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December 15, 2020

**VIA ECF**

The Honorable Michael E. Wiles  
United States Bankruptcy Court  
Southern District of New York  
One Bowling Green  
New York, New York 10004

Re: *Garrett Motion Inc., et al. v. Honeywell International Inc., et al.*  
Case No. 20-12212 (MEW) - Adv. Proc. No. 20-01223 (MEW)

Dear Judge Wiles:

I write on behalf of Honeywell International Inc. in response to Garrett's letter of earlier today regarding the tax treatment of payments made under the parties' Indemnification and Reimbursement Agreement ("IRA"), ECF No. 30.

As a threshold point, the allocation of any tax benefits associated with the Bendix docket has no bearing on the overall enforceability of the IRA under Delaware and New York law. Honeywell was free to set the terms of the spin-off however it deemed appropriate, and Garrett has not asserted any claim of insolvency as a basis to challenge the allocation of the economic benefits under the IRA (including any tax benefits). Garrett's assertion that Honeywell has an incentive to increase its Bendix-related spending is relevant to, at most, Garrett's claim that some portion of Honeywell's Bendix settlement amounts are "unreasonable" and not subject to indemnification. But that claim fails as a matter of law for the reasons set forth in Honeywell's motion to dismiss briefing, and it is also wrong as a factual matter, as Honeywell will demonstrate at the upcoming estimation trial. In all events, Garrett's latest assertion that Honeywell lacks any incentive to minimize Bendix-related expenses is incorrect for three reasons.

*First*, Garrett's payment obligations under the IRA are capped at \$175 million per year. It would be irrational for Honeywell to inflate Bendix settlement amounts or otherwise allow them to rise unchecked given that Honeywell will be responsible for 100% of those costs to the extent they exceed \$175 million per year. Nor as a practical matter could Honeywell could so precisely manage the overall liability so as to maximize any tax benefit without risking that it rise above the



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\$175 million cap. There is also no evidence or plausible allegation that Honeywell manages the docket in the manner Garrett suggests.

*Second*, Honeywell does not receive a net tax benefit from any marginal increase in amounts spent on Bendix litigation defense costs, which account for approximately one-third of Garrett's obligation to Honeywell under the IRA. Although Honeywell deducts its defense spend from its income taxes, the corresponding reimbursement payments received from Garrett are treated as taxable income. The reimbursed amount thus has no net effect on Honeywell's tax liability. Although Honeywell has a net deduction for the remaining 10% of costs that Garrett does not reimburse, Honeywell has every incentive to keep its legal costs to a minimum, as the tax benefit covers only a fraction of Honeywell's share of the defense costs. Defense costs make up a significant portion of Honeywell's overall Bendix costs, giving Honeywell a powerful incentive to manage its Bendix docket efficiently.

*Third*, Honeywell receives a net tax benefit on the portion of Garrett's IRA payments attributable to settlements and verdicts only to the extent that those payments remain below \$1.3 billion over the life of the IRA. Honeywell would recognize as taxable income any reimbursements to the extent they exceed that \$1.3 billion tax basis in the Garrett receivable. Given that the Bendix docket has been and is projected to remain active for decades, Honeywell has a clear long-term incentive to minimize the Bendix liabilities so Garrett's reimbursement obligations for settlements and verdicts remain as small as possible and do not exceed \$1.3 billion (or exceed \$1.3 billion by as little as possible). As with the \$175 million annual cap, it is not plausible to argue that Honeywell can somehow inflate settlement values until Garrett's aggregate reimbursement obligations to Bendix plaintiffs reach \$1.3 billion and then somehow unilaterally reduce those settlement values once Honeywell begins to recognize Garrett's reimbursement payments as taxable income.

Thank you for your consideration of this submission.

Respectfully submitted,

/s/ Craig S. Primis

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