HONEYWELL INTERNATIONAL INC
Form 10-Q
October 16, 2015
United States

Securities and Exchange Commission

Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2015

OR

o 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 Morris Plains, New Jersey	07950
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

There were 770,691,419 shares of Common Stock outstanding at September 30, 2015.

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 2014 Annual Report on Form 10-K.

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PART I. FINANCIAL INFORMATION

The financial statements and related footnotes as of September 30, 2015 should be read in conjunction with the financial statements for the year ended December 31, 2014 contained in our 2014 Annual Report on Form 10-K.

ITEM 1. FINANCIAL STATEMENTS

Honeywell International Inc.

Consolidated Statement of Operations

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in millions, except per share amounts)			
Product sales	$7,573	$8,090	$22,735	$24,213
Service sales	2,038	2,018	5,864	5,827
Net sales	9,611	10,108	28,599	30,040
Costs, expenses and other				
Cost of products sold	5,372	5,860	16,126	17,686
Cost of services sold	1,282	1,268	3,704	3,705
	6,654	7,128	19,830	21,391
Selling, general and administrative expenses	1,202	1,344	3,674	4,058
Other (income) expense	(24)	(21)	(64)	(159)
Interest and other financial charges	72	77	226	236
	7,904	8,528	23,666	25,526
Income before taxes	1,707	1,580	4,933	4,514
Tax expense	431	388	1,289	1,160
Net income	1,276	1,192	3,644	3,354
Less: Net income attributable to the noncontrolling interest	12	25	70	71
Net income attributable to Honeywell	$1,264	$1,167	$3,574	$3,283
Earnings per share of common stock - basic	$1.62	$1.49	$4.57	$4.18
Earnings per share of common stock - assuming dilution	$1.60	$1.47	$4.51	$4.13

Cash dividends per share of common stock	$0.5175	$0.4500	$1.5525	$1.3500

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

Honeywell International Inc.

Consolidated Statement of Comprehensive Income

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in millions)			
Net income	$1,276	$1,192	$3,644	$3,354
Other comprehensive income (loss), net of tax				
Foreign exchange translation adjustment	(383)	(545)	(893)	(484)
Actuarial losses	-	-	(17)	-
Actuarial losses recognized	5	4	15	12
Prior service credits recognized	(1)	-	(4)	-
Transition obligation recognized	-	-	-	1
Settlements and curtailments	2	-	2	-
Pension and other postretirement benefits adjustments	6	4	(4)	13
Unrealized gains (losses)	-	(6)	-	(8)
Less: Reclassification adjustment for gains included in net income	-	-	-	71
Changes in fair value of available for sale investments	-	(6)	-	(79)
Effective portion of cash flow hedges recognized in other comprehensive income (loss)	(8)	(3)	60	18
Less: Reclassification adjustment for gains (losses) included in net income	19	6	77	5
Changes in fair value of effective cash flow hedges	(27)	(9)	(17)	13
Other comprehensive income (loss), net of tax	(404)	(556)	(914)	(537)
Comprehensive income	872	636	2,730	2,817
Less: Comprehensive income attributable to the noncontrolling interest	8	26	66	70
Comprehensive income attributable to Honeywell	$864	$610	$2,664	$2,747

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

Honeywell International Inc.

Consolidated Balance Sheet

(Unaudited)

	September 30, 2015	December 31, 2014
	(Dollars in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$6,563	$6,959
Accounts, notes and other receivables	7,936	7,960
Inventories	4,441	4,405
Deferred income taxes	739	722
Investments and other current assets	3,800	2,145
Total current assets	23,479	22,191
Investments and long-term receivables	471	465
Property, plant and equipment - net	5,451	5,383
Goodwill	12,684	12,788
Other intangible assets - net	2,071	2,208
Insurance recoveries for asbestos related liabilities	414	454
Deferred income taxes	329	404
Other assets	1,726	1,558
Total assets	$46,625	$45,451
LIABILITIES		
Current liabilities:		
Accounts payable	$5,363	$5,365
Short-term borrowings	4	51
Commercial paper	3,696	1,647
Current maturities of long-term debt	1,268	939
Accrued liabilities	6,036	6,771
Total current liabilities	16,367	14,773
Long-term debt	5,599	6,046
Deferred income taxes	499	236
Postretirement benefit obligations other than pensions	892	911
Asbestos related liabilities	1,198	1,200

Other liabilities	3,903	4,282
Redeemable noncontrolling interest	271	219
SHAREOWNERS' EQUITY		
Capital - common stock issued	958	958
- additional paid-in capital	5,292	5,038
Common stock held in treasury, at cost	(11,550)	(9,995)
Accumulated other comprehensive loss	(2,373)	(1,459)
Retained earnings	25,433	23,115
Total Honeywell shareowners' equity	17,760	17,657
Noncontrolling interest	136	127
Total shareowners' equity	17,896	17,784
Total liabilities, redeemable noncontrolling interest and shareowners' equity	$46,625	$45,451

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

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Honeywell International Inc.

Consolidated Statement of Cash Flows

(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
	(Dollars in millions)	
Cash flows from operating activities:		
Net income	$3,644	$3,354
Less: Net income attributable to the noncontrolling interest	70	71
Net income attributable to Honeywell	3,574	3,283
Adjustments to reconcile net income attributable to Honeywell to net cash provided by operating activities:		
Depreciation	503	499
Amortization	158	199
(Gain) loss on sale of non-strategic businesses and assets	(1)	11
Gain on sale of available for sale investments	-	(105)
Repositioning and other charges	393	453
Net payments for repositioning and other charges	(329)	(301)
Pension and other postretirement income	(269)	(150)
Pension and other postretirement benefit payments	(84)	(123)
Stock compensation expense	132	143
Deferred income taxes	284	255
Excess tax benefits from share based payment arrangements	(69)	(71)
Other	90	(207)
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts, notes and other receivables	52	(529)
Inventories	(20)	(279)
Other current assets	(111)	181
Accounts payable	(13)	154
Accrued liabilities	(795)	(151)
Net cash provided by operating activities	3,495	3,262
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(685)	(680)
Proceeds from disposals of property, plant and equipment	3	12
Increase in investments	(5,701)	(3,139)
Decrease in investments	4,050	2,124
Cash paid for acquisitions, net of cash acquired	(185)	(4)
Proceeds from sales of businesses, net of fees paid	3	157
Other	(69)	(109)
Net cash used for investing activities	(2,584)	(1,639)
Cash flows from financing activities:		

Net increase in commercial paper	2,049	550
Net decrease in short-term borrowings	(38)	(5)
Proceeds from issuance of common stock	150	206
Proceeds from issuance of long-term debt	48	79
Payments of long-term debt	(148)	(607)
Excess tax benefits from share based payment arrangements	69	71
Repurchases of common stock	(1,721)	(689)
Cash dividends paid	(1,261)	(1,101)
Other	-	(7)
Net cash used for financing activities	(852)	(1,503)
Effect of foreign exchange rate changes on cash and cash equivalents	(455)	(114)
Net (decrease) increase in cash and cash equivalents	(396)	6
Cash and cash equivalents at beginning of period	6,959	6,422
Cash and cash equivalents at end of period	$6,563	$6,428

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

Honeywell International Inc.

Notes to Financial Statements

(Unaudited)

(Dollars in millions, except per share amounts)

Note 1. Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of Honeywell International Inc. and its consolidated subsidiaries (Honeywell or the Company) at September 30, 2015, the results of operations for the quarter and nine months ended September 30, 2015 and 2014 and the cash flows for the nine months ended September 30, 2015 and 2014. The results of operations for the three and nine months ended September 30, 2015 should not necessarily be taken as indicative of the results of operations expected for the entire year.

We report our quarterly financial information using a calendar convention; the first, second and third quarters are consistently reported as ending on March 31, June 30 and September 30. It has been our practice to establish actual quarterly closing dates using a predetermined fiscal calendar, which requires our businesses to close their books on a Saturday in order to minimize the potentially disruptive effects of quarterly closing on our business processes. The effects of this practice are generally not significant to reported results for any quarter and only exist within a reporting year. If differences in actual closing dates are material to year-over-year comparisons of quarterly or year-to-date results, we provide appropriate disclosures. Our actual closing dates for the three and nine months ended September 30, 2015 and 2014 were September 26, 2015 and September 27, 2014.

Note 2. Recent Accounting Pronouncements

The Company considers the applicability and impact of all accounting standard updates (ASUs). ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance on revenue from contracts with customers that will supersede most current revenue recognition guidance, including industry-specific guidance. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The effective date was deferred for one year to the interim and annual periods beginning on or after December 15, 2017. Early adoption is permitted as of the original effective date – interim and annual periods beginning on or after December 15, 2016. The guidance permits the use of either a retrospective or cumulative effect transition method. We have not yet selected a transition method and are currently evaluating the impact of the amended guidance on our consolidated financial position, results of operations and related disclosures.

Note 3. Acquisition

In July 2015, the Company entered into a definitive agreement to acquire the Elster Division of Melrose Industries plc (Elster), a leading provider of thermal gas solutions for commercial, industrial, and residential heating systems and gas, water, and electricity meters, including smart meters and software and data analytics solutions, for approximately $5.1 billion. Elster had reported 2014 revenues of approximately $1.7 billion. The transaction is expected to close in the first quarter of 2016, pending regulatory reviews. The acquisition is expected to be funded with available cash and the issuance of commercial paper. Elster will primarily be integrated into our Automation and Control Solutions segment.

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Honeywell International Inc.

Notes to Financial Statements

(Unaudited)

(Dollars in millions, except per share amounts)

Note 4. Repositioning and Other Charges

A summary of repositioning and other charges follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Severance	$63	$21	$138	$103
Asset impairments	1	1	9	12
Exit costs	1	1	3	13
Reserve adjustments	(31)	(2)	(43)	(11)
Total net repositioning charge	34	21	107	117
Asbestos related litigation charges, net of insurance	50	49	142	148
Probable and reasonably estimable environmental liabilities	49	52	144	186
Other	-	-	-	2
Total net repositioning and other charges	$133	$122	$393	$453

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of products and services sold	$129	$112	$363	$413
Selling, general and administrative expenses	4	10	30	40
	$133	$122	$393	$453

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Aerospace	$38	$52	$134	$178
Automation and Control Solutions	28	14	67	65
Performance Materials and Technologies	9	2	30	22
Corporate	58	54	162	188
	$133	$122	$393	$453

In the quarter ended September 30, 2015, we recognized repositioning charges totaling $65 million primarily for severance costs related to workforce reductions of 902 manufacturing and administrative positions across our segments. The workforce reductions were primarily related to cost savings actions taken in connection with our productivity and ongoing functional transformation initiatives. The previously established accruals of $31 million for severance were returned to income as a result of higher attrition than anticipated in prior severance programs resulting in lower required severance payments, and changes in the scope of previously announced repositioning actions.

Honeywell International Inc.

Notes to Financial Statements

(Unaudited)

(Dollars in millions, except per share amounts)

In the quarter ended September 30, 2014, we recognized repositioning charges totaling $23 million primarily for severance costs related to workforce reductions of 336 manufacturing and administrative positions primarily in Automation and Control Solutions (ACS) and Performance Materials and Technologies (PMT). The workforce reductions were primarily related to cost savings actions taken in connection with our productivity and ongoing functional transformation initiatives and a factory transition in ACS to a more cost-effective location.

In the nine months ended September 30, 2015, we recognized repositioning charges totaling $150 million primarily for severance costs related to workforce reductions of 4,882 manufacturing and administrative positions across our segments. The workforce reductions were primarily related to cost savings actions taken in connection with our productivity and ongoing functional transformation initiatives and outsourcing of certain component manufacturing in ACS. The previously established accruals of $43 million, primarily for severance, were returned to income as a result of higher attrition than anticipated in prior severance programs resulting in lower required severance payments, and changes in the scope of previously announced repositioning actions.

In the nine months ended September 30, 2014, we recognized repositioning charges totaling $128 million including severance costs of $103 million related to workforce reductions of 2,069 manufacturing and administrative positions across our segments. The workforce reductions were primarily related to cost savings actions taken in connection with our productivity and ongoing functional transformation initiatives, factory transitions in ACS to more cost-effective locations, site consolidations and organizational realignments of businesses in ACS and PMT. The repositioning charge includes asset impairments of $12 million primarily related to manufacturing plant and equipment associated with site consolidations and factory transitions. The repositioning charge also includes exit costs of $13 million primarily related to closure obligations and costs for early termination of lease contracts associated with site consolidations and factory transitions. The previously established accruals of $11 million, primarily for severance, mainly in ACS, were returned to income as a result of higher attrition than anticipated in prior severance programs resulting in lower required severance payments.

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

	Severance Costs	Asset Impairments	Exit Costs	Total
December 31, 2014	$ 285	$ -	$30	$315
Charges	138	9	3	150
Usage - cash	(67)	-	(10)	(77)

Usage - noncash	-	(9)	-	(9)
Foreign currency translation	(7)	-	(2)	(9)
Adjustments	(39)	-	(4)	(43)
September 30, 2015	$ 310	$ -	$17	$327

Certain repositioning projects in 2015 and 2014 included exit or disposal activities, the costs related to which will be recognized in future periods when the actual liability is incurred. Such exit and disposal costs are not expected to be significant.

Note 5. Earnings Per Share

	Three Months Ended September 30,		Nine Months Ended September 30,	
Basic	2015	2014	2015	2014
Net income attributable to Honeywell	$1,264	$1,167	$3,574	$3,283
Weighted average shares outstanding	780.4	784.5	782.5	784.6
Earnings per share of common stock	$1.62	$1.49	$4.57	$4.18

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Honeywell International Inc.

Notes to Financial Statements

(Unaudited)

(Dollars in millions, except per share amounts)

Assuming Dilution	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Net income attributable to Honeywell	$1,264	$1,167	$3,574	$3,283
Average Shares				
Weighted average shares outstanding	780.4	784.5	782.5	784.6
Dilutive securities issuable - stock plans	9.1	10.5	9.6	11.0
Total weighted average shares outstanding	789.5	795.0	792.1	795.6
Earnings per share of common stock	$1.60	$1.47	$4.51	$4.13

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 and nine months ended September 30, 2015, the weighted average number of stock options excluded from the computations were 7.0 million and 7.3 million. For the three and nine months ended September 30, 2014, the weighted average number of stock options excluded from the computations were 5.6 million and 4.5 million. These stock options were outstanding at the end of each period.

Note 6. Accounts, Notes and Other Receivables

	September 30, 2015	December 31, 2014
Trade	$ 7,765	$ 7,788
Other	426	445
	8,191	8,233
Less: Allowance for doubtful accounts	(255)	(273)
	$ 7,936	$ 7,960

Trade receivables include $1,717 and $1,636 million of unbilled balances under long-term contracts as of September 30, 2015 and December 31, 2014.

Note 7. Inventories

	September 30, 2015	December 31, 2014
Raw materials	$ 1,068	$ 1,124
Work in process	843	815
Finished products	2,646	2,634
	4,557	4,573
Reduction to LIFO cost basis	(116)	(168)
	$ 4,441	$ 4,405

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Honeywell International Inc.

Notes to Financial Statements

(Unaudited)

(Dollars in millions, except per share amounts)

Note 8. Long-term Debt

	September 30, 2015	December 31, 2014
Floating rate notes due 2015	$ 700	$ 700
5.40% notes due 2016	400	400
5.30% notes due 2017	400	400
5.30% notes due 2018	900	900
5.00% notes due 2019	900	900
4.25% notes due 2021	800	800
3.35% notes due 2023	300	300
5.70% notes due 2036	550	550
5.70% notes due 2037	600	600
5.375% notes due 2041	600	600
Industrial development bond obligations, floating rate maturing at various dates through 2037	30	30
6.625% debentures due 2028	216	216
9.065% debentures due 2033	51	51
Other (including capitalized leases and debt issuance costs), 0.6%-9.5% maturing at various dates through 2023	420	538
	6,867	6,985
Less: current portion	(1,268)	(939)
	$ 5,599	$ 6,046

On July 10, 2015, the Company entered into a $4 billion Amended and Restated Five Year Credit Agreement (Credit Agreement) with a syndicate of banks. Commitments under the Credit Agreement can be increased pursuant to the terms of the Credit Agreement to an aggregate amount not to exceed $4.5 billion. The Credit Agreement amends and restates the previous $4 billion five year credit agreement with substantially the same material terms and conditions. A full description of the Credit Agreement can be found in the Company’s Current Report on Form 8-K, dated July 10, 2015.

On September 30, 2015, the Company entered into a $3 billion 364-Day Credit Agreement (364-Day Credit Agreement) with a syndicate of banks. The 364-Day Credit Agreement is maintained for general corporate purposes including the Elster acquisition. A full description of the 364-Day Credit Agreement can be found in the Company’s Current Report on Form 8-K, dated October 1, 2015.

Note 9. Financial Instruments and Fair Value Measures

Our credit, market, foreign currency and interest rate risk management policies are described in Note 14, Financial Instruments and Fair Value Measures, of Notes to Financial Statements in our 2014 Annual Report on Form 10-K.

Financial and nonfinancial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis:

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Honeywell International Inc.

Notes to Financial Statements

(Unaudited)

(Dollars in millions, except per share amounts)

	September 30, 2015	December 31, 2014
Assets:		
Foreign currency exchange contracts	$ 43	$ 20
Available for sale investments	3,028	1,479
Interest rate swap agreements	104	93
Liabilities:		
Foreign currency exchange contracts	$ 50	$ 10

The foreign currency exchange contracts and interest rate swap agreements are valued using broker quotations or market transactions in either the listed or over-the-counter markets. These derivative instruments are classified within level 2 of the fair value hierarchy. The Company holds investments in certificates of deposits, time deposits and commercial paper that are designated as available for sale and are valued using market transactions in over-the-counter markets. These investments are classified within level 2 of the fair value hierarchy.

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:

	September 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Long-term receivables	$299	$286	$297	$293
Liabilities				
Long-term debt and related current maturities	$6,867	$7,535	$6,985	$7,817

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. These receivables are classified within level 2 of the fair value hierarchy. The Company determined the fair value of the long-term debt and related current maturities utilizing transactions in the listed markets for identical or similar liabilities. The long-term debt and related current maturities are also classified within level 2 of the fair value hierarchy.

We enter into transactions designed to provide for netting of offsetting obligations in the event of the insolvency or default of a counterparty. However, we have not elected to offset multiple contracts with a single counterparty, therefore the fair value of the derivative instruments in a loss position is not offset against the fair value of derivative instruments in a gain position.

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 and nine months ended September 30, 2015, we recognized $24 million and $11 million of gains in earnings on interest rate swap agreements. For the three and nine months ended September 30, 2014, we recognized $9 million of losses and $19 million of gains in earnings on interest rate swap agreements. Gains and losses are fully offset by losses and gains on the underlying debt being hedged.

We also economically hedge our exposure to changes in foreign exchange rates principally with forward contracts. These contracts are marked-to-market with the resulting gains and losses recognized in earnings offsetting the gains and losses on the non-functional currency denominated monetary assets and liabilities being hedged. We recognized $72 million of income and $66 million of expense in Other (income) expense for the three and nine months ended September 30, 2015. We recognized $99 million and $124 million of expense in Other (income) expense for the three and nine months ended September 30, 2014.

Honeywell International Inc.

Notes to Financial Statements

(Unaudited)

(Dollars in millions, except per share amounts)

Note 10. Accumulated Other Comprehensive Income (Loss)

Changes in Accumulated Other Comprehensive Income by Component

	Foreign Exchange Translation Adjustment	Pension and Other Postretirement Adjustments	Changes in Fair Value of Available for Sale Investments	Changes in Fair Value of Effective Cash Flow Hedges	Total
Balance at December 31, 2014	$ (740)	$ (728)	$ -	$ 9	$ (1,459)
Other comprehensive income (loss) before reclassifications	(893)	(17)	-	60	(850)
Amounts reclassified from accumulated other comprehensive income	-	13	-	(77)	(64)
Net current period other comprehensive income (loss)	(893)	(4)	-	(17)	(914)
Balance at September 30, 2015	$ (1,633)	$ (732)	$ -	$ (8)	$ (2,373)

	Foreign Exchange Translation Adjustment	Pension and Other Postretirement Adjustments	Changes in Fair Value of Available for Sale Investments	Changes in Fair Value of Effective Cash Flow Hedges	Total
Balance at December 31, 2013	$ 304	$ 355	$ 170	$ (11)	$ 818
Other comprehensive income (loss) before reclassifications	(484)	-	(8)	18	(474)
Amounts reclassified from accumulated other comprehensive income	-	13	(71)	(5)	(63)
Net current period other comprehensive income (loss)	(484)	13	(79)	13	(537)
Balance at September 30, 2014	$ (180)	$ 368	$ 91	$ 2	$ 281

Honeywell International Inc.

Notes to Financial Statements

(Unaudited)

(Dollars in millions, except per share amounts)

Note 11. Segment Financial Data

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net Sales				
Aerospace				
Products	$2,557	$2,658	$7,643	$8,170
Services	1,263	1,237	3,611	3,586
Total	3,820	3,895	11,254	11,756
Automation and Control Solutions				
Products	3,265	3,351	9,487	9,713
Services	306	320	901	927
Total	3,571	3,671	10,388	10,640
Performance Materials and Technologies				
Products	1,751	2,081	5,605	6,330
Services	469	461	1,352	1,314
Total	2,220	2,542	6,957	7,644
	$9,611	$10,108	$28,599	$30,040
Segment Profit				
Aerospace	$833	$790	$2,362	$2,252
Automation and Control Solutions	614	583	1,697	1,587
Performance Materials and Technologies	461	444	1,473	1,392
Corporate	(56)	(58)	(156)	(167)
Total segment profit	1,852	1,759	5,376	5,064
Other income[(a)]	15	11	39	132
Interest and other financial charges	(72)	(77)	(226)	(236)
Stock compensation expense[(b)]	(41)	(41)	(132)	(143)
Pension ongoing income[(b)]	96	62	299	187
Other postretirement expense[(b)]	(10)	(12)	(30)	(37)
Repositioning and other charges [(b)]	(133)	(122)	(393)	(453)

Income before taxes	$1,707	$1,580	$4,933	$4,514

(a) Equity income (loss) of affiliated companies is included in segment profit.
(b) Amounts included in cost of products and services sold and selling, general and administrative expenses.

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(Dollars in millions, except per share amounts)

Note 12. Pension Benefits

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

	U.S. Plans			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Service cost	$58	$61	$172	$181
Interest cost	179	193	535	578
Expected return on plan assets	(321)	(314)	(962)	(943)
Amortization of prior service cost	5	5	17	17
Settlements and curtailments	8	-	8	-
	$(71)	$(55)	$(230)	$(167)

	Non-U.S. Plans			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Service cost	$13	$14	$39	$43
Interest cost	44	58	133	176
Expected return on plan assets	(91)	(89)	(270)	(268)
Amortization of transition obligation	1	-	1	1
Amortization of prior service (credit)	(1)	(1)	(2)	(2)
Settlements and curtailments	2	-	2	-
	$(32)	$(18)	$(97)	$(50)

In the nine months ended September 30, 2015, the Company contributed $109 million of marketable securities and $19 million of cash to our non-U.S. pension plans.

Note 13. Commitments and Contingencies

Environmental Matters

Our environmental matters are described in Note 19, Commitments and Contingencies, of Notes to Financial Statements in our 2014 Annual Report on Form 10-K.

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

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December 31, 2014	$591
Accruals for environmental matters deemed probable and reasonably estimable	144
Environmental liability payments	(160)
September 30, 2015	$575

Environmental liabilities are included in the following balance sheet accounts:

	September 30, 2015	December 31, 2014
Accrued liabilities	$ 258	$ 278
Other liabilities	317	313
	$ 575	$ 591

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

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

Asbestos Matters

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

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

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

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

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(Dollars in millions, except per share amounts)

Asbestos Related Liabilities

	Bendix	NARCO	Total
December 31, 2014	$ 623	$ 929	$ 1,552
Accrual for update to estimated liability	145	3	148
Asbestos related liability payments	(140)	(10)	(150)
September 30, 2015	$ 628	$ 922	$ 1,550

Insurance Recoveries for Asbestos Related Liabilities

	Bendix	NARCO	Total
December 31, 2014	$ 135	$ 350	$ 485
Probable insurance recoveries related to estimated liability	14	-	14
Insurance receivables settlements	1	3	4
Insurance receipts for asbestos related liabilities	(33)	(25)	(58)
September 30, 2015	$ 117	$ 328	$ 445

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

	September 30, 2015	December 31, 2014
Other current assets	$ 31	$ 31
Insurance recoveries for asbestos related liabilities	414	454
	$ 445	$ 485
Accrued liabilities	$ 352	$ 352
Asbestos related liabilities	1,198	1,200
	$ 1,550	$ 1,552

NARCO Products –In connection with NARCO's emergence from bankruptcy on April 30, 2013, a federally authorized 524(g) trust (NARCO Trust) was established for the evaluation and resolution of all existing and future NARCO asbestos claims. Both Honeywell and NARCO are protected by a permanent channeling injunction barring all present and future individual actions in state or federal courts and requiring all asbestos related claims based on exposure to NARCO products to be made against the NARCO Trust. The NARCO Trust reviews submitted claims and determines award amounts in accordance with established Trust Distribution Procedures approved by the Bankruptcy Court which set forth the criteria claimants must meet to qualify for compensation including, among other things, exposure and medical criteria that determine the award amount. In addition, Honeywell provided, and continues to provide, input to the design of control procedures for processing NARCO claims, and has on-going audit rights to review and monitor the claims processors' adherence to the established requirements of the Trust Distribution Procedures.

Honeywell is obligated to fund NARCO asbestos claims submitted to the NARCO Trust which qualify for payment under the Trust Distribution Procedures (Annual Contribution Claims), subject to annual caps of $140 million in the years 2015 through 2018 and $145 million for each year thereafter. However, the initial $100 million of claims processed through the NARCO Trust (the Initial Claims Amount) will not count against the annual cap and any unused portion of the Initial Claims Amount will roll over to subsequent years until fully utilized. As of September 30, 2015, Honeywell has not made any payments to the NARCO Trust for Annual Contribution Claims.

Honeywell is also responsible for payments due to claimants pursuant to settlement agreements reached during the pendency of the NARCO bankruptcy proceedings that provide for the right to submit claims to the

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NARCO Trust subject to qualification under the terms of the settlement agreements and Trust Distribution Procedures criteria (Pre-established Unliquidated Claims), which amounts are expected to be paid during the initial years of trust operations. Such payments are not subject to the annual cap described above.

Our consolidated financial statements reflect an estimated liability for Pre-established Unliquidated Claims ($147 million), unsettled claims pending as of the time NARCO filed for bankruptcy protection ($32 million) and for the estimated value of future NARCO asbestos claims expected to be asserted against the NARCO Trust through 2018 ($743 million). In the absence of actual trust experience on which to base the estimate, Honeywell projected the probable value of asbestos related future liabilities, including trust claim handling costs, based on a commonly accepted methodology used by numerous bankruptcy courts addressing 524(g) trusts. Some critical assumptions underlying this methodology include claims filing rates, disease criteria and payment values contained in the Trust Distribution Procedures, estimated approval rates of claims submitted to the NARCO Trust and epidemiological studies estimating disease instances. This projection resulted in a range of estimated liability of $743 million to $961 million. We believe that no amount within this range is a better estimate than any other amount and accordingly, we have recorded the minimum amount in the range. In light of the uncertainties inherent in making long-term projections and in connection with the recent implementation of the Trust Distribution Procedures by the NARCO Trust, as well as the stay of all NARCO asbestos claims which remained in place throughout NARCO's Chapter 11 case, we do not believe that we have a reasonable basis for estimating NARCO asbestos claims beyond 2018.

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

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

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

	Nine Months Ended	Years Ended	
	September 30,	December 31,	
Claims Activity	2015	2014	2013
Claims Unresolved at the beginning of period	9,267	12,302	23,141
Claims Filed	2,098	3,694	4,527
Claims Resolved [a]	(1,855)	(6,729)	(15,366)
Claims Unresolved at the end of period	9,510	9,267	12,302

(a) Claims resolved in 2014 include 2,110 cancer claims which were determined to have no value. Also, claims resolved in 2014 and 2013 included significantly aged (i.e., pending for more than six years) claims totaling 1,266 and 12,250, respectively, of which 82% and 92%, respectively, were non-malignant.

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(Dollars in millions, except per share amounts)

Disease Distribution of Unresolved Claims	September 30,	December 31,	
	2015	2014	2013
Mesothelioma and Other Cancer Claims	3,933	3,933	5,810
Nonmalignant Claims	5,577	5,334	6,492
Total Claims	9,510	9,267	12,302

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

	Years Ended December 31,				
	2014	2013	2012	2011	2010
	(in whole dollars)				
Malignant claims	$53,500	$51,000	$49,000	$48,000	$54,000
Nonmalignant claims	$120	$850	$1,400	$1,000	$1,300

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

Our consolidated financial statements reflect an estimated liability for resolution of pending (claims actually filed as of the financial statement date) and future Bendix-related asbestos claims. We have valued Bendix pending and future claims using average resolution values for the previous five years. We update the resolution values used to estimate the cost of Bendix pending and future claims during the fourth quarter each year.

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

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

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

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(Dollars in millions, except per share amounts)

Other Matters

Honeywell v. United Auto Workers (UAW) et. al—In July 2011, Honeywell filed an action in federal court (District of New Jersey) against the UAW and all former employees who retired under a series of Master Collective Bargaining Agreements (MCBAs) between Honeywell and the UAW seeking a declaratory judgment that certain express limitations on its obligation to contribute toward the healthcare coverage of such retirees (the CAPS) set forth in the MCBAs may be implemented, effective January 1, 2012. The UAW and certain retiree defendants filed a mirror suit in the Eastern District of Michigan alleging that the MCBAs do not provide for CAPS on the Company's liability for healthcare coverage. The New Jersey action was dismissed and Honeywell subsequently answered the UAW's complaint in Michigan and asserted counterclaims for fraudulent inducement, negligent misrepresentation and breach of implied warranty. The UAW filed a motion to dismiss these counterclaims. The court dismissed Honeywell's fraudulent inducement and negligent misrepresentation claims, but let stand the claim for breach of implied warranty. In the second quarter of 2014, the parties agreed to stay the proceedings with respect to those retirees who retired before the initial inclusions of the CAPS in the 2003 MCBA until the Supreme Court decided the *M&G Polymers USA, LLC v. Tackett* case. In a ruling on January 26, 2015, the Supreme Court held that retiree health insurance benefits provided in collective bargaining agreements do not carry an inference that they are vested or guaranteed to continue for life and that the "vesting" issue must be decided pursuant to ordinary principles of contract law. The stay of the proceedings has been lifted and the case is again proceeding in the normal course. Based on the Supreme Court's ruling, Honeywell is confident that the CAPS will be upheld and that its liability for healthcare coverage premiums with respect to the putative class will be limited as negotiated and expressly set forth in the applicable MCBAs. In the event of an adverse ruling, however, Honeywell's other postretirement benefits for pre-2003 retirees would increase by approximately $180 million, reflecting the estimated value of these CAPS.

In December 2013, the UAW and certain of the plaintiffs filed a motion for partial summary judgment with respect to those retirees who retired after the initial inclusion of the CAPS in the 2003 MCBA. The UAW sought a ruling that the 2003 MCBA did not limit Honeywell's obligation to contribute to healthcare coverage for the post-2003 retirees. That motion remains pending. Honeywell is confident that the Court will find that the 2003 MCBA does, in fact, limit Honeywell's retiree healthcare obligation for post-2003 retirees. In the event of an adverse ruling, however, Honeywell's other postretirement benefits for post-2003 retirees would increase by approximately $120 million, reflecting the estimated value of these CAPS.

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

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

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

The following MD&A is intended to help the reader understand the results of operations and financial condition of Honeywell International Inc. and its consolidated subsidiaries (Honeywell or the Company) for the three and nine months ended September 30, 2015. The financial information as of September 30, 2015 should be read in conjunction with the financial statements for the year ended December 31, 2014 contained in our 2014 Annual Report on Form 10-K.

A. Results of Operations – three and nine months ended September 30, 2015 compared with the three and nine months ended September 30, 2014

Net Sales

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net sales	$9,611	$10,108	$28,599	$30,040
% change compared with prior period	(5)%		(5)%	

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

	Three Months	Year to Date
Volume	-	1 %
Foreign Currency Translation	(5)%	(5)%
Acquisitions/Divestitures	-	