

HONEYWELL INTERNATIONAL INC
Form 10-Q
October 19, 2007

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 September 30, 2007

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

(State or other jurisdiction of
incorporation or organization)

101 Columbia Road
Morris Township, New Jersey

(Address of principal executive offices)

22-2640650

(I.R.S. Employer
Identification No.)

07962

(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

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to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer Accelerated filer Non-Accelerated filer

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

There were 746,769,613 shares of Common Stock outstanding at September 30, 2007.

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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 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 Form 10-K for the year ended December 31, 2006.

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PART I. FINANCIAL INFORMATION

The financial information as of September 30, 2007 should be read in conjunction with the financial statements for the year ended December 31, 2006 contained in our form 10-K filed on February 16, 2007.

ITEM 1. FINANCIAL STATEMENTS

Honeywell International Inc.
Consolidated Statement of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
(Dollars in millions, except per share amounts)				
Product sales	\$ 7,008	\$ 6,334	\$ 20,330	\$ 18,521
Service sales	1,727	1,618	4,984	4,570
Net sales	8,735	7,952	25,314	23,091
Costs, expenses and other				
Cost of products sold	5,450	4,973	15,778	14,470
Cost of services sold	1,196	1,138	3,509	3,268
	6,646	6,111	19,287	17,738
Selling, general and administrative expenses	1,144	1,037	3,360	3,125
Other (income) expense	(16)	(27)	(47)	(69)
Interest and other financial charges	124	97	331	280
	7,898	7,218	22,931	21,074
Income from continuing operations before taxes	837	734	2,383	2,017
Tax expense	219	193	628	524
Income from continuing operations	618	541	1,755	1,493
Income from discontinued operations, net of taxes				5
Net income	\$ 618	\$ 541	\$ 1,755	\$ 1,498
Earnings per share of common stock-basic:				
Income from continuing operations	\$ 0.83	\$ 0.66	\$ 2.28	\$ 1.81
Income from discontinued operations				0.01
Net income	\$ 0.83	\$ 0.66	\$ 2.28	\$ 1.82
Earnings per share of common stock-assuming dilution:				
Income from continuing operations	\$ 0.81	\$ 0.66	\$ 2.25	\$ 1.80
Income from discontinued operations				0.01
Net income	\$ 0.81	\$ 0.66	\$ 2.25	\$ 1.81
Cash dividends per share of common stock	\$ 0.25	\$ 0.227	\$ 0.75	\$ 0.681

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

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Honeywell International Inc.
Consolidated Balance Sheet
(Unaudited)

	September 30, 2007	December 31, 2006
(Dollars in millions)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,787	\$ 1,224
Accounts, notes and other receivables	6,461	5,740
Inventories	3,919	3,588
Deferred income taxes	1,127	1,215
Other current assets	362	537
Total current assets	13,656	12,304
Investments and long-term receivables	526	382
Property, plant and equipment - net	4,770	4,797
Goodwill	8,784	8,403
Other intangible assets - net	1,336	1,247
Insurance recoveries for asbestos related liabilities	1,111	1,100
Deferred income taxes	997	1,075
Prepaid pension benefit cost	772	695
Other assets	950	938
Total assets	\$ 32,902	\$ 30,941
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 3,812	\$ 3,518
Short-term borrowings	70	62
Commercial paper	1,977	669
Current maturities of long-term debt	415	423
Accrued liabilities	5,818	5,463
Total current liabilities	12,092	10,135
Long-term debt	5,391	3,909
Deferred income taxes	484	352
Postretirement benefit obligations other than pensions	2,092	2,090
Asbestos related liabilities	1,146	1,262
Other liabilities	3,442	3,473
SHAREOWNERS EQUITY		
Capital - common stock issued	958	958
- additional paid-in capital	3,991	3,845
Common stock held in treasury, at cost	(9,431)	(6,339)
Accumulated other comprehensive income (loss)	(1,034)	(1,307)
Retained earnings	13,771	12,563
Total shareowners equity	8,255	9,720
Total liabilities and shareowners equity	\$ 32,902	\$ 30,941

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,	
	2007	2006
	(Dollars in millions)	
Cash flows from operating activities:		
Net income	\$ 1,755	\$ 1,498
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	620	596
Repositioning and other charges	408	350
Net (payments) for repositioning and other charges	(355)	(335)
Pension and other postretirement expense	251	344
Pension and other postretirement payments	(166)	(258)
Stock option expense	54	61
Deferred income taxes	169	423
Excess tax benefits from share based payment arrangements	(68)	
Other	154	2
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts, notes and other receivables	(603)	(545)
Inventories	(290)	(265)
Other current assets	36	(6)
Accounts payable	273	215
Accrued liabilities	233	(110)
Net cash provided by operating activities	2,471	1,970
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(457)	(433)
Proceeds from disposals of property, plant and equipment	87	45
Increase in investments	(20)	
Cash paid for acquisitions, net of cash acquired	(566)	(623)
Proceeds from sales of businesses, net of fees paid	51	579
Net cash (used for) investing activities	(905)	(432)
Cash flows from financing activities:		
Net increase/(decrease) in commercial paper	1,299	(385)
Net increase/(decrease) in short-term borrowings	4	(215)
Payment of debt assumed with acquisitions	(40)	(346)
Proceeds from issuance of common stock	517	278
Proceeds from issuance of long-term debt	1,885	1,239
Payments of long-term debt	(415)	(371)
Excess tax benefits from share based payment arrangements	68	
Repurchases of common stock	(3,783)	(1,020)
Cash dividends on common stock	(580)	(560)
Net cash (used for) financing activities	(1,045)	(1,380)
Effect of foreign exchange rate changes on cash and cash equivalents	42	23

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Net increase in cash and cash equivalents	563	181
Cash and cash equivalents at beginning of period	1,224	1,234
	<u> </u>	<u> </u>
Cash and cash equivalents at end of period	\$ 1,787	\$ 1,415
	<u> </u>	<u> </u>

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

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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 at September 30, 2007 and the results of operations for the three and nine months ended September 30, 2007 and 2006 and cash flows for the nine months ended September 30, 2007 and 2006. The results of operations for the three and nine month periods ended September 30, 2007 should not necessarily be taken as indicative of the results of operations that may be expected for the entire year.

We report our quarterly financial information using a calendar convention; that is, the first, second and third quarters are consistently reported as ending on March 31, June 30 and September 30, respectively. 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 and nine month periods ended September 30, 2007 and 2006 were September 29, 2007 and September 30, 2006, respectively. Our fiscal closing calendar for the years 2000 through 2012 is available on our website at www.Honeywell.com under the heading Investor Relations .

The financial information as of September 30, 2007 should be read in conjunction with the financial statements for the year ended December 31, 2006 contained in our Form 10-K filed on February 16, 2007.

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

NOTE 2. Recent Accounting Pronouncements

Recent Accounting Pronouncements In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48 Accounting for Uncertainty in Income Taxes- an interpretation of FASB Statement 109 . FIN 48 establishes a single model to address accounting for uncertain tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement classification, interest and penalties, accounting in interim periods, disclosure and transition. Upon adoption as of January 1, 2007, we reduced our existing reserves for uncertain tax positions by \$33 million, largely related to a reduction in state income tax matters, partially offset by a net increase for federal and international tax reserves. This reduction was recorded as a cumulative effect adjustment to shareowners' equity. Additionally, we decreased a deferred tax asset and its associated valuation allowance by \$44 million and increased goodwill by \$1 million.

As of January 1, 2007, we had \$744 million of unrecognized tax benefits. If recognized, approximately \$575 million would be recorded as a component of income tax expense. In the nine months ended September 30, 2007, the Company increased its unrecognized tax benefits by \$31 million due to additional reserves for

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various international and U.S. tax audit matters, partially offset by a tax benefit from the favorable resolution of an international tax audit. The net increase was recorded as a charge to income tax expense. As of September 30, 2007 we had \$775 million of unrecognized tax benefits. If recognized, approximately \$603 million would be recorded as a component of income tax expense.

In many cases our uncertain tax positions are related to tax years that remain subject to examination by the relevant tax authorities. The following table summarizes these open tax years by major jurisdiction as of September 30, 2007:

Jurisdiction	Open Tax Year	
	Examination in progress	Examination not yet initiated
United States (1)	1996 - 2005	2006
United Kingdom	1999 - 2005	2006
Canada (1)	1991 - 2004	2005 - 2006
Germany (1)	1998 - 2004	2005 - 2006
France	2000 - 2005	2006
Netherlands	2002, 2004 - 2005	2000 2001, 2003, 2006
Australia	N/A	2003 - 2006
China	N/A	1997 - 2006
India	2002 - 2005	2006

(1) includes federal as well as state, provincial or similar local jurisdictions, as applicable

Based on the outcome of these examinations, or as a result of the expiration of statute of limitations for specific jurisdictions, it is reasonably possible that the related unrecognized tax benefits for tax positions taken regarding previously filed tax returns, will materially change from those recorded as liabilities for uncertain tax positions in our financial statements. In addition, the outcome of these examinations may impact the valuation of certain deferred tax assets (such as net operating losses) in future periods. Based on the number of tax years currently under audit by the relevant federal, state and foreign tax authorities, the Company anticipates that several of these audits may be finalized in the next twelve months. However, based on the status of these examinations, and the protocol of finalizing audits by the relevant tax authorities, which could include formal legal proceedings, at this time it is not possible to estimate the impact of any amount of such changes, if any, to previously recorded uncertain tax positions.

Unrecognized tax benefits for the above listed examinations in progress were \$502 million and \$469 million as of January 1, 2007 and September 30, 2007, respectively. This decrease is primarily due to the settlement of tax examinations during the quarters ended June 30, and September 30, 2007.

Estimated interest and penalties related to the underpayment of income taxes are classified as a component of Tax Expense in the Consolidated Statement of Operations and totaled \$8 million and \$26 million for the three and nine months ended September 30, 2007, respectively. Accrued interest and penalties were \$98 million and \$124 million as of January 1, 2007 and September 30, 2007, respectively.

In May 2007, the FASB issued FASB Staff Position (FSP) FIN 48-1 Definition of Settlement in FASB Interpretation No. 48 (FSP FIN 48-1). FSP FIN 48-1 provides guidance on how to determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. FSP FIN 48-1 is effective retroactively to January 1, 2007. The implementation of this standard did not have a material impact on our consolidated financial position or results of operations.

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In September 2006, the FASB issued FASB Staff Position (FSP) AUG AIR-1 Accounting for Planned Major Maintenance Activities (FSP AUG AIR-1). FSP AUG AIR-1 amends the guidance on the accounting for planned major maintenance activities; specifically it precludes the use of the previously acceptable accrue in advance method. FSP AUG AIR-1 is effective for fiscal years beginning after December 15, 2006. The implementation of this standard did not have a material impact on our consolidated financial position or results of operations.

In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 157 on our consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159). SFAS No. 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of SFAS No. 159 on our consolidated financial position and results of operations.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements (EITF 06-10). EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The implementation of this standard will not have a material impact on our consolidated financial position and results of operations.

In June 2007, the FASB ratified EITF 06-11 Accounting for the Income Tax Benefits of Dividends on Share-Based Payment Awards (EITF 06-11). EITF 06-11 provides that tax benefits associated with dividends on share-based payment awards be recorded as a component of additional paid-in capital. EITF 06-11 is effective, on a prospective basis, for fiscal years beginning after December 15, 2007. The implementation of this standard will not have a material impact on our consolidated financial position and results of operations.

NOTE 3. Acquisitions

In July 2007, the Company completed the acquisition of Dimensions International, a defense logistics business, for a purchase price of approximately \$230 million. The purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The Company has assigned \$26 million to identifiable intangible assets, predominantly contractual relationships. These intangible assets are being amortized over their estimated life of 5 years using straight-line and accelerated amortization periods. The excess of the purchase price over the estimated fair values of net assets acquired approximating \$174 million, was recorded as goodwill. This goodwill is non-deductible for tax purposes. This acquisition was accounted for by the purchase method, and, accordingly, results of operations are included in the consolidated financial statements from the date of acquisition. The results from the acquisition date through September 30, 2007 are included in the Aerospace segment and were not material to the consolidated financial statements.

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In July 2007, the Company completed the acquisition of Enraf Holding B.V., a provider of comprehensive solutions for the control and management of transportation, storage and blending operations in the oil and gas industry, for a purchase price of approximately \$264 million, including the assumption of approximately \$40 million of debt. The purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The Company has assigned \$97 million to identifiable intangible assets, predominantly customer relationships, existing technology and trademarks. These intangible assets are being amortized over their estimated lives which range from 7 to 15 years using straight-line and accelerated amortization periods. The excess of the purchase price over the estimated fair values of net assets acquired approximating \$124 million, was recorded as goodwill. Goodwill will be deducted over a 15 year period for tax purposes. This acquisition was accounted for by the purchase method, and, accordingly, results of operations are included in the consolidated financial statements from the date of acquisition. The results from the acquisition date through September 30, 2007 are included in the Automation and Control Solutions segment and were not material to the consolidated financial statements.

As of September 30, 2007, the purchase accounting for these acquisitions are still subject to final adjustment primarily for useful lives and amounts allocated to intangible assets and goodwill based on preliminary valuation studies performed by a third-party valuation firm and for certain pre-acquisition contingencies.

In October 2007, the Company entered into a definitive agreement to acquire Hand Held Products Inc, an automatic identification and data collection company, which will be integrated into our Automation and Control Solutions segment. Completion of this acquisition is subject to regulatory approval. The purchase price is expected to be approximately \$390 million.

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NOTE 4. Repositioning and Other Charges

A summary of repositioning and other charges follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Severance	\$ 27	\$ 8	\$ 146	\$ 55
Asset impairments	2	8	12	8
Exit costs	2		7	4
Adjustments	(5)	(1)	(14)	(10)
Total net repositioning charge	26	15	151	57
Asbestos related litigation charges, net of insurance	28	33	73	110
Probable and reasonably estimable environmental liabilities	50	58	170	168
Arbitration award related to phenol supply agreement		(17)		(17)
Business impairment charges				9
Other		16	14	23
Total net repositioning and other charges	\$ 104	\$ 105	\$ 408	\$ 350

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,	
	2007	2006	2007	2006
Cost of products and services sold	\$ 101	\$ 105	\$ 374	\$ 350
Selling, general and administrative expenses	3		34	
	\$ 104	\$ 105	\$ 408	\$ 350

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,	
	2007	2006	2007	2006
Aerospace	\$ 5	\$	\$ 36	\$ 3
Automation and Control Solutions	14		92	19
Specialty Materials	1	(2)	5	4
Transportation Systems	33	34	88	100
Corporate	51	73	187	224
	\$ 104	\$ 105	\$ 408	\$ 350

In the third quarter of 2007, we recognized a net repositioning charge of \$26 million primarily for severance costs related to workforce reductions of 347 manufacturing and administrative positions associated with the rationalization of manufacturing capacity and infrastructure, principally in our Automation and Control Solutions, Transportation Systems and Aerospace segments.

In the third quarter of 2006, we recognized a repositioning charge of \$16 million consisting of severance costs of \$8 million related to workforce reductions of 124 manufacturing and administrative positions and \$8 million for the write-down of property, plant and equipment related to exiting a tolling

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arrangement with a vendor. The total repositioning charge related principally to businesses in our Specialty Materials segment.

In the first nine months of 2007, we recognized a net repositioning charge of \$151 million primarily for severance costs related to workforce reductions of 2,489 manufacturing and administrative positions associated with the rationalization of manufacturing capacity and infrastructure and plant closures, principally in our Automation and Control Solutions and Aerospace segments.

In the first nine months of 2006, we recognized a net repositioning charge of \$57 million primarily for severance costs related to workforce reductions of 1,132 manufacturing and administrative positions in our Automation and Control Solutions, Aerospace and Transportation Systems segments.

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

	<u>Severance Costs</u>	<u>Asset Impairments</u>	<u>Exit Costs</u>	<u>Total</u>
Balance at December 31, 2006	\$ 118	\$	\$ 9	\$ 127
2007 charges	146	12	7	165
2007 usage	(65)	(12)	(6)	(83)
Adjustments	(14)			(14)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance at September 30, 2007	<u>\$ 185</u>	<u>\$</u>	<u>\$ 10</u>	<u>\$ 195</u>

In the third quarter of 2007, we recognized a charge of \$50 million for environmental liabilities deemed probable and reasonably estimable in the quarter. We also recognized a charge of \$28 million, net of probable insurance recoveries, representing an update to our estimated liability for Bendix related asbestos claims as of September 30, 2007. Environmental and Asbestos matters are discussed in detail in Note 15, Commitments and Contingencies.

In the third quarter of 2006, we recognized a charge of \$58 million for environmental liabilities deemed probable and reasonably estimable in the quarter. We recognized a charge of \$33 million for Bendix related asbestos claims filed and defense costs incurred during the third quarter of 2006, net of probable insurance recoveries. We recognized a credit of \$17 million in connection with an arbitration award for overcharges by a supplier of phenol to our Specialty Materials business for 2005 transactions. We also recognized other charges of \$16 million in our Corporate segment primarily for a property damage claim litigation matter in Brunswick, Ga., which was subsequently settled.

In the first nine months of 2007, we recognized a charge of \$170 million for environmental liabilities deemed probable and reasonably estimable in the period. We recognized a charge of \$73 million, net of probable insurance recoveries, representing an update to our estimated liability for Bendix related asbestos claims as of September 30, 2007. We also recognized other charges of \$14 million for a business sale tax related to a prior divestiture (\$8 million) and for a contemplated settlement of a legal matter (\$6 million).

In the first nine months of 2006, we recognized a charge of \$168 million for environmental liabilities deemed probable and reasonably estimable in the period. We recognized a charge of \$110 million primarily for Bendix related asbestos claims filed and defense costs incurred during the first nine months of 2006, including an update of expected resolution values with respect to claims pending as of June 30, 2006, net of probable insurance recoveries. The asbestos related charge also included the net effect of the settlement of certain NARCO related pending asbestos claims and a Bendix related insurance settlement. We recognized a credit of \$17 million in connection with an arbitration award for overcharges by a supplier of phenol to our Specialty Materials business for 2005 transactions. We

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recognized other charges of \$23 million in our Corporate segment primarily for a property damage claim litigation matter in Brunswick, Ga., which was subsequently settled. We also recognized business impairment charges of \$9 million primarily related to the write-down of property, plant and equipment held for sale in our Specialty Materials segment.

NOTE 5. Other (income) expense.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Equity (income)/loss of affiliated companies	\$ (5)	\$ 4	\$ (7)	\$ 5
Gain on sale of non-strategic businesses and assets	(6)		(21)	(19)
Interest income	(16)	(37)	(55)	(74)
Foreign exchange	7	7	19	11
Other (net)	4	(1)	17	8
	\$ (16)	\$ (27)	\$ (47)	\$ (69)

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NOTE 6. Earnings Per Share

The details of the earnings per share calculations for the three months and nine months ended September 30, 2007 and 2006 are as follows:

	Three Months Ended September 30,			
	2007		2006	
	Basic	Assuming Dilution	Basic	Assuming Dilution
Income				
Net income	\$ 618	\$ 618	\$ 541	\$ 541
Average shares				
Average shares outstanding	748.0	748.0	817.5	817.5
Dilutive securities issuable in connection with stock plans		10.4		4.0
Total average shares outstanding	748.0	758.4	817.5	821.5
Earnings per share of common stock				
Net income	\$ 0.83	\$ 0.81	\$ 0.66	\$ 0.66
Income				
Income from continuing operations	\$ 1,755	\$ 1,755	\$ 1,493	\$ 1,493
Income from discontinued operations, net of taxes			5	5
Net income	\$ 1,755	\$ 1,755	\$ 1,498	\$ 1,498
Average shares				
Average shares outstanding	770.3	770.3	824.1	824.1
Dilutive securities issuable in connection with stock plans		9.5		4.9
Total average shares outstanding	770.3	779.8	824.1	829.0
Earnings per share of common stock				
Income from continuing operations	\$ 2.28	\$ 2.25	\$ 1.81	\$ 1.80
Income from discontinued operations, net of taxes			0.01	0.01
Net income	\$ 2.28	\$ 2.25	\$ 1.82	\$ 1.81



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 September 30, 2007 and 2006, the number of stock options excluded from the computations were 5.8 and 26.7 million, respectively. For the nine months ended September 30, 2007 and 2006, the number of stock options excluded from the computations were 9.6 and 23.8 million, respectively. These stock options were outstanding at the end of each of the respective periods.



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NOTE 7. Accounts, notes and other receivables

	September 30, 2007	December 31, 2006
Trade	\$ 6,099	\$ 5,373
Other	561	584
	6,660	5,957
Less - Allowance for doubtful accounts	(199)	(217)
	\$ 6,461	\$ 5,740

NOTE 8. Inventories

	September 30, 2007	December 31, 2006
Raw materials	\$ 1,779	\$ 1,625
Work in process	869	808
Finished products	1,437	1,342
	4,085	3,775
Less Progress payments	(5)	(17)
Reduction to LIFO cost basis	(161)	(170)
	\$ 3,919	\$ 3,588

NOTE 9. Goodwill and Other Intangible Assets - Net

The change in the carrying amount of goodwill for the nine months ended September 30, 2007 by segment is as follows:

	Dec. 31, 2006	Acquisitions	Divestitures	Currency Translation Adjustment	Sept. 30, 2007
Aerospace	\$ 1,745	\$ 178	\$	\$ 6	\$ 1,929
Automation and Control Solutions	4,959	165	(1)	28	5,151
Specialty Materials	1,151	1	(6)	6	1,152
Transportation Systems	548			4	552
	\$ 8,403	\$ 344	\$ (7)	\$ 44	\$ 8,784

Other intangible assets are comprised of:

September 30, 2007			December 31, 2006		
Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount

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Intangible assets with determinable lives:						
Patents and technology	\$ 971	\$ (480)	\$ 491	\$ 923	\$ (410)	\$ 513
Customer relationships	610	(103)	507	506	(68)	438
Trademarks	167	(31)	136	130	(22)	108
Other	350	(250)	100	322	(236)	86
	<u>2,098</u>	<u>(864)</u>	<u>1,234</u>	<u>1,881</u>	<u>(736)</u>	<u>1,145</u>
Trademarks with indefinite lives	102		102	102		102
	<u>\$ 2,200</u>	<u>\$ (864)</u>	<u>\$ 1,336</u>	<u>\$ 1,983</u>	<u>\$ (736)</u>	<u>\$ 1,247</u>

Amortization expense related to intangible assets for the nine months ended September 30, 2007 and 2006 was \$119 and \$101 million, respectively.

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NOTE 10. Long-term Debt and Credit Agreements

	September 30, 2007	December 31, 2006
7.0% notes due 2007	\$	\$ 350
7-1/8% notes due 2008	200	200
6.20% notes due 2008	200	200
Floating rate notes due 2009	500	
Floating rate notes due 2009	300	300
Zero coupon bonds and money multiplier notes 13.0%-14.26%, due 2009	100	100
Floating rate notes due 2009-2011	231	239
7.50% notes due 2010	1,000	1,000
6-1/8% notes due 2011	500	500
5.625% notes due 2012	400	
5.40% notes due 2016	400	400
5.30% notes due 2017	400	
Industrial development bond obligations, 3.25%-9.50% maturing at various dates through 2037	64	65
6-5/8% debentures due 2028	216	216
9.065% debentures due 2033	51	51
5.70% notes due 2036	550	550
5.70% notes due 2037	600	
Other (including capitalized leases), 1.9%-13.5% maturing at various dates through 2020	94	161
	5,806	4,332
Less current portion	(415)	(423)
	\$ 5,391	\$ 3,909

The schedule of principal payments on long term debt is as follows:

	At September 30, 2007
2007	\$ 6
2008	416
2009	1,011
2010	1,130
2011	527
Thereafter	2,716
	5,806
Less-current portion	(415)
	\$ 5,391

In July 2007, the Company issued \$500 million Floating Rate Senior Notes due 2009 and \$400 million 5.625% Senior Notes due 2012 (collectively, the Senior Notes). The Senior Notes are senior unsecured and unsubordinated obligations of Honeywell and rank equally with all of Honeywell's existing and future senior unsecured debt and senior to all Honeywell's subordinated debt. The offering resulted in gross proceeds of \$900 million, offset by \$3 million in discount and issuance costs.

In May 2007 the Company entered into a \$2.8 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 \$3.5 billion. The Credit Agreement is maintained for general corporate purposes, including support for the issuance of commercial paper, and replaces the previous \$2.3 billion five year credit agreement dated April 27, 2006 (Prior Agreement). There have been no borrowings under the Credit Agreement. No borrowings were outstanding at any

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time under the Prior Agreement. The Credit Agreement does not restrict the Company's ability to pay dividends, nor does it contain financial covenants.

In March 2007, the Company issued \$400 million 5.30% Senior Notes due 2017 and \$600 million 5.70% Senior Notes due 2037 (collectively, the "Notes"). The Notes are senior unsecured and unsubordinated obligations of Honeywell and rank equally with all of Honeywell's existing and future senior unsecured debt and senior to all Honeywell's subordinated debt. The offering resulted in gross proceeds of \$1 billion, offset by \$12 million in discount and issuance costs.

NOTE 11. Stock-Based Compensation Plans

Compensation cost related to stock options recognized in operating results (included in selling, general and administrative expenses) under SFAS No. 123R was \$13 and \$20 million in the three months ended September 30, 2007 and 2006, respectively. Compensation cost related to stock options was \$54 and \$61 million in the nine months ended September 30, 2007 and 2006, respectively. The associated future income tax benefit recognized was \$5 and \$7 million in the three months ended September 30, 2007 and 2006, respectively. The associated future income tax benefit recognized was \$20 and \$22 million in the nine months ended September 30, 2007 and 2006, respectively.

The following table sets forth fair value per share information, including related weighted-average assumptions, used to determine compensation cost for our stock options consistent with the requirements of SFAS No. 123R.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Weighted average fair value per share of options granted during the period (estimated on grant date using Black-Scholes option-pricing model)	\$ 14.57	\$ 9.28	\$ 10.26	\$ 9.44

Assumptions:

Expected volatility	24.25%	23.79%	20.17%	22.32%
Expected annual dividend yield	1.75%	2.31%	2.09%	2.15%
Risk free rate of return	4.57%	5.00%	4.66%	4.63%
Expected option term (years)	5.3	5.0	5.3	5.0

The following table summarizes information about stock option activity for the nine months ended September 30, 2007:

	Number Of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (\$M)
Outstanding at December 31, 2006	54,232,677	\$ 39.98	5.7	\$ 406
Granted	5,950,000	47.56		
Exercised	(13,626,333)	37.32		
Lapsed or canceled	(1,737,290)	45.90		
Outstanding at September 30, 2007	44,819,054	\$ 41.59	5.9	\$ 818
Vested and expected to vest at September 30, 2007 (1)	42,331,673	\$ 41.39	5.9	\$ 782
Exercisable at September 30, 2007	31,548,409	\$ 40.77	4.8	\$ 606

(1) The expected to vest options are the result of applying the pre-vesting forfeiture rate assumption to total outstanding options.

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The total intrinsic value of options exercised during the nine months ended September 30, 2007 was \$220 million. Intrinsic value is the amount by which the

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stock price exceeded the exercise price of the options on the date of exercise. During the nine months ended September 30, 2007, the amount of cash received from the exercise of stock options was \$508 million with an associated tax benefit realized of \$82 million. Consistent with the requirements of SFAS No. 123R, we classified \$68 million of this benefit as a financing cash inflow in the Consolidated Statement of Cash Flows, and the balance was classified as cash from operations.

At September 30, 2007, there was \$86 million of total unrecognized compensation cost related to non-vested stock option awards which is expected to be recognized over a weighted-average period of 2.27 years. The total fair value of options vested during the nine months ended September 30, 2007 was \$83 million.

The following table summarizes information about Restricted Stock Unit (RSU) activity for the nine months ended September 30, 2007:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share
Non-vested at December 31, 2006	4,751,999	\$ 35.85
Granted	1,962,350	54.42
Vested	(269,915)	33.82
Forfeited	(382,253)	38.06
	6,062,181	\$ 41.81

At September 30, 2007, there was approximately \$169 million of total unrecognized compensation cost related to non-vested RSUs granted under our stock plans which is expected to be recognized over a weighted-average period of 2.15 years. Compensation expense related to RSUs (included in selling, general and administrative expenses) for the three months ended September 30, 2007 and 2006 was \$11 and \$9 million, respectively. Compensation expense related to RSUs for the nine months ended September 30, 2007 and 2006 was \$41 and \$27 million, respectively.

NOTE 12. Other Comprehensive Income/(Loss)

Other comprehensive income/(loss) consists of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net income	\$ 618	\$ 541	\$ 1,755	\$ 1,498
Foreign exchange translation adjustments	153	91	219	146
Pension and postretirement benefit adjustments	(26)		52	
Change in fair value of effective cash flow hedges	6	(27)	2	(16)
	\$ 751	\$ 605	\$ 2,028	\$ 1,628

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NOTE 13. Segment Financial Data

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net Sales				
Aerospace	\$ 3,102	\$ 2,854	\$ 8,969	\$ 8,169
Automation and Control Solutions	3,196	2,844	9,036	7,975
Specialty Materials	1,211	1,143	3,626	3,548
Transportation Systems	1,226	1,111	3,683	3,399
Corporate				
	<u>\$ 8,735</u>	<u>\$ 7,952</u>	<u>\$ 25,314</u>	<u>\$ 23,091</u>
Segment Profit				
Aerospace	\$ 560	\$ 501	\$ 1,583	\$ 1,354
Automation and Control Solutions	373	330	980	838
Specialty Materials	157	110	524	489
Transportation Systems	124	129	437	436
Corporate	(47)	(41)	(144)	(134)
	<u>1,167</u>	<u>1,029</u>	<u>3,380</u>	<u>2,983</u>
Other income (expense)	16	27	47	69
Interest and other financial charges	(124)	(97)	(331)	(280)
Stock option expense (A)	(13)	(20)	(54)	(61)
Pension and other postretirement expense (A)	(105)	(100)	(251)	(344)
Repositioning and other charges (A)	(104)	(105)	(408)	(350)
	<u>\$ 837</u>	<u>\$ 734</u>	<u>\$ 2,383</u>	<u>\$ 2,017</u>

(A) Amounts included in cost of products and services sold and selling, general and administrative expenses in the Consolidated Statement of Operations.

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NOTE 14. Pension and Other Postretirement Benefits

Net periodic pension and other postretirement benefits costs for our significant defined benefit plans include the following components:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
<u>Pension Benefits</u>				
Service cost	\$ 61	\$ 57	\$ 198	\$ 197
Interest cost	243	225	718	665
Expected return on plan assets	(339)	(309)	(1,008)	(920)
Amortization of transition asset		(1)		
Amortization of prior service cost	6	7	19	20
Recognition of actuarial losses	61	96	157	257
Settlements and curtailments	35		35	(11)
	<u>\$ 67</u>	<u>\$ 75</u>	<u>\$ 119</u>	<u>\$ 208</u>
<u>Other Postretirement Benefits</u>				
Service cost	\$ 2	\$ 3	\$ 11	\$ 13
Interest cost	27	28	91	87
Expected return on plan assets				
Amortization of prior service (credit)	(6)	(11)	(28)	(30)
Recognition of actuarial losses	10	3	34	39
	<u>\$ 33</u>	<u>\$ 23</u>	<u>\$ 108</u>	<u>\$ 109</u>

Settlements and curtailments in both the three and nine month periods ended September 30, 2007 include a charge of \$35 million related to a settlement in principle with respect to certain claims in the Allen, et. al. v Honeywell Retirement Earnings Plan pension litigation matter. See Note 15 for further discussion of this matter.

NOTE 15. Commitments and Contingencies

Environmental Matters

We are subject to various federal, state, local and foreign government requirements relating to the protection of the environment. We believe that, as a general matter, our policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage and personal injury and that our handling, manufacture, use and disposal of hazardous or toxic substances are in accordance with environmental and safety laws and regulations. However, mainly because of past operations and operations of predecessor companies, we, like other companies engaged in similar businesses, have incurred remedial response and voluntary cleanup costs for site contamination and are a party to lawsuits and claims associated with environmental and safety matters, including past production of products containing toxic substances. Additional lawsuits, claims and costs involving environmental matters are likely to continue to arise in the future.

With respect to environmental matters involving site contamination, we continually conduct studies, individually or jointly with other potentially responsible parties, to determine the feasibility of various remedial techniques to address environmental matters. It is our policy to record appropriate liabilities for environmental matters when remedial efforts or damage claim payments are probable and the costs can be reasonably estimated. Such liabilities are based on our best estimate of the undiscounted future costs required to complete the remedial work. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information

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becomes available. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other potentially responsible parties, technology and information related to individual sites, we do not believe it is possible to develop an estimate of the range of reasonably possible environmental loss in excess of our accruals. We expect to fund expenditures for these matters from operating cash flow. The timing of cash expenditures depends on a number of factors, including the timing of remedial investigations and feasibility studies, the timing of litigation and settlements of remediation liability, personal injury and property damage claims, regulatory approval of cleanup projects, remedial techniques to be utilized and agreements with other parties. The following table summarizes information concerning our recorded liabilities for environmental costs:

	Nine Months Ended September 30, 2007
Beginning of period	\$ 831
Accruals for environmental matters deemed probable and reasonably estimable	172
Environmental liability payments	(196)
Other adjustments	7
	814
End of period	\$ 814

Environmental liabilities are included in the following balance sheet accounts:

	September 30, 2007	December 31, 2006
Accrued liabilities	\$ 261	\$ 251
Other liabilities	553	580
	\$ 814	\$ 831

Although we do not currently possess sufficient information to reasonably estimate the amounts of 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, they could be material to our consolidated results of operations or operating cash flows in the periods recognized or paid. However, considering our past experience and existing reserves, we do not expect that these environmental matters will have a material adverse effect on our consolidated financial position.

New Jersey Chrome Sites Provisions have been made in our financial statements for the estimated costs of the court-ordered excavation and transport for offsite disposal of approximately one million tons of chromium residue present at a predecessor Honeywell site located in Jersey City, New Jersey, which are expected to be incurred evenly over a five-year period that started in April 2006. We do not expect implementation of this remedy to have a material adverse effect on our future consolidated results of operations, operating cash flows or financial position. Provision also has been made in our financial statements for the estimated costs of implementing groundwater and sediment remedial plans, which have been proposed for the site and are presently under review by the court in which litigation concerning the site is pending. The ultimate cost of remediating the river sediments may be reduced as numerous third parties could be responsible for an as yet undetermined portion of these costs.

The above-referenced site is the most significant of the twenty-one sites located in Hudson County, New Jersey which are the subject of an Administrative Consent Order (ACO) entered into with the New Jersey Department of Environmental Protection (NJDEP) in 1993. Remedial investigations and activities consistent with the ACO have been conducted and are underway at the other sites (the Honeywell ACO Sites). We have recorded reserves for the Honeywell ACO Sites where appropriate under the accounting policy described above.

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On May 3, 2005, NJDEP filed a lawsuit in New Jersey Superior Court against Honeywell and two other companies seeking declaratory and injunctive relief, unspecified damages, and the reimbursement of unspecified total costs relating to sites in New Jersey allegedly contaminated with chrome ore processing residue. The claims against Honeywell relate to the activities of a predecessor company which ceased its New Jersey manufacturing operations in the mid-1950 s. While the complaint is not entirely clear, it appears that approximately 100 sites are at issue, including 17 of the Honeywell ACO Sites, sites that the other two companies have agreed to remediate under separate administrative consent orders, as well as approximately 53 other sites (identified in the complaint as the Publicly Funded Sites) for which none of the three companies has signed an administrative consent order. In addition to claims specific to each company, NJDEP claims that all three companies should be collectively liable for all the chrome sites based on a market share theory. In addition, NJDEP is seeking treble damages for all costs it has incurred or will incur at the Publicly Funded Sites. Honeywell believes that it has no connection with the sites covered by the other companies administrative consent orders and, therefore, has no responsibility for those sites. At the Honeywell ACO Sites, we are conducting remedial investigations and activities consistent with the ACO; thus, we do not believe the lawsuit will significantly change our obligations with respect to the Honeywell ACO Sites. Lawsuits have also been filed against Honeywell in the District Court under the Resource Conservation and Recovery Act (RCRA) by two New Jersey municipal utilities seeking the cleanup of chromium residue at two Honeywell ACO sites and by a citizens group against Honeywell and thirteen other defendants with respect to contamination on about a dozen of the Honeywell ACO Sites. Discovery is underway in these cases. For the reasons stated above, we do not believe these lawsuits will significantly change our obligations with respect to the Honeywell ACO sites.

Although it is not possible at this time to predict the outcome of the litigation and administrative proceedings discussed above, we believe that the allegations are without merit and we intend to vigorously defend against these lawsuits. We do not expect these matters to have a material adverse effect on our consolidated financial position. While we expect to prevail, an adverse litigation outcome could have a material adverse impact on our consolidated results of operations and operating cash flows in the periods recognized or paid.

Onondaga Lake, Syracuse, NY A predecessor company to Honeywell operated a chemical plant which is alleged to have contributed mercury and other contaminants to the Lake. In July 2005, the New York State Department of Environmental Conservation (the DEC) issued its Record of Decision with respect to remediation of industrial contamination in the Lake. In October 2006, Honeywell entered into a Consent Decree with the State of New York to implement the remedy set forth in the Record of Decision. In January 2007, the Consent Decree was approved by the United States District Court for the Northern District of New York.

The Record of Decision calls for a combined dredging/capping remedy generally in line with the approach recommended in the Feasibility Study submitted by Honeywell in May 2004. Based on currently available information and analysis performed by our engineering consultants, we have accrued for our estimated cost of implementing the remedy set forth in the Record of Decision. Our estimating process considers a range of possible outcomes and the amounts recorded reflect our best estimate at this time. Given the scope and complexity of this project, it is possible that actual costs could exceed estimated costs by an amount that could have a material adverse impact on our consolidated results of operations and operating cash flows in the periods recognized or paid. At this time, however, we cannot identify any legal, regulatory or technical reason to conclude that a specific alternative outcome is more probable than the outcome for which we have made provisions in our financial statements. The DEC s aggregate cost estimate, which is higher than the amount reserved, is based on the high end of the range of potential costs for major elements of the Record of Decision and includes a contingency. The actual cost of the Record of Decision will depend upon, among

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other things, the resolution of certain technical issues during the design phase of the remediation. We do not believe that this matter will have a material adverse impact on our consolidated financial position. In December 2006, the United States Fish and Wildlife Service published notice of its intent to pursue natural resource damages related to the site. It is not possible to predict the outcome or timing of its assessments, which are typically lengthy processes lasting several years, or the amounts of or responsibility for these damages.

Dundalk Marine Terminal, Baltimore Chrome residue from legacy chrome plant operations in Baltimore was deposited as fill at the Dundalk Marine Terminal (DMT), which is owned and operated by the Maryland Port Administration (MPA). Honeywell and the MPA have been sharing costs to investigate and mitigate related environmental issues, and have entered into a cost sharing agreement under which Honeywell will bear a 77 percent share of the costs of developing and implementing permanent remedies for the DMT facility. The investigative phase (which began in April 2006) is expected to take approximately 18 to 36 months, after which the appropriate remedies will be identified and chosen. We have negotiated a Consent Decree with the MPA and Maryland Department of the Environment (MDE) with respect to the investigation and remediation of the DMT facility. The Consent Decree is being challenged in federal court by BUILD, a Baltimore community group, together with a local church and two individuals. In October 2007, the Court dismissed BUILD 's state law claims with prejudice and dismissed BUILD 's RCRA claims regarding neighborhoods near the DMT facility without prejudice. The Court is expected to schedule a hearing in the first quarter of 2008 on the Company 's motion to dismiss BUILD 's remaining claims on the grounds that MDE is diligently prosecuting the investigation and remediation of the DMT. We do not believe that this matter will have a material adverse impact on our consolidated financial position or operating cash flows. Given the scope and complexity of this project, it is possible that the cost of remediation, when determinable, could have a material adverse impact on our results of operations in the periods recognized.

Asbestos Matters

Like many other industrial companies, Honeywell is a defendant in personal injury actions related to asbestos. We did not mine or produce asbestos, nor did we make or sell insulation products or other construction materials that have been identified as the primary cause of asbestos related disease in the vast majority of claimants. Products containing asbestos previously manufactured by Honeywell or by previously owned subsidiaries primarily fall into two general categories: refractory products and friction products.

Refractory Products Honeywell owned North American Refractories Company (NARCO) from 1979 to 1986. NARCO produced refractory products (high temperature bricks and cement) that were sold largely to the steel industry in the East and Midwest. Less than 2 percent of NARCO 's products contained asbestos.

When we sold the NARCO business in 1986, we agreed to indemnify NARCO with respect to personal injury claims for products that had been discontinued prior to the sale (as defined in the sale agreement). NARCO retained all liability for all other claims. On January 4, 2002, NARCO filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code.

As a result of the NARCO bankruptcy filing, all of the claims pending against NARCO are automatically stayed pending the reorganization of NARCO. In addition, the bankruptcy court enjoined both the filing and prosecution of NARCO-related asbestos claims against Honeywell. The stay has remained in effect continuously since January 4, 2002. In connection with NARCO 's bankruptcy filing, we paid NARCO 's parent company \$40 million and agreed to provide NARCO with up to \$20 million in financing. We also agreed to pay \$20 million to NARCO 's parent company upon the filing of a plan of reorganization for NARCO acceptable to Honeywell (which amount was paid in December 2005 following the filing of NARCO 's Third Amended Plan of Reorganization), and to pay NARCO 's parent company \$40

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million, and to forgive any outstanding NARCO indebtedness to Honeywell, upon the effective date of the plan of reorganization.

We believe that, as part of the NARCO plan of reorganization, a trust will be established for the benefit of all asbestos claimants, current and future, pursuant to Trust Distribution Procedures negotiated with the NARCO Asbestos Claimants Committee and the Court-appointed legal representative for future asbestos claimants. If the trust is put in place and approved by the Court as fair and equitable, Honeywell as well as NARCO will be entitled to 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 federally-supervised trust. Honeywell has reached agreement with the representative for future NARCO claimants and the Asbestos Claimants Committee to cap its annual contributions to the trust with respect to future claims at a level that would not have a material impact on Honeywell's operating cash flows.

In September 2007, the Bankruptcy Court confirmed the NARCO Plan without modification and approved the 524(g) trust and channeling injunction in favor of NARCO and Honeywell. We expect that one or more of the insurers will appeal. No assurances can be given as to the time frame or outcome of any such appeal. We expect that the stay enjoining litigation against NARCO and Honeywell to remain in effect during the pendency of these proceedings.

Our consolidated financial statements reflect an estimated liability for settlement of pending and future NARCO-related asbestos claims as of September 30, 2007 and December 31, 2006 of \$1.2 and \$1.3 billion, respectively. The estimated liability for pending claims is based on terms and conditions, including evidentiary requirements, in definitive agreements with approximately 260,000 current claimants, and an estimate of the unsettled claims pending as of the time NARCO filed for bankruptcy protection. Substantially all settlement payments with respect to current claims are expected to be completed by the end of 2007. Approximately \$90 million of payments due pursuant to these settlements is due only upon establishment of the NARCO trust.

The estimated liability for future claims represents the estimated value of future asbestos related bodily injury claims expected to be asserted against NARCO through 2018 and the aforementioned obligations to NARCO's parent. In light of the uncertainties inherent in making long-term projections we do not believe that we have a reasonable basis for estimating asbestos claims beyond 2018 under SFAS No. 5,

Accounting for Contingencies. The estimate is based upon the disease criteria and payment values contained in the NARCO Trust Distribution Procedures negotiated with the NARCO Asbestos Claimants Committee and the NARCO future claimants' representative. Honeywell projects the probable number and value, including trust claim handling costs, of asbestos related future liabilities based upon experience of asbestos claims filing rates in the tort system and in certain operating asbestos trusts, and the claims experience in those forums (as a result of more clearly defined proof requirements and possible enactment of state medical criteria bills). The valuation methodology also includes an analysis of the population likely to have been exposed to asbestos containing products, epidemiological studies to estimate the number of people likely to develop asbestos related diseases, NARCO claims filing history, the pending inventory of NARCO asbestos related claims and payment rates expected to be established by the NARCO trust. This methodology used to estimate the liability for future claims has been commonly accepted by numerous courts and is the same methodology that is utilized by an expert who is routinely retained by the asbestos claimants committee in asbestos related bankruptcies.

As of September 30, 2007 and December 31, 2006, our consolidated financial statements reflect an insurance receivable corresponding to the liability for settlement of pending and future NARCO-related asbestos claims of \$945 and \$955 million, respectively. This coverage reimburses Honeywell for portions of the costs incurred to settle NARCO related claims and court judgments as well as

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. At September 30, 2007, a significant portion of this coverage is with insurance companies with whom we have agreements to pay full policy limits based on corresponding Honeywell claims costs. We conduct analyses to determine the amount of insurance that we estimate is probable of recovery in relation to payment of current and estimated future 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 with our insurers, our knowledge of any pertinent solvency issues surrounding insurers and various judicial determinations relevant to our insurance programs.

In the second quarter of 2006, Travelers Casualty and Insurance Company (Travelers) filed a lawsuit against Honeywell and other insurance carriers in the Supreme Court of New York, County of New York, disputing obligations for NARCO-related asbestos claims under high excess insurance coverage issued by Travelers and other insurance carriers. Approximately \$340 million of coverage under these policies is included in our NARCO-related insurance receivable at September 30, 2007. Honeywell believes it is entitled to the coverage at issue and has filed counterclaims in the Superior Court of New Jersey seeking, among other things, declaratory relief with respect to this coverage. In the third quarter of 2007, Honeywell prevailed in the New York action on a critical choice of law issue concerning the appropriate method of allocating NARCO-related asbestos liabilities to triggered policies. The Court's ruling is subject to appeal. While Honeywell expects to prevail in this matter, an adverse outcome could have a material impact on our results of operations in the period recognized but would not be material to our consolidated financial position or operating cash flows.

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. There is no assurance that the plan of reorganization will become final, that insurance recoveries will be timely or whether there will be any NARCO related asbestos claims beyond 2018. Given the inherent uncertainty in predicting future events, 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 Honeywell's Bendix friction materials (Bendix) business manufactured automotive brake pads that contained chrysotile asbestos in an encapsulated form. There is a group of existing and potential claimants consisting largely of individuals that allegedly performed brake replacements.

From 1981 through September 30, 2007, we have resolved approximately 112,000 Bendix related asbestos claims. Trials covering 126 plaintiffs resulted in 125 favorable verdicts and one mistrial. Trials covering nine individuals resulted in adverse verdicts; however, two of these verdicts were reversed on appeal, four are or shortly will be on appeal, and the remaining three claims were settled.

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

	Nine Months Ended September 30, 2007	Year Ended December 31,	
		2006	2005
Claims Activity			
Claims Unresolved at the beginning of period	57,108	79,502	76,348
Claims Filed during the period	2,151	4,391	7,520
Claims Resolved during the period	(7,405)	(26,785)	(4,366)(a)
Claims Unresolved at the end of period	51,854	57,108	79,502

Disease Distribution of Unresolved Claims

	September 30, 2007	December 31,	
		2006	2005
Mesothelioma and Other Cancer Claims	5,007	4,843	4,810
Other Claims	46,847	52,265	74,692
Total Claims	51,854	57,108	79,502

(a) Excludes 2,524 claims which were inadvertently included in resolved claims as of December 31, 2005 which had no impact on the recorded values for such claims and has been corrected for purposes of this presentation.

Approximately 45 percent of the approximately 52,000 pending claims at September 30, 2007 are on the inactive, deferred, or similar dockets established in some jurisdictions for claimants who allege minimal or no impairment. The approximately 52,000 pending claims also include claims filed in jurisdictions such as Texas, Virginia, and Mississippi that historically allowed for consolidated filings. In these jurisdictions, plaintiffs were permitted to file complaints against a pre-determined master list of defendants, regardless of whether they have claims against each individual defendant. Many of these plaintiffs may not actually have claims against Honeywell. Based on state rules and prior experience in these jurisdictions, we anticipate that many of these claims will ultimately be dismissed. During 2006 approximately 16,000 cases were dismissed. More than 85 percent of these dismissals occurred in Mississippi as a result of judicial rulings relating to non-resident filings and venue. We anticipate additional dismissals in this jurisdiction.

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

	Years Ended December 31,		
	2006	2005	2004
	(in whole dollars)		
Malignant claims	\$ 33,000	\$ 58,000	\$ 90,000
Nonmalignant claims	\$ 250	\$ 600	\$ 1,600

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 and future Bendix related asbestos claims at September 30, 2007 and December 31, 2006 of \$541 and \$528 million, respectively.

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The estimated 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. 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 under SFAS No. 5, Accounting for Contingencies . The estimate is based upon Bendix historical experience in the tort system for the two years ended December 31, 2006 with respect to claims

filing and resolution. The methodology used to estimate the liability for future claims has been commonly accepted by numerous courts. It is substantially similar to that used to estimate the future NARCO related asbestos claims liability, with the exception that the valuation methodology for Bendix includes payment rates based on Bendix resolution history, rather than expected trust payment rates.

Honeywell currently has approximately \$1.9 billion of insurance coverage remaining with respect to pending and potential future Bendix related asbestos claims, of which \$216 and \$302 million are reflected as receivables in our consolidated balance sheet at September 30, 2007 and December 31, 2006, respectively. This coverage 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. Insurance receivables are recorded in the financial statements simultaneous with the recording of the liability for the estimated value of the underlying asbestos claims. The amount of the insurance receivable recorded is based on our ongoing analysis of the insurance that we estimate is probable of recovery. 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, our interpretation of judicial determinations relevant to our insurance programs, and our consideration of the impacts of any settlements reached with our insurers. Insurance receivables are also recorded when structured insurance settlements provide for future fixed payment streams that are not contingent upon future claims or other events. Such amounts are recorded at the net present value of the fixed payment stream.

On a cumulative historical basis, Honeywell has recorded insurance receivables equal to approximately 50 percent of the value of the underlying asbestos claims recorded. However, because there are gaps in our coverage due to insurance company insolvencies, certain uninsured periods, and insurance settlements, this rate is expected to decline for any future Bendix related asbestos liabilities that may be recorded. Future recoverability rates may also be impacted by numerous other factors, such as future insurance settlements, insolvencies and judicial determinations relevant to our coverage program, which are difficult to predict. Assuming continued defense and indemnity spending at current levels, we estimate that the cumulative recoverability rate could decline over the next five years to approximately 40 percent.

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

Asbestos Related Liabilities

	Nine Months Ended September 30, 2007		
	Bendix	NARCO	Total
Beginning of period	\$ 528	\$ 1,291	\$ 1,819
Accrual for update to estimated liability	90		90
Asbestos related liability payments	(77)	(122)	(199)
End of period	\$ 541	\$ 1,169	\$ 1,710

Insurance Recoveries for Asbestos Related Liabilities

	Nine Months Ended September 30, 2007		
	Bendix	NARCO	Total
Beginning of period	\$ 302	\$ 955	\$ 1,257
Probable insurance recoveries related to estimated liability	17		17
Insurance receipts for asbestos related liabilities	(101)	(10)	(111)
Other	(2)		(2)
End of period	\$ 216	\$ 945	\$ 1,161

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

	September 30, 2007	December 31, 2006
Other current assets	\$ 50	\$ 157
Insurance recoveries for asbestos related liabilities	1,111	1,100
	\$ 1,161	\$ 1,257
Accrued liabilities	\$ 564	\$ 557
Asbestos related liabilities	1,146	1,262
	\$ 1,710	\$ 1,819

Other Matters

Baton Rouge, LA As previously reported, three incidents occurred during 2003 at Honeywell's Baton Rouge, Louisiana chemical plant, including a release of chlorine, a release of antimony pentachloride (which resulted in an employee fatality), and an employee exposure to hydrofluoric acid. In September 2007, the Company entered a guilty plea to a misdemeanor charge and, pursuant to the plea, will pay \$12 million in combined restitution and fines.

Allen, et. al. v. Honeywell Retirement Earnings Plan During the third quarter of 2007, we agreed to a settlement in principle with the plaintiffs in this class action lawsuit relating to allegations that, among other things, Honeywell impermissibly reduced the pension benefits of certain employees of the former Garrett Corporation (a predecessor entity by merger) when the plan was amended in 1983 and failed to calculate

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certain benefits in accordance with the terms of the plan. Under the terms of the settlement in principle, 18 of the 21 claims alleged by plaintiffs would be dismissed with prejudice in exchange for approximately \$35 million, and the maximum aggregate liability for the remaining three claims would be capped at \$500 million. During the third quarter of 2007, we recorded the \$35 million settlement amount as part of pension expense (See Note 14). Any amounts payable, including the settlement amount, will be paid from the Company's pension plan. The definitive settlement agreement will be subject to approval by the U.S. District Court for the District of Arizona. We continue to expect to prevail on the remaining claims in light of applicable law and our substantial affirmative defenses, which have not yet been considered by the Court. Accordingly, we do not believe that a liability is probable of occurrence and reasonably estimable with respect to these three claims and we have not recorded a provision for the

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remaining claims in our financial statements. Although we expect to prevail on all three of the remaining claims, an adverse ruling on one or more of these claims could have a material adverse effect on our results of operations in the period recognized. We do not believe that an adverse outcome in this matter would have a material adverse effect on our operating cash flows or consolidated financial position.

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, and 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 probable 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.

Given the uncertainty inherent in litigation, we do not believe it is possible to develop estimates of the range of reasonably possible loss in excess of current accruals for these matters. 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.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareowners
of Honeywell International Inc.:

We have reviewed the accompanying consolidated balance sheet of Honeywell International Inc. and its subsidiaries as of September 30, 2007, and the related consolidated statement of operations for each of the three-month and nine-month periods ended September 30, 2007 and 2006 and the consolidated statement of cash flows for the nine-month periods ended September 30, 2007 and 2006. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2006, and the related consolidated statements of operations, of shareowners' equity, and of cash flows for the year then ended, management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 and the effectiveness of the Company's internal control over financial reporting as of December 31, 2006; and in our report dated February 15, 2007 we expressed unqualified opinions thereon. The consolidated financial statements and management's assessment of the effectiveness of internal control over financial reporting referred to above are not presented herein. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2006, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP

Florham Park, New Jersey
October 19, 2007

The Report of Independent Registered Public Accounting Firm included above is not a report or part of a Registration Statement prepared or certified by an independent accountant within the meanings of Sections 7 and 11 of the Securities Act of 1933, and the accountants' Section 11 liability does not extend to such report.

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. (Honeywell) for the third quarter and nine months ended September 30, 2007. The financial information as of September 30, 2007 should be read in conjunction with the financial statements for the year ended December 31, 2006 contained in our Form 10-K filed on February 16, 2007.

A. RESULTS OF OPERATIONS - THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2007
COMPARED WITH THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2006

Net Sales

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 8,735	\$ 7,952	\$ 25,314	\$ 23,091
% change compared with prior period	10%		10%	

The increase in net sales in the third quarter and nine months of 2007 compared with the third quarter and nine months of 2006 is attributable to the following:

	Three Months	Nine Months
Price	1%	1%
Volume	6	6
Foreign Exchange	2	2
Acquisitions/Divestitures	1	1
	10%	10%

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

Cost of Products and Services Sold

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Cost of products and services sold	\$ 6,646	\$ 6,111	\$ 19,287	\$ 17,738
Gross Margin percentage	23.9%	23.2%	23.8%	23.2%

Gross margin percentage increased by 0.7 percentage points in the third quarter of 2007 compared with the third quarter of 2006 due primarily to higher margins in our Aerospace and Specialty Materials segments.

Gross margin percentage increased by 0.6 percentage points in the first nine months of 2007 compared with the first nine months of 2006 due primarily to higher margins in our Aerospace segment and lower pension and other postretirement expense in our Corporate segment, partially offset by higher repositioning charges.

For further discussion of segment results see Review of Business Segments .

Selling, General and Administrative Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Selling, general and administrative expenses	\$ 1,144	\$ 1,037	\$ 3,360	\$ 3,125
Percent of sales	13.1%	13.0%	13.3%	13.5%

Selling, general and administrative expenses as a percentage of sales increased by 0.1 percentage points in the third quarter of 2007 compared with the third quarter of 2006 primarily due to higher general and administrative costs in our Corporate segment (primarily compensation, benefit and other employee related costs), partially offset by productivity savings in our Aerospace segment.

Selling, general and administrative expenses as a percentage of sales decreased by 0.2 percentage points in the first nine months of 2007 compared with the first nine months of 2006. This decline is primarily due to productivity savings in our Aerospace, Automation and Control Solutions and Specialty Materials segments and lower pension and other postretirement expense in our Corporate segment, partially offset by higher repositioning charges.

Pension and Other Postretirement Benefits

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Pension and other postretirement benefits (OPEB) expense included in cost of products and services sold and selling, general and administrative expenses	\$ 105	\$ 100	\$ 251	\$ 344

Pension and OPEB expense increased by \$5 million in the third quarter of 2007 compared with the third quarter of 2006, primarily due to an expense of \$35 million related to a settlement in principle with respect to certain claims in the Allen, et. al. v. Honeywell Retirement Earnings Plan pension litigation matter (the Allen Settlement). See Note 15 in Notes to Financial Statements for further discussion of this matter. This increase was partially offset by a decrease of \$30 million in our on-going pension and OPEB expense.

Pension and OPEB expense decreased by \$93 million in the first nine months of 2007 compared with the first nine months of 2006, primarily due to a decrease of \$128 million in our on-going pension and OPEB expense, partially offset by the \$35 million impact of the Allen Settlement.

The decreases to our on-going pension and OPEB expense in both of these periods were driven by lower pension expense primarily due to a decrease in the amortization of net losses in our U.S. plans resulting from an increase in the discount rate at December 31, 2006 and actual plan asset returns higher than the expected rate of return in 2004 and 2006.

Other (Income) Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Equity (income)/loss of affiliated companies	\$ (5)	\$ 4	\$ (7)	\$ 5
Gain on sale of non-strategic businesses and assets	(6)		(21)	(19)
Interest income	(16)	(37)	(55)	(74)
Foreign exchange	7	7	19	11
Other (net)	4	(1)	17	8
	<u>\$ (16)</u>	<u>\$ (27)</u>	<u>\$ (47)</u>	<u>\$ (69)</u>

Other income decreased by \$11 million in the third quarter of 2007 compared with the third quarter of 2006 and by \$22 million in the first nine months of 2007 compared with the first nine months of 2006. These decreases are primarily the result of lower interest income (due to interest received on a favorable tax settlement in the third quarter of 2006, partially offset by an increase in equity income (primarily in our Specialty Materials segment)).

Interest and Other Financial Charges

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Interest and other financial charges	\$ 124	\$ 97	\$ 331	\$ 280
% change compared with prior period	28%		18%	

Interest and other financial charges increased in both the third quarter and first nine months of 2007 compared with the same periods in the prior year, due principally to higher debt balances and higher borrowing costs.

Tax Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Tax expense	\$ 219	\$ 193	\$ 628	\$ 524
Effective tax rate	26.2%	26.3%	26.4%	26.0%

The effective tax rate in the third quarter of 2007 decreased by 0.1 percentage points compared with the third quarter of 2006, primarily due to an increase in the amount of tax benefits derived from the domestic manufacturing deduction partially offset by increased tax expense due to changes in enacted tax rates in Germany and the United Kingdom.

The effective tax rate for the first nine months of 2007 increased by 0.4 percentage points compared with the first nine months of 2006, primarily due to the favorable resolution of certain tax audits during the first nine months of 2006 and increased tax expense due to changes in enacted tax rates in Germany and the United Kingdom, partially offset by an increase in the amount of tax benefits derived from the domestic manufacturing deduction.

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The effective tax rate was lower than the statutory rate of 35 percent due in part to an increase in foreign earnings, the benefits from the domestic manufacturing deduction and the utilization of tax credits.

Income from Continuing Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Income from continuing operations	\$ 618	\$ 541	\$ 1,755	\$ 1,493
Earnings per share of common stock assuming dilution	\$ 0.81	\$ 0.66	\$ 2.25	\$ 1.80

Earnings per share of common stock assuming dilution increased by \$0.15 per share in the third quarter of 2007 compared with the third quarter of primarily due to increased segment profit and a reduction in the number of shares outstanding due to the Company's stock repurchase program, partially offset by higher interest expense.

Earnings per share of common stock assuming dilution increased by \$0.45 per share in the first nine months of 2007 compared with the first nine months of 2006 primarily due to increased segment profit, lower pension and other postretirement expense and a reduction in the number of shares outstanding due to the Company's stock repurchase program, partially offset by higher income tax expense, interest expense and repositioning and other charges.

Income from Discontinued Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Income from discontinued operations	\$	\$	\$	\$ 5
Earnings per share of common stock assuming dilution	\$	\$	\$	\$ 0.01

Income from discontinued operations of \$5 million, or \$0.01 per share, in the first nine months of 2006 relates to the operating results of Indalex, sold in February 2006.

Review of Business Segments

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net Sales				
Aerospace	\$ 3,102	\$ 2,854	\$ 8,969	\$ 8,169
Automation and Control Solutions	3,196	2,844	9,036	7,975
Specialty Materials	1,211	1,143	3,626	3,548
Transportation Systems	1,226	1,111	3,683	3,399
Corporate				
	<u>\$ 8,735</u>	<u>\$ 7,952</u>	<u>\$ 25,314</u>	<u>\$ 23,091</u>
Segment Profit				
Aerospace	\$ 560	\$ 501	\$ 1,583	\$ 1,354
Automation and Control Solutions	373	330	980	838
Specialty Materials	157	110	524	489
Transportation Systems	124	129	437	436
Corporate	(47)	(41)	(144)	(134)
	<u>1,167</u>	<u>1,029</u>	<u>3,380</u>	<u>2,983</u>
Total Segment Profit				
Other income (expense)	16	27	47	69
Interest and other financial charges	(124)	(97)	(331)	(280)
Stock option expense (A)	(13)	(20)	(54)	(61)
Pension and other postretirement expense (A)	(105)	(100)	(251)	(344)
Repositioning and other charges (A)	(104)	(105)	(408)	(350)
	<u>\$ 837</u>	<u>\$ 734</u>	<u>\$ 2,383</u>	<u>\$ 2,017</u>
Income from continuing operations before taxes				

(A) Amounts included in cost of products and services sold and selling, general and administrative expenses in the Consolidated Statement of Operations.

Aerospace

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 3,102	\$ 2,854	\$ 8,969	\$ 8,169
% change compared with prior period	9%		10%	
Segment profit	\$ 560	\$ 501	\$ 1,583	\$ 1,354
% change compared with prior period	12%		17%	

Aerospace sales by major customer end-markets for the third quarter and nine months ended September 30, 2007 and 2006 were as follows:

Customer End-Markets	Three Months Ended September 30,			Nine Months Ended September 30,		
	% of Aerospace Sales		% Changes in Sales	% of Aerospace Sales		% Changes in Sales
	2007	2006	2007 Versus 2006	2007	2006	2007 Versus 2006
Commercial:						
Air transport and regional original equipment	15%	16%	9%	16%	16%	13%
Air transport and regional aftermarket	23	23	6	22	22	8
Business and general aviation original equipment	11	11	6	11	12	11
Business and general aviation aftermarket	10	10	22	10	10	16
Defense and Space	41	40	8	41	40	8
Total	100%	100%	9%	100%	100%	10%

Aerospace sales increased by 9 percent in the third quarter of 2007 compared with the third quarter of 2006 and by 10 percent in the first nine months of 2007 compared with the first nine months of 2006. Details regarding the increase in sales by customer end-markets are as follows:

Air transport and regional original equipment (OE) sales increased by 9 percent in the third quarter and 13 percent in the first nine months primarily driven by increased deliveries to our air transport customers due to higher aircraft production rates.

Air transport and regional aftermarket sales increased by 6 percent in the third quarter and 8 percent in the first nine months primarily as a result of increased sales volume and price of spare parts and maintenance activity relating to approximately 7 percent and 6 percent increases in global flying hours in the third quarter and first nine months of 2007, respectively.

Business and general aviation OE sales increased by 6 percent in the third quarter and 11 percent in the first nine months due primarily to an increase in new business jet deliveries due to continued strong demand in the business jet end-market.

Business and general aviation aftermarket sales increased by 22 percent in the third quarter and 16 percent in the first nine months due to increased revenue under maintenance service agreements, higher engine utilization and higher sales of spare parts.

Defense and space sales increased by 8 percent in the third quarter and the first nine months, including the positive impact of the acquisition

of Dimensions International (4 percent in the third quarter and 2 percent in the first nine months), higher sales of surface systems and an increase in space sales, including engineering activity relating to the Orion (CEV) program.

Aerospace segment profit increased by 12 percent in the third quarter of 2007 compared with the third quarter of 2006 and by 17 percent in the first nine months of 2007 compared with the first nine months of 2006 due primarily to sales volume growth, increased prices, productivity and a one-time reimbursement of certain research and development costs (in the first quarter of 2007), partially offset by inflation.

Automation and Control Solutions

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 3,196	\$ 2,844	\$ 9,036	\$ 7,975
% change compared with prior period	12%		13%	
Segment profit	\$ 373	\$ 330	\$ 980	\$ 838
% change compared with prior period	13%		17%	

Automation and Control Solutions (ACS) sales increased by 12 percent in the third quarter of 2007 compared with the third quarter of 2006, including 4 percent favorable impact of foreign exchange and net growth from acquisitions and divestitures of 1 percent. This increase was driven by growth in all regions, most significantly in Asia.

Sales in our products businesses grew by 9 percent, primarily due to increased sales volume of our security, fire systems, gas detection and environmental control products and the favorable impact of foreign exchange.

Sales in our solutions businesses increased by 19 percent driven by growth in energy retrofit and refining services projects as well as the favorable impact of foreign exchange.

ACS sales increased by 13 percent in the first nine months of 2007 compared with the first nine months of 2006, including 3 percent favorable impact of foreign exchange and net growth from acquisitions and divestitures of 2 percent. This increase was driven by growth in all regions, most significantly in Asia.

Sales in our products businesses grew by 11 percent, including a 3 percent positive net impact from acquisitions and divestitures, primarily due to increased sales of our security, fire systems, gas detection, and environmental control products, as well as the favorable impact of foreign exchange.

Sales in our solutions businesses increased by 16 percent, driven by growth in energy retrofit and refining services projects, continued growth in orders and conversion to sales from our order backlog, as well as the favorable impact of foreign exchange.

ACS segment profit increased by 13 percent in the third quarter of 2007 compared with the third quarter of 2006 and increased by 17 percent in the first nine months of 2007 compared with the first nine months of 2006. These increases are due principally to increased sales volume and productivity savings, partially offset by inflation and a change in mix resulting from stronger sales in our solutions businesses that historically have lower margins than our products businesses.

Specialty Materials

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 1,211	\$ 1,143	\$ 3,626	\$ 3,548
% change compared with prior period	6%		2%	
Segment profit	\$ 157	\$ 110	\$ 524	\$ 489
% change compared with prior period	43%		7%	

Specialty Materials sales increased by 6 percent in the third quarter of 2007 compared with the third quarter of 2006 primarily due to a 28 percent increase in UOP sales as a result of increased volume in both our products business (primarily catalysts) and projects business, partially offset by a 15 decrease in Fluorine Products sales primarily due to lower refrigerant and insulating material sales as a result of continued weakness in the U.S. housing market.

Sales in our Specialty Products business increased by 6 percent in the third quarter of 2007 compared with the third quarter of 2006, primarily due to increased sales of our advanced fiber body armor, films and specialty chemicals. This increase was substantially offset by a 6 percent decrease in sales of our Resins and Chemicals business, primarily due to planned plant maintenance and the impact of divested businesses, partially offset by pricing increases.

Specialty Materials sales increased by 2 percent for the first nine months of 2007 compared with the first nine months of 2006.

UOP sales increased by 12 percent due to strong performance in our projects business, primarily driven by equipment sales and royalty revenue.

Specialty Products sales increased by 3 percent primarily due to increased sales of our specialty additives, films and specialty chemicals.

Fluorine Products sales decreased by 9 percent primarily due to lower refrigerant and insulating material sales as a result of continued weakness in the U.S. housing market.

Sales in Resins and Chemicals decreased by 4 percent primarily due to lower sales volume as a result of temporary production issues and planned plant maintenance, partially offset by price increases (primarily formula price agreements).

Specialty Materials segment profit increased by 43 percent in the third quarter of 2007 compared with the third quarter of 2006 and by 7 percent in the first nine months of 2007 compared with the first nine months of 2006. These increases are due principally to increased UOP and Specialty Products sales as a result of the factors discussed above. Additionally, the effects of increased pricing and productivity gains more than offset raw material and other inflation costs.

Transportation Systems

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net sales	\$ 1,226	\$ 1,111	\$ 3,683	\$ 3,399
% change compared with prior period	10%		8%	
Segment profit	\$ 124	\$ 129	\$ 437	\$ 436
% change compared with prior period	(4%)		0%	

Transportation Systems sales increased by 10 percent in the third quarter of 2007 compared with the third quarter of 2006, primarily due to increased sales in our Turbo business and the favorable impact of foreign exchange.

Turbo sales increased by 15 percent primarily due to continued strong sales to European light vehicle manufacturers and the favorable impact of foreign exchange, partially offset by lower sales to commercial engine manufacturers.

Consumer Products Group (CPG) sales increased by 4 percent primarily due to the favorable impact of foreign exchange and higher prices (primarily to pass through ethylene glycol cost increases) partially offset by lower sales of automotive aftermarket products.

Transportation Systems sales increased by 8 percent in the first nine months of 2007 compared with the first nine months of 2006, primarily due to the favorable impact of foreign exchange and to increased sales in our Turbo business and Consumer Products Group.

Turbo sales increased by 11 percent primarily due to the favorable impact of foreign exchange and strong sales to European light vehicle manufacturers, offset by lower sales to commercial engine manufacturers.

CPG sales increased by 5 percent primarily due to the favorable impact of foreign exchange, higher prices (primarily to pass through ethylene glycol cost increases) and volume growth.

Transportation Systems segment profit decreased by 4 percent in the third quarter of 2007 compared with the third quarter of 2006 due to the impact of inflation (primarily relating to nickel components), investments in product development to support new Turbo platforms, costs associated with CPG product introductions, and CPG operational planning and production issues. These factors were partially offset by increased productivity, increased prices and lower warranty expense.

Transportation Systems segment profit was flat in the first nine months of 2007 compared with the first nine months of 2006. Increased productivity, increased prices and lower warranty expense were offset by the impact of inflation (primarily relating to nickel components), investments in product development to support new Turbo platforms, costs associated with CPG product introductions, and CPG operational planning and production issues.

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Repositioning and Other Charges

A summary of repositioning and other charges follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Severance	\$ 27	\$ 8	\$ 146	\$ 55
Asset impairments	2	8	12	8
Exit costs	2		7	4
Adjustments	(5)	(1)	(14)	(10)
Total net repositioning charge	26	15	151	57
Asbestos related litigation charges, net of insurance	28	33	73	110
Probable and reasonably estimable environmental liabilities	50	58	170	168
Arbitration award related to phenol supply agreement		(17)		(17)
Business impairment charges				9
Other		16	14	23
Total net repositioning and other charges	\$ 104	\$ 105	\$ 408	\$ 350

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,	
	2007	2006	2007	2006
Cost of products and services sold	\$ 101	\$ 105	\$ 374	\$ 350
Selling, general and administrative expenses	3		34	
	\$ 104	\$ 105	\$ 408	\$ 350

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,	
	2007	2006	2007	2006
Aerospace	\$ 5	\$	\$ 36	\$ 3
Automation and Control Solutions	14		92	19
Specialty Materials	1	(2)	5	4
Transportation Systems	33	34	88	100
Corporate	51	73	187	224
	\$ 104	\$ 105	\$ 408	\$ 350

In the third quarter of 2007, we recognized a net repositioning charge of \$26 million primarily for severance costs related to workforce reductions of 347 manufacturing and administrative positions associated with the rationalization of manufacturing capacity and infrastructure, principally in our Automation and Control Solutions, Transportation Systems and Aerospace segments.

In the third quarter of 2006, we recognized a repositioning charge of \$16 million consisting of severance costs of \$8 million related to workforce

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reductions of 124 manufacturing and administrative positions and \$8 million for the write-down of property, plant and equipment related to exiting a tolling arrangement with a vendor. The total repositioning charge related principally to businesses in our Specialty Materials segment.

In the first nine months of 2007, we recognized a net repositioning charge of \$151 million primarily for severance costs related to workforce reductions of 2,489 manufacturing and administrative positions associated with the rationalization of manufacturing capacity and infrastructure and plant closures, principally in our Automation and Control Solutions and Aerospace segments.

In the first nine months of 2006, we recognized a net repositioning charge of \$57 million primarily for severance costs related to workforce reductions of 1,132 manufacturing and administrative positions in our Automation and Control Solutions, Aerospace and Transportation Systems segments.

Our repositioning actions are expected to generate incremental pretax savings of approximately \$90 million in 2007 compared with 2006 principally from planned workforce reductions. Cash expenditures for severance and other exit costs necessary to execute these actions were \$71 million in the first nine months of 2007 and were funded through operating cash flows. Cash expenditures for severance and other costs necessary to execute the remaining actions will approximate \$100 million in 2007 and will be funded through operating cash flows.

In the third quarter of 2007, we recognized a charge of \$50 million for environmental liabilities deemed probable and reasonably estimable in the quarter. We also recognized a charge of \$28 million, net of probable insurance recoveries, representing an update to our estimated liability for Bendix related asbestos claims as of September 30, 2007. Asbestos matters are discussed in detail in Note 15 of Notes to Financial Statements.

In the third quarter of 2006, we recognized a charge of \$58 million for environmental liabilities deemed probable and reasonably estimable in the quarter. We recognized a charge of \$33 million for Bendix related asbestos claims filed and defense costs incurred during the third quarter of 2006, net of probable insurance recoveries. We recognized a credit of \$17 million in connection with an arbitration award for overcharges by a supplier of phenol to our Specialty Materials business for 2005 transactions. We also recognized other charges of \$16 million in our Corporate segment primarily for a property damage claim litigation matter in Brunswick, Ga., which was subsequently settled.

In the first nine months of 2007, we recognized a charge of \$170 million for environmental liabilities deemed probable and reasonably estimable in the period. We recognized a charge of \$73 million, net of probable insurance recoveries, representing an update to our estimated liability for Bendix related asbestos claims as of September 30, 2007. We also recognized other charges of \$14 million for a business sale tax related to a prior divestiture (\$8 million) and for a contemplated settlement of a legal matter (\$6 million).

In the first nine months of 2006, we recognized a charge of \$168 million for environmental liabilities deemed probable and reasonably estimable in the period. We recognized a charge of \$110 million primarily for Bendix related asbestos claims filed and defense costs incurred during the first nine months of 2006, including an update of expected resolution values with respect to claims pending as of June 30, 2006, net of probable insurance recoveries. The asbestos related charge also included the net effect of the settlement of certain NARCO related pending asbestos claims and a Bendix related insurance settlement. We recognized a credit of \$17 million in connection with an arbitration award for overcharges by a supplier of phenol to our Specialty Materials business for 2005 transactions. We recognized other charges of \$23 million in our Corporate segment primarily for a property damage claim litigation matter in Brunswick, Ga., which was subsequently

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settled. We also recognized business impairment charges of \$9 million primarily related to the write-down of property, plant and equipment held for sale in our Specialty Materials segment.

B. LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Summary

Our cash flows from operating, investing and financing activities, as reflected in the Consolidated Statement of Cash Flows for the nine months ended September 30, 2007 and 2006, are summarized as follows:

	2007	2006
Cash provided by (used for):		
Operating activities	\$ 2,471	\$ 1,970
Investing activities	(905)	(432)
Financing activities	(1,045)	(1,380)
Effect of exchange rate changes on cash	42	23
	\$ 563	\$ 181

Cash provided by operating activities increased by \$501 million during the first nine months of 2007 compared with the first nine months of 2006 primarily due to increased earnings, increased accrued expenses of \$343 million (primarily accrued income taxes, compensation, benefit and other employee related accruals) and lower cash tax payments of \$125 million, partially offset by lower deferred income tax expense of \$254 million and an increase in working capital of \$202 million (higher accounts receivable and inventory consistent with higher sales partially offset by an increase in accounts payable). In addition, there were receipts from the sales of insurance receivables of \$97 and \$100 million in the second quarter of 2007 and the first quarter of 2006, respectively.

Cash used for investing activities increased by \$473 million during the first nine months of 2007 compared with the first nine months of 2006 due primarily to lower proceeds from sales of businesses of \$528 million, partially offset by a \$57 million decrease in cash paid for acquisitions.

Cash used for financing activities decreased by \$335 million during the first nine months of 2007 compared with the first nine months of 2006 primarily due to an increase in net proceeds from debt (including commercial paper) of \$2,505 million, a \$306 million reduction in the payment of debt assumed with acquisitions and an increase in proceeds from issuance of common stock primarily related to stock option exercises of \$239 million, partially offset by an increase in the repurchases of common stock of \$2,763 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, access to the public debt and equity markets as well as the ability to sell trade accounts receivables. We continue to balance our cash and financing uses through investment in our existing core businesses, acquisition activity, share repurchases and dividends.

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In July 2007, the Company issued \$500 million Floating Rate Senior Notes due 2009 and \$400 million 5.625% Senior Notes due 2012 (collectively, the Senior Notes). The Senior Notes are senior unsecured and unsubordinated obligations of Honeywell and rank equally with all of Honeywell's existing and future senior unsecured debt and senior to all Honeywell's subordinated debt. The offering resulted in gross proceeds of \$900 million, offset by \$3 million in discount and issuance costs. Proceeds from the senior notes were used to repay commercial paper.

In May 2007 the Company entered into a \$2.8 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 \$3.5 billion. The Credit Agreement is maintained for general corporate purposes, including support for the issuance of commercial paper, and replaces the previous \$2.3 billion five year credit agreement dated April 27, 2006 (Prior Agreement). There have been no borrowings under the Credit Agreement. No borrowings were outstanding at any time under the Prior Agreement. The Credit Agreement does not restrict the Company's ability to pay dividends, nor does it contain financial covenants.

In March 2007, the Company issued \$400 million 5.30% Senior Notes due 2017 and \$600 million 5.70% Senior Notes due 2037 (collectively, the Notes). The Notes are senior unsecured and unsubordinated obligations of Honeywell and rank equally with all of Honeywell's existing and future senior unsecured debt and senior to all Honeywell's subordinated debt. The offering resulted in gross proceeds of \$1 billion, offset by \$12 million in discount and issuance costs. Proceeds from the notes were used to repay commercial paper and debt.

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 business units are considered for potential divestiture, restructuring or other repositioning actions subject to regulatory constraints.

In July 2007, the Company completed the acquisition of Dimensions International, a defense logistics business, for a purchase price of approximately \$230 million. This acquisition was funded using commercial paper.

In July 2007, the Company completed the acquisition of Enraf Holding B.V a provider of comprehensive solutions for the control and management of transportation, storage and blending operations in the oil and gas industry. This acquisition was funded using available cash.

In October 2007, the Company entered into a definitive agreement to acquire Hand Held Products Inc, an automatic identification and data collection company, which will be integrated into our Automation and Control Solutions segment. Completion of this acquisition is subject to regulatory approval. The purchase price is expected to be approximately \$390 million which we anticipate funding using available cash.

C. OTHER MATTERS

Litigation

We are subject to a number of lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of our business. See a discussion of environmental, asbestos and other litigation matters in Note 15 of Notes to Financial Statements.

Critical Accounting Policies

The financial information as of September 30, 2007 should be read in conjunction with the financial statements for the year ended December 31, 2006 contained in our Form 10-K filed on February 16, 2007.

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 Form 10-K filed on February 16, 2007.

Recent Accounting Pronouncements

See Note 2 of Notes to Financial Statements for a discussion of recent accounting pronouncements, including discussion of the impact of adopting FIN 48: Uncertain Tax Positions on January 1, 2007.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See our 2006 Annual Report on Form 10-K (Item 7A). As of September 30, 2007, 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 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 in alerting them on a timely basis to material information relating to Honeywell required to be included in Honeywell's periodic filings under the Exchange Act. 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 a discussion of environmental, asbestos and other litigation matters in Note 15 of Notes to Financial Statements.

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

The State of Illinois brought a claim against Honeywell for penalties and past costs relating to releases of chlorinated solvents at a facility owned by a third party. The State claimed that a predecessor company to Honeywell delivered solvents to the third party from 1969 until 1992; that spills occurred during those deliveries; and that Honeywell should pay a share of the penalties and state response costs connected with those spills. This matter has been resolved without fine or penalty. Honeywell has agreed to pay a share of the State's past remediation expense, the amount of which is not material.

Although we cannot predict the outcome of the matters described below, we believe that sufficient provisions have been made in our financial statements for these matters. We do not believe that the matters described below will have a material adverse effect on our consolidated financial position, results of operations or operating cash flows.

Baton Rouge, LA As previously reported, three incidents occurred during 2003 at Honeywell's Baton Rouge, Louisiana chemical plant, including a release of chlorine, a release of antimony pentachloride (which resulted in an employee fatality), and an employee exposure to hydrofluoric acid. See Note 15 of Notes to Financial Statements for a discussion of the fines paid in connection with a matter related to these incidents. We are also engaged in discussions with the Louisiana Department of Environmental Quality (LADEQ) to resolve alleged civil environmental violations at our Baton Rouge and Geismar, Louisiana facilities that relate, in part, to these incidents.

Honeywell is a defendant in a lawsuit filed by the Arizona Attorney General's office on behalf of the Arizona Department of Environmental Quality (ADEQ). The complaint alleges failure to make required disclosures, as well as unrelated environmental violations. ADEQ's most significant allegations have been dismissed with prejudice over the course of the proceedings. The state has voluntarily dismissed its remaining claims without prejudice pending consideration of an appeal of its previously dismissed claims.

In February 2007, ADEQ demanded penalties for alleged violations by Honeywell of the state's underground storage tank regulations at the aircraft engines plant in Phoenix, Arizona. ADEQ subsequently added claims relating to other alleged environmental violations at the aircraft engines plant and has made a demand to resolve all alleged violations which we are evaluating. Negotiations regarding the penalty are ongoing.

Honeywell received Notices of Violation from the Maricopa County Air Quality Department in July 2006 with respect to various air permitting compliance matters at one of its facilities located in Phoenix, Arizona. Honeywell believes it has taken appropriate corrective and preventive actions to address the concerns raised by the County.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

The following table summarizes Honeywell's purchases of its common stock, par value \$1 per share, for the three months ended September 30, 2007:

Period	Issuer Purchases of Equity Securities		(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)
	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share		
July 2007	500,000	\$ 61.10	500,000	\$ 3,192
August 2007	4,500,000	\$ 58.98	4,500,000	\$ 2,926
September 2007		\$		\$ 2,926

Honeywell intends to repurchase outstanding shares from time to time in the open market primarily using cash flow generated by operations. The amount and timing of repurchases may vary depending on market conditions and the level of other investing activity, but is presently expected to be to the extent necessary to maintain an essentially flat share count for the balance of 2007.

ITEM 6. EXHIBITS

- (a) Exhibits. See the Exhibit Index on page 47 of this Quarterly Report on Form 10-Q.

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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: October 19, 2007

By: /s/ Talia M. Griep

Talia M. Griep
Vice President and Controller
(on behalf of the Registrant
and as the Registrant's
Principal Accounting Officer)

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
2	Omitted (Inapplicable)
3	Omitted (Inapplicable)
4	Omitted (Inapplicable)
10.1*	Letter Agreement dated July 20, 2007 between Honeywell and Roger Fradin (filed herewith)
11	Computation of Per Share Earnings (1)
12	Computation of Ratio of Earnings to Fixed Charges (filed herewith)
15	Independent Accountants Acknowledgment Letter as to the incorporation of their report relating to unaudited interim financial statements (filed herewith)
18	Omitted (Inapplicable)
19	Omitted (Inapplicable)
22	Omitted (Inapplicable)
23	Omitted (Inapplicable)
24	Omitted (Inapplicable)
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)
99	Omitted (Inapplicable)

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

(1) Data required by Statement of Financial Accounting Standards No. 128, Earnings per Share, is provided in Note 6 to the consolidated financial statements in this report.