments in commercial paper, certificates of deposits, and time deposits that are designated as available for sale and are valued using published prices based off observable market data. As such, 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, 2019		December 31, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Long-term receivables	\$343	\$336	\$333	\$329
Liabilities				



Long-term debt and related current maturities \$12,598 \$13,299 \$12,629 \$13,133

The following table sets forth the amounts on the Consolidated Balance Sheet related to cumulative basis adjustments for fair value hedges:

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Line in the Consolidated Balance Sheet of Hedged Item	Carrying Amount of the Hedged Item		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of the Hedged Item	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
	Long-term debt	\$2,579	\$ 2,555	\$(21)

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. As such, 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. As such, the fair value of the long-term debt and related current maturities is considered level 2 as well.

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, 2019, we recognized \$24 million of gains in earnings on interest rate swap agreements. For the three months ended March 31, 2018, we recognized \$46 million of losses in earnings on interest rate swap agreements. Gains and losses are fully offset by losses and gains on the underlying debt being hedged.

We economically hedge our exposure to changes in foreign exchange rates primarily 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. For the three months ended March 31, 2019 and 2018, we recognized \$47 million and \$129 million of expense in Other (income) expense.

The following tables summarize the location and impact to the Consolidated Statement of Operations related to fair value and cash flow hedging relationships:

	Three Months Ended March 31, 2019				
	Revenue	Cost of Products Sold	SG&A	Other (Income) Expense	Interest and Other Financial Charges
Gain or (loss) on cash flow hedges:	\$8,884	\$ 4,622	\$1,363	\$(285 )	\$ 85
Foreign Currency Exchange Contracts:	—	16	—	24	—

Amount reclassified from accumulated other comprehensive income into income					
Amount excluded from effectiveness testing recognized in earnings using an amortization approach	—	6	—	9	—
Gain or (loss) on fair value hedges:					
Interest Rate Swap Agreements:					
Hedged Items	—	—	—	—	(24 )
Derivatives designated as hedges	—	—	—	—	24

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	Three Months Ended March 31, 2018				
	Revenue	Cost of Products Sold	SG&A	Other (Income) Expense	Interest and Other Financial Charges
	\$10,392	\$5,905	\$1,475	\$ (268 )	\$ 83
Gain or (loss) on cash flow hedges:					
Foreign Currency Exchange Contracts:					
Amount reclassified from accumulated other comprehensive income into income	(3 )	(22 )	2	—	—
Gain or (loss) on fair value hedges:					
Interest Rate Swap Agreements:					
Hedged Items	—	—	—	—	46
Derivatives designated as hedges	—	—	—	—	(46 )

The following table summarizes the amounts of gain or (loss) on net investment hedges recognized in Accumulated other comprehensive income (loss):

	Three Months Ended March 31, 2018	2017
Derivatives Net Investment Hedging Relationships	\$68	\$(82)
Euro-denominated long-term debt	71	(101)
Euro-denominated commercial paper	13	(58 )
Cross currency swap	7	—
Foreign currency exchange contracts		

Note 13. Accumulated Other Comprehensive Income (Loss)

Changes in Accumulated Other Comprehensive Income (Loss) by Component

	Foreign Exchange Translation Adjustment	Pension and Other Postretirement Benefits Adjustments	Changes in Fair Value of Cash Flow Hedges	Total
Balance at December 31, 2018	\$ (2,709 )	\$ (761 )	\$ 33	\$(3,437)
Other comprehensive income (loss) before reclassifications	205	—	38	243
Amounts reclassified from accumulated other comprehensive income	—	(19 )	(32 )	(51 )

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Net current period other comprehensive income (loss)	205	(19	)	6	192	
Balance at March 31, 2019	\$ (2,504	)	\$ (780	)	\$ 39	\$(3,245)

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	Foreign Exchange Translation Adjustment	Pension and Other Postretirement Benefits Adjustments	Changes in Fair Value of Cash Flow Hedges	Total
Balance at December 31, 2017	\$ (1,981 )	\$ (202 )	\$ (52 )	\$ (2,235)
Other comprehensive income (loss) before reclassifications	91	—	(32 )	59
Amounts reclassified from accumulated other comprehensive income	—	(16 )	18	2
Net current period other comprehensive income (loss)	91	(16 )	(14 )	61
Balance at March 31, 2018	\$ (1,890 )	\$ (218 )	\$ (66 )	\$ (2,174)

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#### Note 14. Segment Financial Data

We globally manage our business operations through four 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. Each segment's profit is measured as segment income (loss) before taxes excluding general corporate unallocated expense, interest and other financial charges, stock compensation expense, pension and other postretirement income (expense), repositioning and other charges, and other items within Other (income) expense.

	Three Months Ended March 31,	
	2019	2018
Net sales		
Aerospace		
Products	\$2,075	\$2,728
Services	1,266	1,249
Total	3,341	3,977
Honeywell Building Technologies		
Products	1,073	2,083
Services	316	350
Total	1,389	2,433
Performance Materials and Technologies		
Products	2,070	2,063
Services	502	471
Total	2,572	2,534
Safety and Productivity Solutions		
Products	1,495	1,360
Services	87	88
Total	1,582	1,448
	\$8,884	\$10,392
Segment profit		
Aerospace	\$838	\$893
Honeywell Building Technologies	271	416
Performance Materials and Technologies	564	519
Safety and Productivity Solutions	212	231
Corporate	(76 )	(64 )
Total segment profit	1,809	1,995
Interest and other financial charges	(85 )	(83 )
Stock compensation expense(a)	(41 )	(52 )
Pension ongoing income(b)	151	248
Other postretirement income(b)	12	6
Repositioning and other charges(c)	(84 )	(191 )
Other(d)	80	(12 )

Income before taxes \$1,842 \$1,911

(a) Amounts included in Selling, general and administrative expenses.

(b) Amounts included in Cost of products and services sold and Selling, general and administrative expenses (service costs) and Other income/expense (non-service cost components).

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(c) Amounts included in Cost of products and services sold, Selling, general and administrative expenses, and Other income/expense.

(d) Amounts include the other components of Other income/expense not included within other categories in this reconciliation. Equity income/loss of affiliated companies is included in segment profit.

Note 15. Pension Benefits

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

	U.S. Plans Three Months Ended March 31, 2019 2018	
Service cost	\$21	\$35
Interest cost	153	143
Expected return on plan assets	(279 )	(357 )
Amortization of prior service (credit)	(11 )	(11 )
	\$ (116)	\$ (190)
	Non-U.S. Plans Three Months Ended March 31, 2019 2018	
Service cost	\$6	\$7
Interest cost	36	37
Expected return on plan assets	(84 )	(115 )
Amortization of prior service (credit)	—	—
	\$ (42)	\$ (71)

In the first quarter of 2019, the Company repurchased \$100 million of outstanding Honeywell shares from the Honeywell U.S. Pension Plan Master Trust.

Note 16. Commitments and Contingencies

Environmental Matters

Our environmental matters are described in Note 20 Commitments and Contingencies of Notes to Consolidated Financial Statements in our 2018 Annual Report on Form 10-K.

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

December 31, 2018	\$	755
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Accruals for environmental matters deemed probable and reasonably estimable	86	
Environmental liability payments	(28	)
Other	(1	)
March 31, 2019	\$	812

In the quarter ended March 31, 2019 we recorded a gain of \$43 million related to the sale of a legacy remediated property.

Environmental liabilities are included in the following balance sheet accounts:

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	March 31, 2019	December 31, 2018
Accrued liabilities	\$ 175	\$ 175
Other liabilities	637	580
	\$ 812	\$ 755

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, existing reserves, and the indemnification and reimbursement agreement with a Resideo subsidiary (as explained below), we do not expect that environmental matters will have a material adverse effect on our consolidated financial position.

Reimbursements associated with the indemnification and reimbursement agreement with a Resideo subsidiary were \$35 million in the quarter ended March 31, 2019 and offset operating cash outflows incurred by the Company. As the Company records the accruals for environmental matters deemed probable and reasonably estimable related to the sites covered by the indemnification and reimbursement agreement, a corresponding receivable from Resideo for 90 percent of such accrual is also recorded. This receivable amount recorded in the quarter ended March 31, 2019 was \$28 million. As of March 31, 2019, Other Current Assets and Other Assets includes \$140 million and \$469 million representing the short-term and long-term portion of the receivable amount due from Resideo under the indemnification and reimbursement agreement.

#### Asbestos Matters

Honeywell is a defendant in asbestos related personal injury actions related to North American Refractories Company (“NARCO”), which was sold in 1986, and Bendix Friction Materials (“Bendix”) business, which was sold in 2014.

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

#### Asbestos-Related Liabilities

	Bendix	NARCO	Total
December 31, 2018	\$1,623	\$ 891	\$2,514
Accrual for update to estimated liability	15	6	21
Asbestos related liability payments	(44 )	—	(44 )
March 31, 2019	\$1,594	\$ 897	\$2,491

#### Insurance Recoveries for Asbestos-Related Liabilities

	Bendix	NARCO	Total
December 31, 2018	\$ 170	\$ 307	\$477
Insurance receipts for asbestos related liabilities	(2 )	(6 )	(8 )
March 31, 2019	\$ 168	\$ 301	\$469

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



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	March 31, 2019	December 31, 2018
Other current assets	\$40	\$ 40
Insurance recoveries for asbestos related liabilities	429	437
	\$469	\$ 477
Accrued liabilities	\$245	\$ 245
Asbestos related liabilities	2,246	2,269
	\$2,491	\$ 2,514

NARCO Products – Honeywell’s predecessor, Allied Corporation owned NARCO from 1979 to 1986. When the NARCO business was sold, Honeywell’s predecessor entered into a cross-indemnity agreement with NARCO which included an obligation to indemnify the purchaser for asbestos claims. Such claims arise primarily from alleged occupational exposure to asbestos-containing refractory brick and mortar for high-temperature applications. NARCO ceased manufacturing these products in 1980, and the first asbestos claims were filed in the tort system against NARCO in 1983. Claims filings and related costs increased dramatically in the late 1990s through 2001, which led to NARCO filing for bankruptcy in January 2002. Once NARCO filed for bankruptcy, all then current and future NARCO asbestos claims were stayed against both NARCO and Honeywell pending the reorganization of NARCO.

Following the bankruptcy filing, in December 2002 Honeywell recorded a total NARCO asbestos liability of \$3.2 billion, which was comprised of three components: (i) the estimated liability to settle pre-bankruptcy petition NARCO claims and certain post-petition settlements (\$2.2 billion, referred to as “Pre-bankruptcy NARCO Liability”), (ii) the estimated liability related to then unasserted NARCO claims for the period 2004 through 2018 (\$950 million, referred to as “NARCO Trust Liability”), and (iii) other NARCO bankruptcy-related obligations totaling \$73 million.

When the NARCO Trust Liability of \$950 million was established in 2002, the methodology for estimating the potential liability was based primarily on: (a) epidemiological projections of the future incidence of disease for the period 2004 through 2018, a fifteen-year period; (b) historical claims rates in the tort system for the five-year period prior to the bankruptcy filing date; and (c) anticipated NARCO Trust payment values set forth in the then current draft of the NARCO Trust Distribution Procedures. The methodology required estimating, by disease, three critical inputs: (i) likely number of claims to be asserted against the NARCO Trust in the future, (ii) percentage of those claims likely to receive payment, and (iii) payment values. The Company utilized outside asbestos liability valuation specialists to support its preparation of the NARCO Trust Liability estimate, which was based on a commonly accepted methodology used by numerous bankruptcy courts addressing 524(g) trusts.

In 2002, when we first established our initial liability, NARCO asbestos claims resolution shifted from the tort system to an anticipated NARCO Trust framework, where claims would be processed in accordance with established NARCO Trust Distribution Procedures, including strict medical and exposure criteria for a plaintiff to receive compensation. We believed at the time that the NARCO Trust’s claims filing and resolution experience after the NARCO Trust became operational would be significantly different from pre-bankruptcy tort system experience in light of these more rigorous claims processing requirements in the NARCO Trust Distribution Procedures and Honeywell’s active oversight of claims processing and approval. Given these anticipated differences, we believed that a 15-year time period was the appropriate horizon for establishing a probable and reasonably estimable liability for then unasserted NARCO claims as it represented our best estimate of the time period it would take for the NARCO Trust to be approved by the Bankruptcy Court, become fully operational and generate sufficiently reliable claims data

(i.e., a data set which is statistically representative) to enable us to update our NARCO Trust Liability.

The NARCO Trust Distribution Procedures were finalized in 2006, and the Company updated its NARCO Trust Liability to reflect the final terms and payment values. The original 15-year period (from 2004 through 2018) for unasserted claims did not change as asbestos claims filings continued to be stayed against both Honeywell and NARCO. The 2006 update resulted in a range of the estimated liability for unasserted claims of \$743 million to \$961 million, and we believed that no amount within this range was a better estimate than any other amount. In accordance with ASC 450 – Contingencies (“ASC 450”), we recorded the low end of the range of \$743 million which resulted in a reduction of \$207 million in our NARCO Trust Liability.

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NARCO emerged from bankruptcy on April 30, 2013, at which time a federally authorized 524(g) 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 Agreement and the NARCO Trust Distribution Procedures are the principal documents setting forth the structure of the NARCO Trust. These documents establish Honeywell's evergreen funding obligations. 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 an annual cap of \$145 million. 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. These documents also establish the material operating rules for the NARCO Trust, including Honeywell audit rights and the criteria claimants must meet to have a valid claim paid. These claims payment criteria include providing the NARCO Trust with adequate medical evidence of the claimant's asbestos-related condition and credible evidence of exposure to a specific NARCO asbestos-containing product. Further, the NARCO Trust is eligible to receive cash dividends from Harbison-Walker International Inc ("HWI"), the reorganized and renamed entity that emerged, fully operational, from the NARCO bankruptcy. The NARCO Trust is required to use any funding received from HWI to pay Annual Contribution Claims until those funds are exhausted. It is only at this point that Honeywell's funding obligation to the Trust is triggered. Thus, there is an unrelated primary source for funding that affects Honeywell's funding of the NARCO Trust Liability.

Once operational, the NARCO Trust began to receive, process and pay claims that had been previously stayed pending the Trust becoming operational. As the NARCO Trust began to pay claims in 2014, we began to assert our on-going audit rights to review and monitor the claims processor's adherence to the established requirements of the NARCO Trust Distribution Procedures. While doing so, we identified several issues with the way the Trust was implementing the NARCO Trust Distribution Procedures. In 2015, Honeywell filed suit against the NARCO Trust in Bankruptcy Court alleging breach of certain provisions of the NARCO Trust Agreement and NARCO Trust Distribution Procedures. The parties agreed to dismiss the proceeding without prejudice pursuant to an 18-month Standstill Agreement, which expired in October 2017. Notwithstanding its expiration, claims processing continues, and Honeywell continues to negotiate and attempt to resolve remaining disputed issues (that is, instances where Honeywell believes the NARCO Trust is not processing claims in accordance with established NARCO Trust Distribution Procedures). Honeywell reserves its right to seek judicial intervention should negotiations fail.

After the NARCO Trust became effective in 2013, the \$743 million NARCO Trust Liability was then comprised of:

- (i) liability for unasserted claims; and
- (ii) liability for claims asserted after the NARCO Trust became operational but not yet paid.

Although we know the number of claims filed with the NARCO Trust each year, we are not able to determine at this time the portion of the NARCO Trust Liability which represents asserted versus unasserted claims due to the lack of sufficiently reliable claims data because of the claims processing issues described previously.

Honeywell maintained the \$743 million accrual for NARCO Trust Liability, as there has not been sufficiently reliable claims data history to enable us to update that liability.

As of March 31, 2019, our total NARCO asbestos liability of \$897 million reflects Pre-bankruptcy NARCO liability of \$154 million and NARCO Trust Liability of \$743 million. Through March 31, 2019, Pre-bankruptcy NARCO Liability has been reduced by approximately \$2 billion since first established in 2002, largely related to settlement payments. The remaining Pre-bankruptcy NARCO Liability principally represents estimated amounts owed 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. The other NARCO bankruptcy-related obligations were paid in 2013 and no further liability is recorded.



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As of March 31, 2019, Honeywell has not made any payments to the NARCO Trust for Annual Contribution Claims as any Annual Contribution Claims which have been paid since the Trust became operational have been funded by cash dividends from HWI.

Honeywell continues to evaluate the appropriateness of the \$743 million NARCO Trust Liability. Despite becoming effective in 2013, the NARCO Trust has experienced delays in becoming fully operational. Violations of the Trust Distribution Procedures and the resulting disputes and challenges, a standstill pending dispute resolution, and limited claims payments, have all contributed to the lack of sufficient normalized data based on actual claims processing experience in the Trust since it became operational. As a result, we have not been able to further update the NARCO Trust Liability. The \$743 million NARCO Trust Liability continues to be appropriate because of the unresolved pending claims in the Trust, some portion of which will result in payouts in the future, and because new claims continue to be filed with the NARCO Trust. When sufficiently reliable claims data exists, we will update our estimate of the NARCO Trust Liability and it is possible that a material change may need to be recognized.

Our insurance receivable of \$301 million as of March 31, 2019, corresponding to the estimated liability for asserted and unasserted 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.

Bendix Products—Bendix manufactured automotive brake linings 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 present information regarding Bendix-related asbestos claims activity:

	Three Months Ended March 31, 2019	Years Ended December 31, 2018    2017	
Claims Activity			
Claims unresolved at the beginning of period	6,209	6,280	7,724
Claims filed	631	2,430	2,645
Claims resolved	(626 )	(2,501)	(4,089)
Claims unresolved at the end of period	6,214	6,209	6,280

	March 31, 2019	December 31, 2018    2017	
Disease Distribution of Unresolved Claims			
Mesothelioma and other cancer claims	3,028	2,949	3,062
Nonmalignant claims	3,186	3,260	3,218

Total claims 6,214 6,209 6,280

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

	Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in whole dollars)				
Malignant claims	\$55,300	\$56,000	\$44,000	\$44,000	\$53,500
Nonmalignant claims	\$4,700	\$2,800	\$4,485	\$100	\$120

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

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Honeywell International Inc.  
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Our consolidated financial statements reflect an estimated liability for resolution of asserted (claims filed as of the financial statement date) and unasserted Bendix-related asbestos claims and excludes the Company's legal fees to defend such asbestos claims which will continue to be expensed by the Company as they are incurred. We have valued Bendix asserted and unasserted claims using average resolution values for the previous five years. We update the resolution values used to estimate the cost of Bendix asserted and unasserted claims during the fourth quarter each year.

Honeywell reflects the inclusion of all years of epidemiological disease projection through 2059 when estimating the liability for unasserted Bendix-related asbestos claims. Such liability for unasserted Bendix-related asbestos claims is based on historic and anticipated claims filing experience and dismissal rates, disease classifications, and resolution values in the tort system for the previous five years.

Our insurance receivable corresponding to the liability for settlement of asserted and unasserted 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.

Reimbursements associated with the indemnification and reimbursement agreement with a Garrett subsidiary (the "Agreement") were \$39 million for the quarter ended March 31, 2019 and offset operating cash outflows incurred by the Company. As the Company records the accruals for matters covered by the indemnification and reimbursement agreement, a corresponding receivable from Garrett for 90 percent of such accrual is also recorded. This receivable amount was \$13 million in the quarter ended March 31, 2019. As of March 31, 2019, Other Current Assets and Other Assets includes \$169 million and \$1,022 million representing the short-term and long-term portion of the receivable amount due from Garrett under the indemnification and reimbursement agreement.

In our ongoing communications with Garrett with respect to the Agreement and Garrett's associated material weakness disclosure in its Form 10-K for the year ended December 31, 2018, Garrett has taken the position that (i) Honeywell has not satisfied all of its obligations under the Agreement, and (ii) the Agreement is unenforceable either in whole or in part. We strongly believe that Garrett's allegations have no merit, nor are they material to Honeywell. We believe we have fully complied with our obligations under the Agreement and that the Agreement is enforceable in its entirety. We intend to continue to have ongoing discussions with Garrett to try to resolve this matter.

On September 13, 2018, following completion of the Securities and Exchange Commission (SEC) Division of Corporation Finance's review of our prior accounting for liabilities for unasserted Bendix-related asbestos claims, the SEC Division of Enforcement advised that it has opened an investigation related to this matter. Honeywell intends to provide requested information and otherwise fully cooperate with the SEC staff. On October 31, 2018, David Kanefsky, a Honeywell shareholder, filed a putative class action complaint alleging violations of the Securities Exchange Act of 1934 and Rule 10b-5 related to the prior accounting for Bendix asbestos claims. We believe the Complaint has no merit.

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:

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Honeywell v. United Auto Workers (UAW) et. al—In September 2011, the UAW and certain Honeywell retirees (Plaintiffs) filed a suit in the Eastern District of Michigan (the District Court) alleging that a series of Master Collective Bargaining Agreements (MCBAs) between Honeywell and the UAW provided the retirees with rights to lifetime, vested healthcare benefits that could never be changed or reduced. Plaintiffs alleged that Honeywell had violated those vested rights by implementing express limitations (CAPS) on the amount Honeywell contributed toward healthcare coverage for the retirees. Honeywell subsequently answered the UAW’s complaint and asserted counterclaims, including for breach of implied warranty.

Between 2014 and 2015, Honeywell began enforcing the CAPS against former employees. In response, the UAW and certain of the Plaintiffs filed a motion seeking a ruling that the MCBAs do not limit Honeywell’s obligation to contribute to healthcare coverage for those retirees.

On March 29, 2018, the District Court issued its opinion resolving all pending summary judgment motions, except for Honeywell’s counterclaim for breach of implied warranty, which has since been dismissed without prejudice.

In the opinion, the District Court held that the MCBAs do not promise retirees vested, lifetime benefits that survive expiration of the MCBAs. Based on this ruling, Honeywell terminated the retirees healthcare coverage benefits altogether as of July 31, 2018. In response, the UAW filed a motion to enjoin Honeywell from completely terminating coverage as of July 31, 2018, arguing that the CAPS themselves are vested and that Honeywell must continue to provide retiree medical benefits at the capped level. On July 28, 2018, the District Court denied the UAW’s motion and entered a final judgment consistent with its March 2018 ruling. The UAW has appealed this decision to the Sixth Circuit Court of Appeals. Honeywell believes the District Court’s ruling will be upheld.

In the March 2018 opinion, the District Court also held that Honeywell is obligated under the MCBAs to pay the “full premium” for retiree healthcare rather than the capped amount. Based on this ruling, Honeywell would be required to pay monetary damages to retirees for any past years in which Honeywell paid less than the “full premium” of their healthcare coverage. Such damages would be limited, depending on the retiree group, to a two to three-year period ending when the 2016 MCBA expired, and Honeywell would have no ongoing obligation to continue funding healthcare coverage for subsequent periods. Honeywell has appealed the District Court’s ruling on this “full premium” damages issue, and believes that the Sixth Circuit Court of Appeals will reverse the District Court on that issue. In the event the Sixth Circuit were to sustain the District Court’s ruling on this issue, Honeywell would be liable for damages of at least \$12 million.

Given the uncertainty inherent in litigation and investigations (including the specific matter referenced 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 Management Discussion & Analysis 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, 2019. The financial information as of March 31, 2019 should be read in conjunction with the consolidated financial statements for the year ended December 31, 2018 contained in our 2018 Annual Report on Form 10-K.

On October 1, 2018, the Company completed the tax-free spin-off to Honeywell shareowners of its Transportation Systems business, previously part of Aerospace, into a standalone publicly-traded company, Garrett Motion Inc. ("Garrett"). The assets and liabilities associated with Garrett have been removed from the Company's Consolidated Balance Sheet as of the effective date of the spin-off. The results of operations for Garrett are included in the Consolidated Statement of Operations through the effective date of the spin-off.

On October 29, 2018, the Company completed the tax-free spin-off to Honeywell shareowners of its Homes and Global Distribution business, previously part of Home and Building Technologies (renamed Honeywell Building Technologies following the spin-off), into a standalone publicly-traded company, Resideo Technologies, Inc. ("Resideo"). The assets and liabilities associated with Resideo have been removed from the Company's Consolidated Balance Sheet as of the effective date of the spin-off. The results of operations for Resideo are included in the Consolidated Statement of Operations through the effective date of the spin-off.

A. Results of Operations – three months ended March 31, 2019 compared with the three months ended March 31, 2018  
Net Sales

	Three Months Ended March 31,	
	2019	2018
Net sales	\$8,884	\$10,392
% change compared with prior period	(15)	)%

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

	Three Months
Volume	6 %
Price	2 %
Foreign Currency Translation	(3 )%
Acquisitions/Divestitures	(20 )%
	(15 )%

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

The foreign currency translation impact in the quarter is driven by the strengthening of the U.S. Dollar in the majority of our international markets, primarily the Euro and British Pound.

The acquisitions/divestitures impact is driven by the spin-off of the Transportation Systems and Homes businesses.

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## Cost of Products and Services Sold

	Three Months Ended March 31,	
	2019	2018
Cost of products and services sold	\$5,879	\$7,191
% change compared with prior period	(18)	)%
Gross margin percentage	33.8	% 30.8 %

Cost of products and services sold decreased in the quarter primarily due to lower direct material costs of approximately \$950 million (driven by the spin-off of the Transportation Systems and Homes businesses and productivity, partially offset by higher sales and inflation), lower labor costs of approximately \$150 million (driven by the spin-off of the Transportation Systems and Homes businesses partially offset by higher sales and inflation) and lower repositioning and other charges of approximately \$70 million.

Gross margin percentage increased in the quarter primarily due to higher gross margin in the segments (approximately 2.0 percentage points), with higher Aerospace, Honeywell Building Technologies and Performance Materials and Technologies gross margins partially offset by lower Safety and Productivity Solutions segment gross margin, and due to the lower costs within cost of products and services sold for repositioning and other charges (approximately 0.8 percentage point impact) and pension service costs (approximately 0.2 percentage point impact).

## Selling, General and Administrative Expenses

	Three Months Ended March 31,	
	2019	2018
Selling, general and administrative expense	\$1,363	\$1,475
% of sales	15.3	% 14.2 %

Selling, general and administrative expenses decreased in the quarter primarily due to the absence of costs of the Transportation Systems and Homes businesses following their spin-offs, and the favorable foreign currency translation impact, partially offset by inflation.

## Other (Income) Expense

	Three Months Ended March 31,	
	2019	2018
Other (income) expense	\$(285)	\$(268)

Other (income) expense increased for the quarter primarily due to the absence of separation costs, higher interest income, and favorable impacts of foreign currency, partially offset by lower pension non-service income.

## Tax Expense (Benefit)

	Three Months Ended March 31,	
	2019	2018
Tax expense (benefit)	\$406	\$459

Effective tax rate 22.0 % 24.0 %

The effective tax rate decreased for the quarter primarily from increased tax benefits for employee share-based compensation, fewer tax reserves and lower tax costs related to the 2018 spin-offs.

The effective tax rate for the three months ended March 31, 2019 was higher than the U.S. federal statutory rate of 21% primarily due to incremental tax reserves and state taxes, partially offset by foreign earnings taxed at lower foreign tax rates.

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The effective tax rate for the three months ended March 31, 2018 was higher than the U.S. federal statutory rate of 21% primarily from anti-deferral rules that impose U.S. taxes on foreign earnings, tax reserves and state taxes, partially offset by foreign earnings taxed at lower foreign tax rates.

Net Income Attributable to Honeywell

	Three Months Ended March 31, 2019 2018	
Net income attributable to Honeywell	\$1,416	\$1,439
Earnings per share of common stock – assuming dilution	\$1.92	\$1.89

Earnings per share of common stock – assuming dilution increased in the quarter primarily driven by increased operational segment profit, lower repositioning and other charges, absence of separation costs during the quarter, and the favorable impact of lower share count, partially offset by lower segment profit associated with the spin-off of the Transportation Systems and Homes businesses and lower pension ongoing income.

## Review of Business Segments

	Three Months Ended		
	March 31,		%
	2019	2018	Change
Aerospace sales			
Commercial Aviation Original Equipment	\$759	\$695	9 %
Commercial Aviation Aftermarket	1,361	1,268	7 %
Defense and Space	1,221	1,086	12 %
Transportation Systems	—	928	(100)%
Total Aerospace sales	3,341	3,977	
Honeywell Building Technologies sales			
Homes	—	1,157	(100)%
Buildings	1,389	1,276	9 %
Total Honeywell Building Technologies sales	1,389	2,433	
Performance Materials and Technologies sales			
UOP	610	612	— %
Process Solutions	1,246	1,214	3 %
Advanced Materials	716	708	1 %
Total Performance Materials and Technologies sales	2,572	2,534	
Safety and Productivity Solutions sales			
Safety	538	551	(2 )%
Productivity Solutions	1,044	897	16 %
Total Safety and Productivity Solutions sales	1,582	1,448	
Net sales	\$8,884	\$10,392	

## Aerospace

	Three Months Ended March 31,		
	2019	2018	% Change
Net sales	\$3,341	\$3,977	(16)%
Cost of products and services sold	2,232	2,790	
Selling, general and administrative and other expenses	271	294	
Segment profit	\$838	\$893	(6)%

	2019 vs. 2018 Three Months Ended March 31,	
Factors Contributing to Year-Over-Year Change	Sales	Segment Profit
Organic growth/ Operational segment profit	10%	19%
Foreign currency translation	—%	(1)%
Acquisitions, divestitures and other, net	(26)%	(24)%
Total % change	(16)%	(6)%

Aerospace sales decreased due to the divestiture impacts following the spin-off of the Transportation Systems business, partially offset by an increase in organic sales growth.

Commercial Aviation Original Equipment sales increased 9% (increased 10% organic) primarily due to increased demand from business aviation customers.

Commercial Aviation Aftermarket sales increased 7% (increased 8% organic) with growth in both air transport and regional, and business aviation.

Defense and Space sales increased 12% (increased 13% organic) primarily driven by growth in U.S. and international defense.

Aerospace segment profit decreased due to the divestiture impacts following the spin-off of the Transportation Systems business, partially offset by an increase in operational segment profit, driven by volume and price. Cost of products and services sold decreased due to the spin-off of the Transportation Systems business and productivity, net of inflation, partially offset by higher sales volumes.

## Honeywell Building Technologies

	Three Months Ended March 31,		
	2019	2018	% Change
Net sales	\$1,389	\$2,433	(43 )%
Cost of products and services sold	846	1,586	
Selling, general and administrative and other expenses	272	431	
Segment profit	\$271	\$416	(35 )%

Factors Contributing to Year-Over-Year Change	2019 vs. 2018 Three Months Ended March 31,			
	Sales		Segment Profit	
Organic growth/ Operational segment profit	9	%	7	%
Foreign currency translation	(3 )	%	(3 )	%
Acquisitions, divestitures and other, net	(49)	%	(39 )	%
Total % change	(43)	%	(35 )	%

Honeywell Building Technologies sales decreased due to the divestiture impacts following the spin-off of the Homes business and the unfavorable impact of foreign currency, partially offset by an increase in organic growth.

• Sales in Building Technologies, excluding the Homes divestiture and related impacts, increased 9% (increased 9% organic) primarily due to higher organic sales growth in Building Solutions and Products.

Honeywell Building Technologies segment profit decreased due to the divestiture impacts following the spin-off of the Homes business and the unfavorable impact of foreign currency translation, partially offset by an increase in operational segment profit. The increase in operational segment profit was primarily driven by volume and price, partially offset by inflation. Cost of products and services sold decreased due to the Homes divestiture and foreign currency translation, partially offset by higher sales volumes.

## Performance Materials and Technologies

	Three Months Ended March 31,		
	2019	2018	% Change
Net sales	\$2,572	\$2,534	2 %
Cost of products and services sold	1,648	1,681	
Selling, general and administrative and other expenses	360	334	
Segment profit	\$564	\$519	9 %

Factors Contributing to Year-Over-Year Change	2019 vs. 2018 Three Months Ended March 31,	
	Sales	Segment Profit
Organic growth/ Operational segment profit	5 %	11 %
Foreign currency translation	(3)%	(3)%
Acquisitions, divestitures and other, net	—%	1 %
Total % change	2 %	9 %

Performance Materials and Technologies sales increased primarily due to organic growth, partially offset by the unfavorable impact of foreign currency translation.

UOP sales were flat (increased 1% organic) driven primarily by higher gas processing project revenues, offset primarily by decreases in catalyst shipments and in engineering revenues.

Process Solutions sales increased 3% (increased 7% organic) driven primarily by increases in maintenance and migration services and in projects, partially offset by decreases in smart energy.

Advanced Materials sales increased 1% (increased 4% organic) driven primarily by increases in fluorine products, partially offset by decreases in specialty products.

Performance Materials and Technologies segment profit increased due to an increase in 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 productivity, price, and higher sales volumes, partially offset by inflation. Cost of products and services sold decreased primarily due to foreign currency translation and productivity, partially offset by higher sales volumes and inflation.

## Safety and Productivity Solutions

	Three Months Ended March 31,		
	2019	2018	% Change
Net sales	\$1,582	\$1,448	9 %
Cost of products and services sold	1,079	949	
Selling, general and administrative and other expenses	291	268	
Segment profit	\$212	\$231	(8 )%
	2019 vs. 2018 Three Months Ended March 31,		
Factors Contributing to Year-Over-Year Change	Sales	Segment Profit	
Organic growth/ Operational segment profit	10 %	(7 )%	
Foreign currency translation	(3 )%	(2 )%	
Acquisitions, divestitures, and other, net	2 %	1 %	
Total % change	9 %	(8 )%	

Safety and Productivity Solutions sales increased primarily due to organic sales growth from sales volume and price, and acquisitions, partially offset by the unfavorable impact of foreign currency translation.

Sales in Safety decreased 2% (flat organic) primarily due to the unfavorable impact of foreign exchange in industrial safety partially offset by an increase in retail sales volume.

Sales in Productivity Solutions increased 16% (increased 15% organic) primarily due to increased organic sales volume in warehouse automation and Sensing and IoT, partially offset by decreased organic sales volume in Productivity Products.

Safety and Productivity Solutions segment profit decreased primarily due to lower sales volume in Productivity Products and inflation, net of productivity. Cost of products and services sold increased primarily due to higher organic sales, acquisitions, and inflation, partially offset by favorable foreign currency translation.



## Repositioning and Other Charges

Cash spending related to our repositioning actions was \$44 million in the three months ended March 31, 2019 and was funded through operating cash flows. We expect cash spending for repositioning actions to be approximately \$300 million in 2019 and to be funded through operating cash flows.

## B. Liquidity and Capital Resources

### Cash Flow Summary

	Three Months Ended March 31,	
	2019	2018
Cash provided by (used for):		
Operating activities	\$1,134	\$1,136
Investing activities	(609 )	994
Financing activities	(1,235 )	(1,448 )
Effect of exchange rate changes on cash	48	156
Net (decrease) increase in cash and cash equivalents	\$(662 )	\$838

Cash provided by operating activities decreased by \$2 million primarily due to increased cash tax payments of \$154 million and a \$56 million decrease in customer advances and deferred income, partially offset by a \$115 million favorable impact from working capital (favorable accounts receivable, partially offset by accounts payable and inventory) and reimbursements associated with the indemnification and reimbursement agreements with subsidiaries of Garrett and Resideo of \$74 million.

Cash used for investing activities increased by \$1,603 million primarily due to a net \$1,685 million increase in investments, primarily short term marketable securities, partially offset by a decrease of \$83 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 decreased by \$213 million primarily due to a decrease in repurchases of common stock of \$190 million and an increase in proceeds from the issuance of common stock of \$85 million partially offset by an increase in net debt payments of \$98 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 the three months ended March 31, 2019, the Company repurchased \$750 million of outstanding shares. Under the Company's \$8 billion share repurchase program which was previously announced on December 8, 2017, \$3.0 billion remained available as of March 31, 2019 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. Additionally, we will seek to reduce share count via share repurchases as and when attractive opportunities arise. 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 11 Long-term Debt and Credit Agreements of Notes to Consolidated Financial Statements for additional discussion of items impacting our liquidity.

#### C. Other Matters

##### Litigation

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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 16 Commitments and Contingencies of Notes to Consolidated Financial Statements for further discussion of environmental, asbestos and other litigation matters.

#### Critical Accounting Policies

The financial information as of March 31, 2019 should be read in conjunction with the consolidated financial statements for the year ended December 31, 2018 contained in our 2018 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 2018 Annual Report on Form 10-K.

#### Recent Accounting Pronouncements

See Note 2 Summary of Significant Accounting Policies of Notes to Consolidated 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 2018 Annual Report on Form 10-K. As of March 31, 2019, 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 Chief Executive Officer, our Chief Financial Officer, 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 Information

## Item 1. Legal Proceedings

## General 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 16 Commitments and Contingencies of Notes to Consolidated Financial Statements for a discussion of environmental, asbestos and other litigation matters.

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

## Item 1A. Risk Factors

There have been no material changes to the disclosure presented in our 2018 Annual Report on Form 10-K under Item 1A. Risk Factors.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Honeywell purchased 5,053,048 shares of its common stock, par value \$1 per share, in the quarter ended March 31, 2019. Under the Company's previously approved \$8 billion share repurchase program, \$3.0 billion remained available as of March 31, 2019 for additional share repurchases. The following table summarizes Honeywell's purchase of its common stock for the quarter ended March 31, 2019:

## Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs (Dollars in millions)
January 2019	1,728,710	\$138.83	1,728,710	\$ 3,497
February 2019	867,877	\$149.77	867,877	\$ 3,367
March 2019	2,456,461	\$154.67	2,456,461	\$ 2,987

Item 6. Exhibits

EXHIBIT INDEX

Exhibit  
No. Description

- 10.1\* Offer Letter dated July 9, 2018 between Honeywell International Inc. and Mark R. James (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.IN~~X~~BRL Instance Document (filed herewith)
- 101.SC~~X~~BRL Taxonomy Extension Schema (filed herewith)
- 101.CA~~X~~BRL Taxonomy Extension Calculation Linkbase (filed herewith)
- 101.DE~~X~~BRL Taxonomy Extension Definition Linkbase (filed herewith)
- 101.LA~~X~~BRL Taxonomy Extension Label Linkbase (filed herewith)
- 101.PR~~X~~BRL Taxonomy Extension Presentation Linkbase (filed herewith)

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

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 18, 2019 By: /s/ John J. Tus

John J. Tus  
Vice President and Controller  
(on behalf of the Registrant  
and as the Registrant's  
Principal Accounting Officer)