

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, 2005

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)

22-2640650

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

101 Columbia Road

Morris Township, New Jersey

(Address of principal executive offices)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class of Common Stock  
\$1 par value

Outstanding at  
September 30, 2005  
842,759,046 shares

**Honeywell International Inc.**  
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This report contains certain statements that may be deemed “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical fact, that address activities, events or developments that we or our management intends, expects, projects, believes or anticipates will or may occur in the future are forward-looking statements. Such statements are based upon certain assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. The forward-looking statements included in this report are also subject to a number of material risks and uncertainties, including but not limited to economic, competitive, governmental and technological factors affecting our operations, markets, products, services and prices. Such forward-looking statements are not guarantees of future performance and actual results, developments and business decisions may differ from those envisaged by such forward-looking statements.

ITEM 1. FINANCIAL STATEMENTS

**Honeywell International Inc.**  
**Consolidated Statement of Operations**  
(Unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
	<b>(Dollars in millions, except per share amounts)</b>			
Product sales	\$ 5,593	\$ 5,046	\$ 16,411	\$ 15,015
Service sales	1,306	1,349	3,967	3,946
	<u>6,899</u>	<u>6,395</u>	<u>20,378</u>	<u>18,961</u>
Costs, expenses and other				
Cost of products sold	4,329	4,163	13,003	12,461
Cost of services sold	962	924	2,867	2,784
Selling, general and administrative expenses	982	820	2,771	2,451
(Gain) loss on sale of non-strategic businesses	(21)	(5)	(11)	(270)
Equity in (income) loss of affiliated companies	(22)	(24)	(82)	(48)
Other (income) expense	–	(50)	(27)	(78)
Interest and other financial charges	83	81	260	247
	<u>6,313</u>	<u>5,909</u>	<u>18,781</u>	<u>17,547</u>
Income from continuing operations before taxes	586	486	1,597	1,414
Tax expense	153	114	527	386
Income from continuing operations	433	372	1,070	1,028
Income from discontinued operations, net of taxes	37	–	65	–
Net income	<u>\$ 470</u>	<u>\$ 372</u>	<u>\$ 1,135</u>	<u>\$ 1,028</u>
Earnings per share of common stock – basic:				
Income from continuing operations	\$ 0.51	\$ 0.43	\$ 1.25	\$ 1.19
Income from discontinued operations	0.04	–	0.08	–
Net income	<u>\$ 0.55</u>	<u>\$ 0.43</u>	<u>\$ 1.33</u>	<u>\$ 1.19</u>
Earnings per share of common stock – assuming dilution:				
Income from continuing operations	\$ 0.51	\$ 0.43	\$ 1.25	\$ 1.19
Income from discontinued operations	0.04	–	0.08	–
Net income	<u>\$ 0.55</u>	<u>\$ 0.43</u>	<u>\$ 1.33</u>	<u>\$ 1.19</u>
Cash dividends per share of common stock	<u>\$ .20625</u>	<u>\$ .1875</u>	<u>\$ .61875</u>	<u>\$ .5625</u>

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

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

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
<b>(Dollars in millions)</b>		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,452	\$ 3,586
Accounts, notes and other receivables	4,772	4,243
Inventories	3,398	3,160
Deferred income taxes	1,161	1,289
Other current assets	564	542
Assets held for disposal	1,222	–
Total current assets	12,569	12,820
Investments and long-term receivables	406	542
Property, plant and equipment – net	4,335	4,331
Goodwill	7,422	6,013
Other intangible assets – net	1,586	1,241
Insurance recoveries for asbestos related liabilities	1,288	1,412
Deferred income taxes	738	613
Prepaid pension benefit cost	2,803	2,985
Other assets	1,059	1,105
Total assets	\$ 32,206	\$ 31,062
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 2,627	\$ 2,564
Short-term borrowings	61	28
Commercial paper	425	220
Current maturities of long-term debt	952	956
Accrued liabilities	5,405	4,971
Liabilities related to assets held for disposal	236	–
Total current liabilities	9,706	8,739
Long-term debt	3,972	4,069
Deferred income taxes	530	397
Postretirement benefit obligations other than pensions	1,685	1,713
Asbestos related liabilities	1,618	2,006
Other liabilities	3,320	2,886
<b>SHAREOWNERS' EQUITY</b>		
Capital – common stock issued	958	958
– additional paid-in capital	3,613	3,574
Common stock held in treasury, at cost	(4,537)	(4,185)
Accumulated other nonowner changes	(33)	138
Retained earnings	11,374	10,767
Total shareowners' equity	11,375	11,252
Total liabilities and shareowners' equity	\$ 32,206	\$ 31,062

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

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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Dollars in millions)</b>	
<b>Cash flows from operating activities:</b>		
Net income	\$ 1,135	\$ 1,028
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
(Gain) loss on sale of non-strategic businesses	(11)	(270)
Repositioning, environmental, litigation and other charges (credits)	332	399
Severance and exit cost payments	(105)	(123)
Environmental and non-asbestos litigation payments	(169)	(131)
Asbestos related liability payments	(418)	(424)
Insurance receipts for asbestos related liabilities	110	61
Depreciation and amortization	516	494
Undistributed earnings of equity affiliates	8	(53)
Deferred income taxes	81	152
Pension and other postretirement benefits expense	423	482
Pension contributions – U.S. plans	–	(10)
Other postretirement benefit payments	(145)	(152)
Other	1	(102)
<b>Changes in assets and liabilities, net of the effects of acquisitions and divestitures:</b>		
Accounts, notes and other receivables	(273)	(318)
Inventories	(86)	(42)
Other current assets	20	1
Accounts payable	(31)	186
Accrued liabilities	215	309
<b>Net cash provided by operating activities</b>	<b><u>1,603</u></b>	<b><u>1,487</u></b>
<b>Cash flows from investing activities:</b>		
Expenditures for property, plant and equipment	(456)	(403)
Proceeds from disposals of property, plant and equipment	39	12
Decrease in investments	285	80
Cash acquired in acquisition of Novar plc	86	–
Cash paid for acquisitions	(2,047)	(220)
Proceeds from sales of businesses	35	391
<b>Net cash (used for) investing activities</b>	<b><u>(2,058)</u></b>	<b><u>(140)</u></b>
<b>Cash flows from financing activities:</b>		
Net increase in commercial paper	205	20
Net (decrease) in short-term borrowings	(693)	(126)
Proceeds from issuance of common stock	134	62
Payments of long-term debt	(148)	(23)
Repurchases of common stock	(579)	(342)
Cash dividends on common stock	(528)	(483)
<b>Net cash (used for) financing activities</b>	<b><u>(1,609)</u></b>	<b><u>(892)</u></b>
Effect of foreign exchange rate changes on cash and cash equivalents	(70)	28
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(2,134)</b>	<b>483</b>
Cash and cash equivalents at beginning of year	<u>3,586</u>	<u>2,950</u>
<b>Cash and cash equivalents at end of period</b>	<b><u>\$ 1,452</u></b>	<b><u>\$ 3,433</u></b>

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

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

NOTE 1. 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, 2005 and the results of operations for the three and nine months ended September 30, 2005 and 2004 and cash flows for the nine months ended September 30, 2005 and 2004. The results of operations for the three- and nine-month periods ended September 30, 2005 should not necessarily be taken as indicative of the results of operations that may be expected for the entire year 2005.

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, 2005 and 2004 were October 1, 2005 and October 2, 2004, respectively. Our fiscal closing calendar for the years 2000 through 2012 is available on our website at [www.honeywell.com](http://www.honeywell.com) under the heading "Investor Relations".

The financial information as of September 30, 2005 should be read in conjunction with the financial statements contained in our Annual Report on Form 10-K for 2004.

NOTE 2. In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R) requiring that the compensation cost relating to share-based payment transactions be recognized in financial statements. The cost is to be measured based on the fair value of the equity or liability instruments issued. In April 2005, the Securities and Exchange Commission adopted a new rule that amends the required effective date for SFAS No. 123R. The new rule allows companies to adopt SFAS No. 123R at the beginning of their next fiscal year that begins after June 15, 2005, instead of at the beginning of their first interim or annual reporting period that begins after June 15, 2005. We will adopt SFAS No. 123R effective January 1, 2006 and currently expect that the adoption of SFAS No. 123R will reduce 2006 diluted earnings per share by \$0.08 to \$0.10.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143", (FIN 47), which provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement are conditional on a future event. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. We are currently assessing the impact of FIN 47 on our consolidated financial statements.

NOTE 3. We account for our fixed stock option plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25). Under APB No. 25, there is no compensation cost recognized for our fixed stock option plans, because the options granted under these plans have an exercise

price equal to the market value of the underlying stock at the grant date. Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), as amended, allows, but does not require, companies to record compensation cost for fixed stock option plans using a fair value based method. As permitted by SFAS No. 123, we elected to continue to account for compensation cost for our fixed stock option plans using the intrinsic value based method under APB No. 25. See Note 2 for a discussion of recently issued rules regarding accounting for stock-based payments. The following table sets forth pro forma information as if compensation cost had been determined consistent with the requirements of SFAS No. 123.

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Net income, as reported	\$ 470	\$ 372	\$1,135	\$1,028
Deduct: Total stock-based employee compensation cost determined under fair value method for fixed stock option plans, net of related tax effects	(14)	(13)	(41)	(31)
Pro forma net income	<u>\$ 456</u>	<u>\$ 359</u>	<u>\$1,094</u>	<u>\$ 997</u>
Earnings per share of common stock:				
Basic – as reported	<u>\$ 0.55</u>	<u>\$ 0.43</u>	<u>\$ 1.33</u>	<u>\$ 1.19</u>
Basic – pro forma	<u>\$ 0.53</u>	<u>\$ 0.42</u>	<u>\$ 1.28</u>	<u>\$ 1.16</u>
Earnings per share of common stock:				
Assuming dilution – as reported	<u>\$ 0.55</u>	<u>\$ 0.43</u>	<u>\$ 1.33</u>	<u>\$ 1.19</u>
Assuming dilution – pro forma	<u>\$ 0.53</u>	<u>\$ 0.42</u>	<u>\$ 1.28</u>	<u>\$ 1.16</u>
The following sets forth fair value per share information, including related assumptions, used to determine compensation cost consistent with the requirements of SFAS No. 123:				
Weighted average fair value per share of options granted during the period (estimated on grant date using Black-Scholes option-pricing model)	\$10.48	\$12.17	\$10.67	\$10.71
Assumptions:				
Historical dividend yield	2.4%	1.4%	2.4%	2.1%
Historical volatility	32.9%	37.0%	34.8%	37.9%
Risk-free rate of return	3.8%	3.6%	3.7%	2.8%
Expected life (years)	5.0	5.0	5.0	5.0

NOTE 4. On March 31, 2005, Honeywell declared its Offers for the entire issued and ordinary preference share capital of Novar plc (Novar) wholly unconditional and assumed control of Novar as of that date. The aggregate value of the Offers was approximately \$2.4 billion (fully diluted for the exercise of all outstanding options), including the assumption of approximately \$569 million of outstanding debt, net of cash. The payment for Novar's share capital and the repayment of substantially all of Novar's existing debt occurred during the second quarter of 2005 and was funded with our existing cash resources.

Novar had consolidated revenues of approximately \$2.7 billion in 2004 and operates globally in three different businesses. Intelligent Building Systems (IBS) is a global business supplying electrical, electronic and control products and services to building operators, contractors and developers. The IBS business is being integrated into our Automation and Control Solutions segment and will enhance our offerings of security, fire and building controls products and services, particularly in the United Kingdom and Germany, and support our global growth of these businesses. Indalex Aluminum Solutions (Indalex) is a leading manufacturer of aluminum extrusions with a comprehensive network of plants across North America. Security Printing Services (Security Printing) is engaged in the printing of checks, other financial instruments, business forms and providing other check-related services for financial institutions, credit unions and their customers and members throughout the United States. We do not intend to hold the Indalex and Security Printing businesses in the long-term and are pursuing strategic alternatives for these businesses and, accordingly, these businesses have been classified as held for sale in our September 30, 2005 Consolidated Balance Sheet and as discontinued operations in our Statement of Operations for all periods presented. In September 2005, we reached a definitive agreement to sell Indalex to an affiliate of private investment firm Sun Capital Partners, Inc. The sale, which is subject to regulatory review and other customary closing conditions, is expected to close in the fourth quarter of 2005.

The purchase price for Novar, net of cash acquired, was approximately \$1.7 billion. The following table summarizes the estimated fair values of the assets and liabilities acquired, including the reclassification of the fair values of the assets and liabilities of the Indalex and Security Printing businesses to held for sale.

	<b>Adjusted Fair Value of Assets &amp; Liabilities as of Acquisition Date</b>
Accounts and other receivables	\$ 304
Inventories	123
Assets held for disposal	1,204
Other current assets	(9)
Investments and long-term receivables	21
Property, plant and equipment	100
Other intangible assets	261
Deferred income taxes	107
Accounts payable	(99)
Accrued liabilities	(214)
Liabilities related to assets held for disposal	(204)
Long-term debt	(700)
Other liabilities	(598)
Net assets acquired	296
Goodwill	1,406
Purchase price	<u>\$ 1,702</u>

We allocated \$261 million to other intangible assets (contractual customer relationships, existing technology and trademarks) based on preliminary valuation studies performed by third party valuation consultants. These intangible assets are being amortized over their estimated useful lives which range from 5 to 15 years using straight-line and accelerated amortization methods. In addition, accrued liabilities include approximately \$73 million of repositioning costs related to the integration of the Novar operations. The repositioning costs relate principally to severance costs for workforce reductions primarily in the IBS business and the former Novar corporate office. The workforce reductions are expected to be completed by June 30, 2006. The results of operations of Novar are included in the consolidated results of operations of Honeywell since the

acquisition date of March 31, 2005. The pro forma results for Honeywell for each of the three- and nine-month periods ended September 30, 2005 and 2004, assuming the acquisition had been made at the beginning of 2004, would not be materially different from reported results. During the third quarter of 2005, we made adjustments to the original fair value of assets and liabilities acquired resulting principally from our refinements of our analyses of receivables, inventories, property, plant and equipment and deferred taxes (including the preliminary valuation studies performed by third party valuation consultants). Such adjustments were not considered material. As of September 30, 2005, the purchase price allocation is still subject to final adjustment primarily for amounts allocated to other intangible assets which were based on preliminary valuation studies performed by third party valuation consultants. We expect to finalize the allocation of the purchase price for the assets acquired and liabilities assumed by December 31, 2005.

The following table presents balance sheet information for the Indalex and Security Printing businesses acquired as part of the Novar transaction described above which are classified as held for sale in our September 30, 2005 Consolidated Balance Sheet.

Accounts and other receivables	\$ 181
Inventories	77
Other current assets	53
Investments and long-term receivables	96
Property, plant and equipment	267
Goodwill	526
Other assets	22
Assets held for disposal	<u>\$ 1,222</u>
Accounts payable	\$ (116)
Accrued liabilities	(97)
Other liabilities	(23)
Liabilities related to assets held for disposal	<u>\$ (236)</u>

Net sales and pretax income for the discontinued operations in the three and nine months ended September 30, 2005 were \$422 and \$59 and \$836 and \$102 million, respectively.

NOTE 5. A summary of repositioning and other charges follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Severance	\$ 111	\$ 31	\$ 194	\$ 78
Asset impairments	–	7	4	17
Exit costs	5	2	11	8
Reserve adjustments	(6)	(3)	(20)	(26)
Total net repositioning charge	<u>110</u>	<u>37</u>	<u>189</u>	<u>77</u>
Asbestos related litigation charges, net of insurance	32	24	46	44
Other probable and reasonably estimable legal and environmental liabilities	31	39	132	230
Arbitration award related to phenol supply agreement	(67)	–	(67)	–
Business impairment charges	4	–	22	40
Other	–	1	10	8
Total net repositioning and other charges	<u>\$ 110</u>	<u>\$ 101</u>	<u>\$ 332</u>	<u>\$ 399</u>

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,	
	2005	2004	2005	2004
Cost of products and services sold	\$ 60(a)	\$ 100	\$ 277(a)	\$ 384
Selling, general and administrative expenses	50	1	43	9
Equity in (income) loss of affiliated companies	–	–	2	6
Other (income) expense	–	–	10	–
	<u>\$ 110</u>	<u>\$ 101</u>	<u>\$ 332</u>	<u>\$ 399</u>

(a) Amount includes a credit of \$67 million for an arbitration award related to a phenol supply agreement.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Aerospace	\$ 72	\$ –	\$ 92	\$ 4
Automation and Control Solutions	17	24	58	27
Specialty Materials	(62)(a)	24	(40)(a)	78
Transportation Systems	47	27	27(b)	114
Corporate	36	26	195	176
	<u>\$ 110</u>	<u>\$ 101</u>	<u>\$ 332</u>	<u>\$ 399</u>

(a) Amount includes a credit of \$67 million for an arbitration award related to a phenol supply agreement.

(b) Amount includes a repositioning charge of \$65 million and a net asbestos related credit of \$38 million.

In the third quarter of 2005, we recognized a repositioning charge of \$116 million primarily for severance costs related to workforce reductions of 1,931 manufacturing and administrative positions principally in our Aerospace reportable segment in connection with the implementation of a new organizational structure which reorganized our Aerospace businesses to better align with customer segments. The implementation of the new organizational structure was substantially completed in the third quarter of 2005. The repositioning charge also included severance costs for workforce reductions in our Automation and Control Solutions and Transportation Systems reportable segments. Also, during the third quarter of 2005, \$6 million of previously established accruals, primarily for severance at our Specialty Materials reportable segment, were returned to income principally due to changes in the scope of previously announced severance programs.

In the second quarter of 2005, we recognized a repositioning charge of \$59 million primarily for severance costs related to workforce reductions of 1,395 manufacturing and administrative positions principally in our Automation and Control Solutions, Aerospace and Transportation Systems reportable segments. Also, during the second quarter of 2005, \$8 million of previously established accruals, primarily for severance at Corporate, were returned to income. The reversal of severance liabilities was comprised primarily of excise taxes relating to an executive severance amount previously paid which were determined in the second quarter of 2005 to no longer be payable.

In the first quarter of 2005, we recognized a repositioning charge of \$34 million primarily for severance costs related to workforce reductions of 1,340 manufacturing and administrative positions across all of our reportable segments. Also, during the first quarter of 2005, \$6 million of previously established accruals, primarily for severance at Corporate, were returned to income. The reversal of severance liabilities relates primarily to changes in the scope of previously announced severance programs and for severance amounts previously paid to an outside service provider as part of an outsourcing arrangement which were refunded to Honeywell in the first quarter of 2005.

In the third quarter of 2004, we recognized a repositioning charge of \$40 million primarily for severance costs related to workforce reductions of 866 manufacturing and administrative positions principally in our Specialty Materials and Automation and Control Solutions reportable segments. Also, \$3 million of previously established accruals for severance were returned to income in the third quarter of 2004, due to fewer employee separations than originally planned

associated with certain prior repositioning actions, resulting in reduced severance liabilities in our Automation and Control Solutions and Corporate reportable segments.

In the second quarter of 2004, we recognized a repositioning charge of \$41 million primarily for severance costs related to workforce reductions of 761 manufacturing and administrative positions principally in our Automation and Control Solutions, Transportation Systems and Aerospace reportable segments. Also, \$16 million of previously established accruals, primarily for severance, were returned to income in the second quarter of 2004, due to fewer employee separations than originally planned associated with certain prior repositioning actions, resulting in reduced severance liabilities in our Automation and Control Solutions reportable segment.

In the first quarter of 2004, we recognized a repositioning charge of \$22 million primarily for severance costs related to workforce reductions of 587 manufacturing and administrative positions principally in our Automation and Control Solutions and Transportation Systems reportable segments. Also, \$7 million of previously established accruals for severance and other exit costs were returned to income in the first quarter of 2004. Severance liabilities were reduced by \$4 million mainly in our Automation and Control Solutions reportable segment due to fewer employee separations than originally planned associated with certain prior repositioning actions. Other exit costs liabilities were reduced by \$3 million related primarily to excess environmental remediation reserves for a closed facility in our Specialty Materials reportable segment.

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

	<u>Severance Costs</u>	<u>Asset Impairments</u>	<u>Exit Costs</u>	<u>Total</u>
Balance at December 31, 2004	\$ 97	\$ –	\$ 19	\$ 116
2005 charges	194	4	11	209
2005 usage	(99)	(4)	(6)	(109)
Adjustments	(16)	–	(4)	(20)
Balance at September 30, 2005	<u>\$ 176</u>	<u>\$ –</u>	<u>\$ 20</u>	<u>\$ 196</u>

In the third quarter of 2005, we recognized a charge of \$31 million for environmental liabilities deemed probable and reasonably estimable in the quarter. We recognized a charge of \$32 million for Bendix related asbestos claims filed and defense costs incurred during the third quarter of 2005, net of probable insurance recoveries. See Note 15 for further discussion of asbestos matters. We also recognized an impairment charge of \$4 million related to the write-down of property, plant and equipment held for sale in our Nylon business in our Specialty Materials reportable segment. We recognized a credit of \$67 million in connection with an arbitration award for overcharges by a supplier of phenol to our Specialty Materials business from June 2003 through the end of 2004. The arbitrator also awarded Honeywell an additional \$11.2 million of damages for overcharges in January through April 2005, which we will seek to confirm and have entered as a judgment in U.S. Federal Court. The arbitrator also found that the supplier has been in continuing breach of the supply agreement and indicated that additional damages will be awarded to Honeywell for damages since April 2005. An arbitration hearing on this issue is scheduled for November 2005.

In the second quarter of 2005, we recognized a charge of \$64 million primarily for environmental liabilities deemed probable and reasonably estimable in the quarter. We recognized a net credit of \$20 million consisting of a reduction in the Bendix related net asbestos liability of \$70 million related to an update of

expected resolution values with respect to claims pending as of June 30, 2005, partially offset by a charge of \$50 million for Bendix related asbestos claims filed and defense costs incurred during the second quarter of 2005, net of probable insurance recoveries, and for the write-off of a Bendix related insurance receivable. See Note 15 for further discussion of asbestos matters. We recognized an impairment charge of \$18 million related principally to the write-down of property, plant and equipment held and used in our Chemicals business in our Specialty Materials reportable segment. We also recognized a charge of \$10 million related to the modification of a lease agreement for the Corporate headquarters facility.

In the first quarter of 2005, we recognized a charge of \$37 million primarily for environmental liabilities deemed probable and reasonably estimable in the quarter. We also recognized a charge of \$34 million for Bendix related asbestos claims filed and defense costs incurred during the first quarter of 2005, net of probable insurance recoveries. The asbestos related charge also included the net effect of a settlement of certain NARCO related pending asbestos claims, a Bendix related structured insurance settlement and write-offs of certain Bendix related insurance receivables. See Note 15 for further discussion of asbestos matters.

In the third quarter of 2004, we recognized a charge of \$24 million for Bendix related asbestos claims filed and defense costs incurred during the third quarter of 2004, net of probable insurance recoveries. See Note 15 for further discussion of asbestos matters. We recognized a charge of \$25 million for environmental liabilities deemed probable and reasonably estimable in the quarter. We recognized a charge of \$14 million for legal settlements primarily related to property damage claims in our Automation and Control Solutions reportable segment. We also recognized a charge of \$1 million for the write-off of property, plant and equipment.

In the second quarter of 2004, we recognized a charge of \$161 million for environmental liabilities deemed probable and reasonably estimable in the quarter. This charge principally related to an increase in our estimate of design and study costs likely to be incurred during the pendency of our appeal of the matter entitled *Interfaith Community Organization, et al. v. Honeywell International Inc., et al.* and to estimated costs related to our decision in the second quarter of 2004 to seek a potential resolution of the principal issues in dispute in such matter. See Note 15 for further discussion. We recognized an impairment charge of \$40 million related principally to the write-down of property, plant and equipment of our Performance Fibers business in our Specialty Materials reportable segment, which was classified as assets held for disposal as of June 30, 2004. We recognized a charge of \$9 million for Bendix related asbestos claims filed and defense costs incurred during the second quarter of 2004 including an update of expected resolution values with respect to claims pending as of June 30, 2004. The charge is net of probable Bendix related insurance recoveries and an additional \$47 million of NARCO insurance deemed probable of recovery. See Note 15 for further discussion of asbestos matters. We also recognized a charge of \$7 million principally for the write-off of property, plant and equipment.

In the first quarter of 2004, we recognized a charge of \$30 million for environmental liabilities deemed probable and reasonably estimable in the quarter, including liabilities for environmental conditions around Onondaga Lake in New York. We also recognized a charge of \$11 million for Bendix related asbestos

claims filed and defense costs incurred during the first quarter of 2004, net of probable insurance recoveries. See Note 15 for further discussion of environmental and asbestos matters.

NOTE 6. In the third quarter of 2005, we recognized a pretax gain of \$21 million (after-tax \$13 million) for post-closing adjustments principally related to the

sales of our Performance Fibers and Security Monitoring businesses in the prior year.

In the second quarter of 2005, we recognized a pretax loss of \$18 million (after-tax gain of \$39 million) consisting of the pretax loss of \$34 million related to the sale of our Industrial Wax business partially offset by a pretax gain of \$16 million for post-closing adjustments related to the sale of our Performance Fibers business in the prior year. The after-tax gain on the sale of our Industrial Wax business is due to the higher tax basis than book basis.

In the first quarter of 2005, we recognized a pretax gain of \$8 million (after-tax \$5 million) for post-closing adjustments related to the sale of our Security Monitoring business in the prior year.

In the third quarter of 2004, we recognized a pretax gain of \$5 million (after-tax \$3 million) for post-closing adjustments related to the sales of our Security Monitoring and VCSEL Optical Products businesses in prior quarters in 2004.

In the second quarter of 2004, we sold our Security Monitoring business for cash proceeds of approximately \$315 million resulting in a pretax gain of \$212 million. We also recognized a pretax gain of \$21 million for post-closing adjustments related to businesses sold in prior periods. The total after-tax gain on these transactions was \$130 million.

In the first quarter of 2004, we sold our VCSEL Optical Products business for cash proceeds of \$74 million resulting in a pretax gain of \$32 million (after-tax \$14 million).

NOTE 7. The details of the earnings per share calculations for the three- and nine-month periods ended September 30, 2005 and 2004 follow:

	<b>Three Months Ended September 30,</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Basic</b>	<b>Assuming Dilution</b>	<b>Basic</b>	<b>Assuming Dilution</b>
<b><u>Income</u></b>				
Income from continuing operations	\$ 433	\$ 433	\$ 372	\$ 372
Income from discontinued operations, net of taxes	37	37	—	—
Net income	<u>\$ 470</u>	<u>\$ 470</u>	<u>\$ 372</u>	<u>\$ 372</u>
<b><u>Average shares</u></b>				
Average shares outstanding	851.3	851.3	860.6	860.6
Dilutive securities issuable in connection with stock plans	—	4.3	—	3.7
Total average shares outstanding	<u>851.3</u>	<u>855.6</u>	<u>860.6</u>	<u>864.3</u>
<b><u>Earnings per share of common stock</u></b>				
Income from continuing operations	\$ 0.51	\$ 0.51	\$ 0.43	\$ 0.43
Income from discontinued operations, net of taxes	0.04	0.04	—	—
Net income	<u>\$ 0.55</u>	<u>\$ 0.55</u>	<u>\$ 0.43</u>	<u>\$ 0.43</u>

	<b>Nine Months Ended September 30,</b>			
	<b>2005</b>		<b>2004</b>	
	<b>Basic</b>	<b>Assuming Dilution</b>	<b>Basic</b>	<b>Assuming Dilution</b>
<b>Income</b>				
Income from continuing operations	\$ 1,070	\$ 1,070	\$ 1,028	\$ 1,028
Income from discontinued operations, net of taxes	65	65	-	-
Net income	<u>\$ 1,135</u>	<u>\$ 1,135</u>	<u>\$ 1,028</u>	<u>\$ 1,028</u>
<b>Average shares</b>				
Average shares outstanding	852.9	852.9	860.4	860.4
Dilutive securities issuable in connection with stock plans	-	3.9	-	3.4
Total average shares outstanding	<u>852.9</u>	<u>856.8</u>	<u>860.4</u>	<u>863.8</u>
<b>Earnings per share of common stock</b>				
Income from continuing operations	\$ 1.25	\$ 1.25	\$ 1.19	\$ 1.19
Income from discontinued operations, net of taxes	0.08	0.08	-	-
Net income	<u>\$ 1.33</u>	<u>\$ 1.33</u>	<u>\$ 1.19</u>	<u>\$ 1.19</u>

The diluted earnings per share calculation excludes the effect of stock options when the options' exercise prices exceed the average market price of the common shares during the period. For the three- and nine-month periods ended September 30, 2005, the number of stock options not included in the computations were 17.3 and 18.0 million, respectively. For the three- and nine-month periods ended September 30, 2004, the number of stock options not included in the computations were 32.4 and 41.4 million, respectively. These stock options were outstanding at the end of each of the respective periods.

NOTE 8. In May 2005, the U.S. Treasury issued guidance clarifying certain provisions of The American Jobs Creation Act of 2004 (the Act) and, accordingly, during the second quarter of 2005 we were able to finalize our assessment of the Act and its impact on Honeywell. We determined that we would repatriate approximately \$2.7 billion of foreign earnings during the remainder of 2005, of which \$2.2 billion receives the benefit under the Act, with an estimated income tax provision of \$155 million.

NOTE 9. Accounts, notes and other receivables consist of the following:

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
Trade	\$ 4,317	\$ 3,656
Other	624	724
	<u>4,941</u>	<u>4,380</u>
Less – Allowance for doubtful accounts	(169)	(137)
	<u>\$ 4,772</u>	<u>\$ 4,243</u>

NOTE 10. Inventories consist of the following:

	<u>September 30, 2005</u>	<u>December 31, 2004</u>
Raw materials	\$1,462	\$1,153
Work in process	735	779
Finished products	<u>1,350</u>	<u>1,382</u>
	3,547	3,314
Less – Progress payments	(19)	(24)
– Reduction to LIFO cost basis	<u>(130)</u>	<u>(130)</u>
	<u>\$3,398</u>	<u>\$3,160</u>

NOTE 11. The change in the carrying amount of goodwill for the nine months ended September 30, 2005 by reportable segment is as follows:

	<u>Dec. 31, 2004</u>	<u>Acquisitions</u>	<u>Divestitures</u>	<u>Currency Translation Adjustment</u>	<u>Sept. 30, 2005</u>
Aerospace	\$ 1,721	\$ 15	\$ –	\$ (13)	\$ 1,723
Automation and Control Solutions	2,954	1,484	–	(27)	4,411
Specialty Materials	779	–	(10)	(18)	751
Transportation Systems	559	–	–	(22)	537
	<u>\$ 6,013</u>	<u>\$ 1,499</u>	<u>\$ (10)</u>	<u>\$ (80)</u>	<u>\$ 7,422</u>

Intangible assets are comprised of:

	<u>September 30, 2005</u>			<u>December 31, 2004</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Intangible assets with determinable lives:						
Investments in Aerospace customer incentives	\$ 995	\$ (204)	\$ 791	\$ 952	\$ (176)	\$ 776
Patents and trademarks	512	(319)	193	445	(310)	135
Other	<u>823</u>	<u>(258)</u>	<u>565</u>	<u>512</u>	<u>(219)</u>	<u>293</u>
	2,330	(781)	1,549	1,909	(705)	1,204
Trademark with indefinite life	46	(9)	37	46	(9)	37
	<u>\$ 2,376</u>	<u>\$ (790)</u>	<u>\$ 1,586</u>	<u>\$ 1,955</u>	<u>\$ (714)</u>	<u>\$ 1,241</u>

Amortization expense related to intangible assets for the nine months ended September 30, 2005 and 2004 was \$80 and \$66 million, respectively. Amortization expense related to intangible assets for 2005 to 2009 is expected to approximate \$110 million each year.

We completed our goodwill and intangible assets impairment testing for our reporting units as of March 31, 2005 and determined that there was no impairment as of that date.

NOTE 12. Total nonowner changes in shareowners' equity consist of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income	\$ 470	\$ 372	\$ 1,135	\$ 1,028
Foreign exchange translation adjustments	31	89	(181)	35
Change in fair value of effective cash flow hedges	16	(1)	10	(13)
	<u>\$ 517</u>	<u>\$ 460</u>	<u>\$ 964</u>	<u>\$ 1,050</u>

NOTE 13. Segment financial data follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
<b>Net Sales</b>				
Aerospace	\$ 2,619	\$ 2,468	\$ 7,772	\$ 7,225
Automation and Control Solutions	2,445	1,994	6,824	5,909
Specialty Materials	773	876	2,369	2,633
Transportation Systems	1,061	1,057	3,412	3,193
Corporate	1	–	1	1
	<u>\$ 6,899</u>	<u>\$ 6,395</u>	<u>\$ 20,378</u>	<u>\$ 18,961</u>
<b>Segment Profit</b>				
Aerospace	\$ 439	\$ 379	\$ 1,234	\$ 1,053
Automation and Control Solutions	300	235	743	637
Specialty Materials	58	38	195	137
Transportation Systems	121	137	437	430
Corporate	(41)	(40)	(129)	(117)
Total segment profit	<u>877</u>	<u>749</u>	<u>2,480</u>	<u>2,140</u>
Gain on sale of non-strategic businesses	21	5	11	270
Equity in income of affiliated companies	22	24	82	48
Other income	–	50	27	78
Interest and other financial charges	(83)	(81)	(260)	(247)
Pension and other postretirement benefits (expense) (A)	(141)	(160)	(423)	(482)
Repositioning, environmental, litigation and other charges (credits) (A)	(110)	(101)	(320)	(393)
Income from continuing operations before taxes	<u>\$ 586</u>	<u>\$ 486</u>	<u>\$ 1,597</u>	<u>\$ 1,414</u>

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

NOTE 14. Net periodic pension and other postretirement benefits costs for our significant plans include the following components.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
<b><u>Pension Benefits</u></b>				
Service cost	\$ 52	\$ 60	\$ 174	\$ 180
Interest cost	209	189	608	567
Expected return on plan assets	(277)	(261)	(823)	(784)
Amortization of prior service cost	8	9	23	27
Recognition of actuarial losses	101	101	292	304
	<u>\$ 93</u>	<u>\$ 98</u>	<u>\$ 274</u>	<u>\$ 294</u>
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
<b><u>Other Postretirement Benefits</u></b>				
Service cost	\$ 3	\$ 6	\$ 13	\$ 16
Interest cost	27	36	85	107
Expected return on plan assets	–	–	–	–
Amortization of prior service (credit)	(11)	(9)	(29)	(26)
Recognition of actuarial losses	13	24	47	73
	<u>\$ 32</u>	<u>\$ 57</u>	<u>\$ 116</u>	<u>\$ 170</u>

Effective December 31, 2004, we adopted FASB Staff Position No. 106-2, “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003” (FSP No. 106-2). FSP No. 106-2 provides guidance on accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) for employers that sponsor postretirement health care plans that provide prescription drug coverage that is at least actuarially equivalent to that offered by Medicare Part D. The impact of the Act reduced other postretirement benefits expense by approximately \$36 million in the nine months ended September 30, 2005. This decrease in other postretirement benefits expense resulted from lower amortization of actuarial losses of approximately \$27 million due to the effect of the actuarial gain experienced from the impact of the Act and from lower interest cost of approximately \$9 million.

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 accord 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 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 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.

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.

In February 2005, the Third Circuit Court of Appeals upheld the decision of the United States District Court for the District of New Jersey in the matter entitled *Interfaith Community Organization (ICO), et al. v. Honeywell International Inc., et al.*, that a predecessor Honeywell site located in Jersey City, New Jersey constituted an imminent and substantial endangerment and ordered Honeywell to conduct the excavation and transport for offsite disposal of approximately one million tons of chromium residue present at the site. Provisions have been made in our financial statements for the cost of implementation of the excavation and offsite removal remedy, which is expected to take place over a five-year period. The cost of implementation is expected to be incurred evenly over that period. 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. On October 6, 2005, Honeywell filed a motion for relief in this matter seeking approval of an alternative remedy in which Honeywell would excavate approximately half of the chromium residue present at the site and encase the remaining material with a multi-media containment system that would fully protect human health and the environment. No assurances can be given at this time that Honeywell's motion for relief will be granted.

The site at issue in the ICO matter is one of twenty-one sites located in Jersey City, 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 are underway at the other sites (the "Honeywell ACO Sites").

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-1950s. While the complaint is not entirely clear, it appears that approximately 100 sites are at issue, including 17 of the Honeywell ACO Sites, approximately 32 sites at which

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 have 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 has previously denied responsibility for the Publicly Funded Sites. Honeywell believes that it has no connection with either the sites covered by the other companies' administrative consent orders or the Publicly Funded Sites and, therefore, we have 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. On October 5, 2005, the Hackensack Riverkeeper notified Honeywell and twelve property owners that it intended to initiate a lawsuit under the Resource Conservation and Recovery Act (RCRA) seeking the cleanup of chromium residue on certain Honeywell ACO Sites. Under RCRA, such a lawsuit could not be initiated until 90 days after the delivery of the notice. For the reasons stated above, we do not believe this lawsuit, if initiated, would significantly change our obligations with respect to the Honeywell ACO Sites.

Although it is not possible at this time to predict the outcome of matters described in the preceding paragraph, 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.

In accordance with a 1992 consent decree with the State of New York, Honeywell is studying environmental conditions in and around Onondaga Lake (the Lake) in Syracuse, New York. The purpose of the study is to identify, evaluate and propose remedial measures that can be taken to remedy historic industrial contamination in the Lake. 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.

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 (the May 2004 Feasibility Study). Although the Record of Decision calls for additional remediation in certain parts of the Lake, it would not require the most extensive dredging alternatives described in the May 2004 Feasibility Study. The DEC's aggregate cost estimate 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 other things, the resolution of certain technical issues during the design phase of the remediation.

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 considered a range of possible outcomes and amounts recorded reflect our best estimate at this time. We do not believe that this matter will have a material adverse impact on our consolidated financial position. 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.

### **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) which 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. NARCO had resolved approximately 176,000 claims through January 4, 2002, the date NARCO filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code, at an average cost per claim of two thousand two hundred dollars. Of those claims, 43 percent were dismissed on the ground that there was insufficient evidence that NARCO was responsible for the claimant's asbestos exposure. As of the date of NARCO's bankruptcy filing, there were approximately 116,000 remaining claims pending against NARCO, including approximately 7 percent in which Honeywell was also named as a defendant based on alleged exposure to NARCO products. Since 1983, Honeywell and our insurers have contributed to the defense and settlement costs associated with NARCO claims.

As a result of the NARCO bankruptcy filing, all of the claims pending against NARCO are automatically stayed pending the reorganization of NARCO. Because the claims pending against Honeywell necessarily will impact the liabilities of NARCO, because the insurance policies held by Honeywell are essential to a successful NARCO reorganization, and because Honeywell has offered to commit the value of those policies to the reorganization, the bankruptcy court has temporarily enjoined any claims against Honeywell, current or future, related to NARCO, except one claim which is not material as to which the stay was lifted in August 2003. Although the stay has remained in effect continuously since January 4, 2002, there is no assurance that such stay will remain in effect. 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, and to pay NARCO's parent company \$40 million, and to forgive any outstanding NARCO indebtedness, upon the confirmation and consummation, respectively, of such a plan.

As a result of negotiations with counsel representing NARCO related asbestos claimants regarding settlement of all pending and potential NARCO related asbestos claims against Honeywell, we have reached definitive agreements

with approximately 260,000 claimants, which represents in excess of 90 percent of the anticipated current claimants who are expected to file a claim as part of the NARCO reorganization process. We are also in discussions with the NARCO Committee of Asbestos Creditors and the Court-appointed legal representative for future asbestos claimants on Trust Distribution Procedures for NARCO. We believe that, as part of the NARCO plan of reorganization, a trust will be established pursuant to these Trust Distribution Procedures for the benefit of all asbestos claimants, current and future. 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. NARCO filed its amended proposed plan of reorganization on September 15, 2005. A hearing on the proposed Disclosure Statement for the plan is set for November 30, 2005. We now expect the NARCO plan of reorganization and the NARCO trust to be approved by the Court in 2006. As part of its ongoing settlement negotiations, 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. Given the substantial progress of negotiations between Honeywell and NARCO related asbestos claimants and between Honeywell and the Asbestos Claimants Committee during the fourth quarter of 2002, Honeywell developed an estimated liability for settlement of pending and future asbestos claims and recorded a charge of \$1.4 billion for NARCO related asbestos litigation charges, net of insurance recoveries. This charge consisted of the estimated liability to settle current asbestos related claims, the estimated liability related to future asbestos related claims through 2018 and obligations to NARCO's parent, net of insurance recoveries of \$1.8 billion. During the nine months ended September 30, 2005, we recognized a charge of approximately \$52 million to reflect a settlement of certain pending asbestos claims during the period.

The estimated liability for current claims is based on terms and conditions, including evidentiary requirements, in definitive agreements with in excess of 90 percent of current claimants. Substantially all settlement payments with respect to current claims are expected to be made by the end of 2007.

The liability for future claims estimates the probable value of future asbestos related bodily injury claims expected to be asserted against NARCO through 2018 and obligations to NARCO's parent as discussed above. 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. 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 Statement of Financial Accounting Standards No. 5. Honeywell retained the expert services of Hamilton, Rabinovitz and Alschuler, Inc. (HR&A) to project the probable number and value, including trust claim handling costs, of asbestos related future liabilities based upon historical experience with similar trusts. The 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. The valuation methodology 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.

Honeywell has approximately \$1.2 billion in insurance limits remaining that reimburses it for portions of the costs incurred to settle NARCO related claims

and court judgments as well as defense costs. 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. At September 30, 2005, 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. This includes agreements with a substantial majority of the London-based insurance companies entered into primarily in the first quarter of 2004. We conduct analyses to determine the amount of insurance that we estimate is probable that we will recover in relation to payment of current and projected 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. In the second quarter of 2004, based on our ongoing evaluation of our ability to enforce our rights under the various insurance policies, we concluded that we had additional probable insurance recoveries of \$47 million, net of solvency reserves, which has been reflected in insurance receivables. 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.

Projecting future events is subject to many uncertainties that could cause the NARCO related asbestos liabilities to be higher or lower than those projected and recorded. There is no assurance that a plan of reorganization will be confirmed, 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 allege to have performed brake replacements.

From 1981 through September 30, 2005, we have resolved approximately 74,000 Bendix related asbestos claims including trials covering 120 plaintiffs, which resulted in 115 favorable verdicts. Trials covering five individuals resulted in adverse verdicts; however, two of these verdicts were reversed on appeal and the remaining three claims were settled. The following tables present information regarding Bendix related asbestos claims activity:

<b><u>Claims Activity</u></b>	<b><u>Nine Months Ended September 30,</u></b>	<b><u>Years Ended December 31,</u></b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>
Claims Unresolved at the beginning of period	76,348	72,976	50,821
Claims Filed	6,742	10,504	25,765
Claims Resolved	<u>(3,825)</u>	<u>(7,132)</u>	<u>(3,610)</u>
Claims Unresolved at the end of period	<u>79,265</u>	<u>76,348</u>	<u>72,976</u>

<b><u>Disease Distribution of Unresolved Claims</u></b>	<b><u>September 30,</u></b>	<b><u>December 31,</u></b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>	<b><u>2003</u></b>
Mesothelioma and Other Cancer Claims	3,789	3,534	3,277
Other Claims	<u>75,476</u>	<u>72,814</u>	<u>69,699</u>
Total Claims	<u>79,265</u>	<u>76,348</u>	<u>72,976</u>

Approximately 30 percent of the approximately 79,000 pending claims at September 30, 2005 are on the inactive, deferred, or similar dockets established in some jurisdictions for claimants who allege minimal or no impairment. The approximately 79,000 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. Honeywell has experienced average resolution values excluding legal costs as follows:

	<b><u>Years Ended December 31,</u></b>		
	<b><u>2004</u></b>	<b><u>2003</u></b>	<b><u>2002</u></b>
	<b>(in whole dollars)</b>		
Malignant claims	\$ 90,000	\$ 95,000	\$ 166,000
Nonmalignant claims	\$ 1,600	\$ 3,500	\$ 1,300

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

We have accrued for the estimated cost of pending Bendix related asbestos claims. The estimate is based on the number of pending claims at September 30, 2005, disease classifications, expected settlement values and historic dismissal rates. Honeywell retained the expert services of HR&A (see discussion of HR&A under Refractory products above) to assist in developing the estimated expected settlement values and historic dismissal rates. HR&A updates expected settlement values for pending claims during the second quarter each year. Such update resulted in a reduction in the Bendix related net asbestos liability of \$70 million during the three months ended June 30, 2005. We cannot reasonably estimate losses which could arise from future Bendix related asbestos claims because we cannot predict how many additional claims may be brought against us, the allegations in such claims or their probable outcomes and resulting settlement values in the tort system.

Honeywell currently has approximately \$1.9 billion of insurance coverage remaining with respect to pending and potential future Bendix related asbestos claims. 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.

During the nine months ended September 30, 2005, we entered into a structured insurance settlement which converted policies into future fixed, non-contingent payment streams, resulting in a gain of approximately \$160 million. Additionally, during the nine months ended September 30, 2005, we recognized charges of approximately \$131 million for write-offs of certain amounts due from insurance carriers. At September 30, 2005, we had amounts receivable from our insurers of approximately \$384 million representing probable reimbursements associated with our liability for pending claims and previously settled and paid claims, and for amounts due under negotiated fixed payment streams.

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. Although it is impossible to predict the outcome of pending claims or to reasonably estimate losses which could arise from 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 indemnity cost 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 substantially change.

Refractory and Friction Products — NARCO and Bendix asbestos related balances are included in the following balance sheet accounts:

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
Other current assets	\$ 213	\$ 150
Insurance recoveries for asbestos related liabilities	1,288	1,412
	<u>\$ 1,501</u>	<u>\$ 1,562</u>
Accrued liabilities	\$ 800	\$ 744
Asbestos related liabilities	1,618	2,006
	<u>\$ 2,418</u>	<u>\$ 2,750</u>

During the nine months ended September 30, 2005, we paid \$418 million in indemnity and defense costs related to NARCO and Bendix claims and received \$110 million of asbestos related insurance recoveries. We also recognized a charge of \$116 million for Bendix related asbestos claims filed and defense costs incurred during the first nine months of 2005, net of probable insurance recoveries. The asbestos related charge also included the net effect of a settlement of certain NARCO related pending asbestos claims, a Bendix related structured insurance settlement and write-offs of certain Bendix related insurance receivables.

Additionally, during the second quarter of 2005 we reduced the Bendix related net asbestos liability by \$70 million related to an update of expected resolution values with respect to claims pending as of June 30, 2005.

We are monitoring proposals for federal asbestos legislation pending in the United States Congress. Due to the uncertainty surrounding the proposed legislation, it is not possible at this point in time to determine what impact such legislation would have on the NARCO bankruptcy strategy or our asbestos liabilities and related insurance recoveries.

### **Other Matters**

Breed Technologies Inc. v. AlliedSignal — Plaintiff alleges fraud in connection with AlliedSignal's October 1997 sale of its safety restraints business to Breed and alleges that the transaction constituted a fraudulent transfer. Plaintiff seeks compensatory damages of up to \$710 million and punitive damages. Trial is scheduled for January 2006 in Florida state court. We believe plaintiff's claims are without merit and expect to prevail in this matter. Accordingly, we do not believe that a liability is probable of occurrence and reasonably estimable and have not made provision for this matter in our financial statements. Given the uncertainty inherent in litigation, it is not possible to estimate the range of possible loss that might result from an adverse resolution of this matter.

Allen, et. al. v. Honeywell Retirement Earnings Plan — A purported class action lawsuit in which plaintiffs seek unspecified damages relating to allegations that, among other things, Honeywell impermissibly reduced the pension benefits of employees of Garrett Corporation (a predecessor entity) when the plan was amended in 1983 and failed to calculate certain benefits in accordance with the terms of the plan. In the third quarter of 2005, the U.S. District Court for the District of Arizona ruled in favor of the plaintiffs on these claims and in favor of Honeywell on virtually all other claims. We strongly disagree with, and intend to appeal, the Court's adverse ruling. No class has yet been certified by the Court in this matter. In light of the merits of our arguments on appeal and substantial affirmative defenses which have not yet been considered by the Court, we continue to expect to prevail in this matter. Accordingly, we do not believe that a liability is probable of occurrence and reasonably estimable and have not made provision for this matter in our financial statements. Given the uncertainty inherent in litigation, it is not possible to estimate the range of possible loss that might result from an adverse resolution of this matter.

Although we expect to prevail in the Breed and Allen matters discussed above, an adverse outcome in either matter could have a material adverse effect on our results of operations or operating cash flows in the periods recognized or paid. We do not believe that an adverse outcome in either matter would have a material adverse effect on our 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, 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.

### **Warranties and Guarantees**

As disclosed in Note 21 to our consolidated financial statements in our 2004 Annual Report on Form 10-K, we have issued or are a party to certain direct and indirect guarantees. As of September 30, 2005, there has been no material change to these guarantees.

The following table summarizes information concerning our recorded obligations for product warranties and product performance guarantees:

	<b><u>Nine Months Ended September 30,</u></b>	
	<b><u>2005</u></b>	<b><u>2004</u></b>
Beginning of period	\$ 299	\$ 275
Accruals for warranties/guarantees issued during the period	171	181
Adjustments of pre-existing warranties/guarantees	(8)	(13)
Settlement of warranty/guarantee claims	<u>(148)</u>	<u>(151)</u>
End of period	<b><u>\$ 314</u></b>	<b><u>\$ 292</u></b>

## 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, 2005, and the related consolidated statement of operations for each of the three and nine-month periods ended September 30, 2005 and 2004 and the consolidated statement of cash flows for the nine-month periods ended September 30, 2005 and 2004. 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, 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, 2004, 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, 2004 and the effectiveness of the Company's internal control over financial reporting as of December 31, 2004; and in our report dated February 25, 2005, 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, 2004, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP  
Florham Park, NJ  
October 28, 2005

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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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**  
(Dollars in millions, except per share amounts)

**A. RESULTS OF OPERATIONS – THIRD QUARTER 2005 COMPARED WITH THIRD QUARTER 2004****Net Sales**

	<u>2005</u>	<u>2004</u>
Net sales	\$6,899	\$6,395
% change compared with prior period	8%	

The increase in net sales in the third quarter of 2005 compared with the third quarter of 2004 is attributable to the following:

Acquisitions	6%
Divestitures	(3)
Price	1
Volume	3
Foreign Exchange	1
	<u>8%</u>

A discussion of net sales by reportable segment can be found in the Review of Business Segments section of this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

**Cost of Products and Services Sold**

	<u>2005</u>	<u>2004</u>
Cost of products and services sold	\$5,291	\$5,087
Gross margin %	23.3%	20.5%

Gross margin increased by 2.8 percentage points in the third quarter of 2005 compared with the third quarter of 2004 due primarily to an increase in sales of our commercial Aerospace products and services, a decrease in environmental, litigation, net repositioning and other charges (credits) of \$40 million and lower pension and other postretirement benefits expense of \$26 million.

**Selling, General and Administrative Expenses**

	<u>2005</u>	<u>2004</u>
Selling, general and administrative expenses	\$982	\$820
Percent of sales	14.2%	12.8%

Selling, general and administrative expenses increased by \$162 million, or 20 percent in the third quarter of 2005 compared with the third quarter of 2004 primarily due to an increase in selling expenses of \$88 million principally from higher sales and the acquisition of Novar, an increase in general and administrative expenses of \$18 million due in part to higher spending for information technology systems (primarily Enterprise Resources Planning (ERP) system in Aerospace), and an increase in environmental, litigation, net repositioning and other charges of \$49 million.

	<u>2005</u>	<u>2004</u>
Pension and other postretirement benefits (OPEB) expense included in cost of products and services sold and selling, general and administrative expenses	\$141	\$160
Decrease compared with prior period	\$(19)	

OPEB expense decreased by \$21 million in the third quarter of 2005 compared with the third quarter of 2004. The decrease in OPEB expense resulted principally from the effect of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. See Note 14 of Notes to Financial Statements for further discussion. Pension expense increased by \$2 million in the third quarter of 2005 compared with the third quarter of 2004 principally due to pension expense for Novar.

**(Gain) Loss on Sale of Non-Strategic Businesses**

	<u>2005</u>	<u>2004</u>
(Gain) loss on sale of non-strategic businesses	\$(21)	\$(5)

Gain on sale of non-strategic businesses of \$21 million in the third quarter of 2005 represents post-closing adjustments principally related to the sales of our Performance Fibers and Security Monitoring businesses in the prior year. Gain on sale of non-strategic businesses of \$5 million in the third quarter of 2004 represented post-closing adjustments related to the sales of our Security Monitoring and VCSEL businesses in prior quarters in 2004.

**Equity in (Income) Loss of Affiliated Companies**

	<u>2005</u>	<u>2004</u>
Equity in (income) loss of affiliated companies	\$(22)	\$(24)

Equity income decreased by \$2 million in the third quarter of 2005 compared with the third quarter of 2004 as higher earnings of \$8 million from our UOP process technology joint venture (UOP) due to strength in the refining and petrochemical industries was more than offset by lower earnings from various other joint ventures in our Specialty Materials and Automation and Control Solutions reportable segments.

**Other (Income) Expense**

	<u>2005</u>	<u>2004</u>
Other (income) expense	\$ –	\$(50)

Other income decreased by \$50 million in the third quarter of 2005 compared with the third quarter of 2004 as the prior year included a gain of \$27 million related to the settlement of a patent infringement lawsuit. Also, interest income was lower by \$11 million due to a decline in cash balances and losses related to foreign exchange hedge contracts increased by \$7 million.

**Tax Expense**

	<u>2005</u>	<u>2004</u>
Tax expense	\$153	\$114
Effective tax rate	26.1%	23.5%

The effective tax rate increased by 2.6 percentage points in the third quarter of 2005 compared with the third quarter of 2004 due principally to a higher effective tax rate on environmental, litigation, net repositioning and other charges in the prior year's third quarter.

Excluding the impact of gains on sales of non-strategic businesses and environmental, litigation, net repositioning and other charges, the effective tax rate in both periods was 26.5 percent. This rate was lower than the statutory rate of 35 percent due in part to tax benefits from export sales and foreign taxes.

**Income From Continuing Operations**

	<u>2005</u>	<u>2004</u>
Income from continuing operations	\$433	\$372
Earnings per share of common stock – assuming dilution	\$0.51	\$0.43

The increase of \$0.08 per share in the third quarter of 2005 compared with the third quarter of 2004 relates primarily to an increase in segment profit in our Aerospace and Automation and Control Solutions reportable segments.

**Income From Discontinued Operations**

	<u>2005</u>	<u>2004</u>
Income from discontinued operations	\$37	\$ –
Earnings per share of common stock – assuming dilution	\$0.04	\$ –

Income from discontinued operations of \$37 million, or \$0.04 per share, in the third quarter of 2005 relates to the operating results of the Indalex Aluminum Solutions (Indalex) and Security Printing Services (Security Printing) businesses which have been classified as discontinued operations.

**Review of Business Segments**

	<b>Three Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Net Sales</b>		
Aerospace	\$2,619	\$2,468
Automation and Control Solutions	2,445	1,994
Specialty Materials	773	876
Transportation Systems	1,061	1,057
Corporate	1	-
	<u>\$6,899</u>	<u>\$6,395</u>
<b>Segment Profit</b>		
Aerospace	\$439	\$379
Automation and Control Solutions	300	235
Specialty Materials	58	38
Transportation Systems	121	137
Corporate	(41)	(40)
Total segment profit	<u>877</u>	<u>749</u>
Gain on sale of non-strategic businesses	21	5
Equity in income of affiliated companies	22	24
Other income	-	50
Interest and other financial charges	(83)	(81)
Pension and other postretirement benefits (expense) (A)	(141)	(160)
Repositioning, environmental, litigation and other charges (credits) (A)	(110)	(101)
Income from continuing operations before taxes	<u>\$586</u>	<u>\$486</u>

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

<b>Aerospace</b>		
	<b>2005</b>	<b>2004</b>
Net sales	\$2,619	\$2,468
% change compared with prior period	6%	
Segment profit	\$439	\$379
% change compared with prior period	16%	

Aerospace sales by major customer end-markets for the three months ended September 30, 2005 and 2004 were as follows:

<b>Customer End-Markets</b>	<b>% of Aerospace Sales</b>		<b>% Change in Sales</b>
	<b>2005</b>	<b>2004</b>	<b>2005 Versus 2004</b>
<b>Commercial:</b>			
Air transport aftermarket	22%	23%	1%
Air transport original equipment	9	8	23
Regional transport aftermarket	7	8	(5)
Regional transport original equipment	2	3	(30)
Business and general aviation aftermarket	8	8	7
Business and general aviation original equipment	11	8	45
<b>Defense and Space:</b>			
Defense and space aftermarket	11	12	(4)
Defense and space original equipment	30	30	6
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>6%</b>

Aerospace sales increased by 6 percent in the third quarter of 2005 compared with the third quarter of 2004 due primarily to higher volumes. Details by customer end-markets driving the increase in sales are as follows:

- Air transport aftermarket sales improved slightly in 2005 as the impact of a 9 percent increase in global flying hours was largely offset by the absence of upgrades and retrofits of avionics equipment experienced in the prior year to meet certain mandated regulatory standards.
- Air transport original equipment (OE) sales increased in 2005 primarily reflecting higher aircraft production rates by our OE customers.
- Regional transport aftermarket sales decreased in 2005 due primarily to the removal from service of old turboprop aircraft for more efficient replacements and the related decline in spare parts sales and the absence of upgrades and retrofits of avionics equipment experienced in the prior year to meet certain mandated regulatory standards. This decrease was partially offset by an increase in flying hours by regional carriers.
- Business and general aviation aftermarket sales were higher in 2005 primarily driven by an increase in scheduled maintenance events, an increasing number of aircraft coming off new delivery warranties and an increase in retrofit sales.
- Business and general aviation OE sales improved in 2005 due primarily to deliveries of the Primus Epic integrated avionics system and the HTF7000 engine to business jet OE manufacturers.
- Defense and space aftermarket sales were lower in 2005 principally due to a decline in war-related activities resulting in lower replenishment demand from the U.S. military.
- Defense and space OE sales were higher in 2005 due principally to an increase in platform upgrades, engineering sales and intellectual property enforcement revenues.

Aerospace segment profit increased by 16 percent in the third quarter of 2005 compared with the third quarter of 2004 due primarily to volume growth mainly in our commercial OE customer end-markets, price increases and an increase in intellectual property enforcement income partially offset by write-offs of receivables from airlines in bankruptcy.

**Automation and Control Solutions**

	<b>2005</b>	<b>2004</b>
Net sales	\$2,445	\$1,994
% change compared with prior period	23%	
Segment profit	\$300	\$235
% change compared with prior period	28%	

Automation and Control Solutions sales increased by 23 percent in the third quarter of 2005 compared with the third quarter of 2004 due to acquisitions (mainly Novar’s Intelligent Business Systems (IBS) business) of 19 percent, higher volumes of 3 percent and the favorable effect of foreign exchange of 1 percent. Sales increased by 32 percent for our Automation and Control Products businesses driven principally by the acquisition of Novar’s IBS business. Volume growth and acquisitions in our security and life safety products businesses also contributed to the increase in sales. Sales for our Building Solutions business increased by 15 percent due primarily to the acquisition of Novar’s IBS business and growth in service and energy retrofits. Sales for our Process Solutions business increased by 5 percent principally due to an acquisition and the favorable effect of foreign exchange.

Automation and Control Solutions segment profit increased by 28 percent in the third quarter of 2005 compared with the third quarter of 2004 due principally to the favorable effects of productivity actions, acquisitions (mainly IBS) and higher sales volumes.

**Specialty Materials**

	<b>2005</b>	<b>2004</b>
Net sales	\$773	\$876
% change compared with prior period	(12)%	
Segment profit	\$58	\$38
% change compared with prior period	53%	

Specialty Materials sales decreased by 12 percent in the third quarter of 2005 compared with the third quarter of 2004 due to divestitures of 18 percent (Performance Fibers and Industrial Wax businesses) and lower volumes of 1 percent, partially offset by the impact of higher prices of 7 percent (mainly in our Nylon and Chemicals businesses). Sales for our Nylon business increased by 11 percent driven by price increases partially offset by lower volumes. Sales for our Chemicals business improved by 8 percent principally driven by price increases for our non-ozone depleting HFC products for refrigeration and air conditioning applications, as well as higher volumes for our blowing agents for insulation applications.

Specialty Materials segment profit increased by 53 percent in the third quarter of 2005 compared with the third quarter of 2004 due principally to price increases partially offset by higher raw material costs (principally natural gas), and the impact of Hurricane Katrina on our Geismar and Baton Rouge, Louisiana plants in our Chemicals business. In addition, Hurricane Rita disrupted operations at our Orange, Texas Performance Products facility, which we

anticipate will have some negative impact on our fourth quarter 2005 segment profit.

### Transportation Systems

	<u>2005</u>	<u>2004</u>
Net sales	\$1,061	\$1,057
% change compared with prior period		-%
Segment profit	\$121	\$137
% change compared with prior period		(12)%

Transportation Systems sales were basically flat in the third quarter of 2005 compared with the third quarter of 2004 as the favorable effect of foreign exchange of 1 percent was offset by lower volumes of 1 percent. Sales for our Turbo Technologies business were flat principally due to a shift in consumer demand in Europe among automotive platforms and slightly lower light vehicle production in Europe offset by continued strength in the North American truck segment. Sales for our Consumer Products Group business increased by 1 percent due primarily to higher prices.

Transportation Systems segment profit decreased by 12 percent in the third quarter of 2005 compared with the third quarter of 2004 due primarily to higher raw material costs (mostly steel and other metals in each of the segment's businesses), unfavorable sales mix primarily in our Turbo Technologies business and the operational costs associated with our exit from Friction Materials' North American original equipment business, partially offset by the favorable effect of productivity actions.

### B. RESULTS OF OPERATIONS – NINE MONTHS 2005 COMPARED WITH NINE MONTHS 2004

#### Net Sales

	<u>2005</u>	<u>2004</u>
Net sales	\$20,378	\$18,961
% change compared with prior period		7%

The increase in net sales in the first nine months of 2005 compared with the first nine months of 2004 is attributable to the following:

Acquisitions	4%
Divestitures	(3)
Price	2
Volume	3
Foreign Exchange	<u>1</u>
	<u>7%</u>

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

#### Cost of Products and Services Sold

	<u>2005</u>	<u>2004</u>
Cost of products and services sold	\$15,870	\$15,245
Gross margin %	22.1%	19.6%

Gross margin increased by 2.5 percentage points in the first nine months of 2005 compared with the first nine months of 2004 due primarily to an increase in sales of our commercial Aerospace products and services, a decrease in environmental, litigation, net repositioning and other charges (credits) of \$107 million and lower pension and other postretirement benefits expense of \$66 million.

**Selling, General and Administrative Expenses**

	<u>2005</u>	<u>2004</u>
Selling, general and administrative expenses	\$2,771	\$2,451
Percent of sales	13.6%	12.9%

Selling, general and administrative expenses increased by \$320 million, or 13 percent in the first nine months of 2005 compared with the first nine months of 2004 primarily due to an increase in selling expenses of \$196 million principally from higher sales and the acquisition of Novar, an increase in general and administrative expenses of \$83 million due in part to higher spending for information technology systems (primarily ERP system in Aerospace) and higher environmental, litigation, net repositioning and other charges of \$34 million.

	<u>2005</u>	<u>2004</u>
Pension and other postretirement benefits (OPEB) expense included in cost of products and services sold and selling, general and administrative expenses	\$423	\$482
Decrease compared with prior period	\$(59)	

OPEB and pension expense decreased by \$47 and \$12 million, respectively, in the first nine months of 2005 compared with the first nine months of 2004. The decrease in OPEB expense resulted principally from the effect of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. See Note 14 of Notes to Financial Statements for further discussion. The decrease in pension expense was due principally to a decrease in the amortization of unrecognized losses as actual plan asset returns were higher than the expected rate of return in 2003 and 2004 partially offset by pension expense for Novar.

**(Gain) Loss on Sale of Non-Strategic Businesses**

	<u>2005</u>	<u>2004</u>
(Gain) loss on sale of non-strategic businesses	\$(11)	\$(270)

Gain on sale of non-strategic businesses of \$11 million in the first nine months of 2005 represents pretax gains totaling \$45 million for post-closing adjustments related to the sales of our Performance Fibers, Security Monitoring and other businesses in the prior year, partially offset by a pretax loss of \$34 million related to the sale of our Industrial Wax business in the second quarter of 2005. Gain on sale of non-strategic businesses of \$270 million in the first nine months of 2004 represented the pretax gains on the sales of our Security Monitoring and VCSEL Optical Products businesses of \$215 and \$34 million, respectively, and post-closing adjustments of \$21 million related to businesses sold in prior periods.

**Equity in (Income) Loss of Affiliated Companies**

	<u>2005</u>	<u>2004</u>
Equity in (income) loss of affiliated companies	\$(82)	\$(48)

Equity income increased by \$34 million in the first nine months of 2005 compared with the first nine months of 2004 due primarily to higher earnings from UOP due to strength in the refining and petrochemical industries.

**Other (Income) Expense**

	<u>2005</u>	<u>2004</u>
Other (income) expense	\$(27)	\$(78)

Other income decreased by \$51 million in the first nine months of 2005 compared with the first nine months of 2004 as the prior year included a gain of \$27 million related to the settlement of a patent infringement lawsuit and the current year included a charge of \$10 million for the modification of a lease agreement related to the Corporate headquarters facility. Also, interest income was lower by \$6 million due to a decline in cash balances and losses related to foreign exchange hedge contracts increased by \$6 million.

**Interest and Other Financial Charges**

	<u>2005</u>	<u>2004</u>
Interest and other financial charges	\$260	\$247
% change compared with prior period	5%	

Interest and other financial charges increased by \$13 million, or 5 percent in the first nine months of 2005 compared with the first nine months of 2004 due principally to both higher average short-term debt outstanding and higher average interest rates in the current year.

**Tax Expense**

	<u>2005</u>	<u>2004</u>
Tax expense	\$527	\$386
Effective tax rate	33.0%	27.3%

The effective tax rate increased by 5.7 percentage points in the first nine months of 2005 compared with the first nine months of 2004 due principally to the estimated tax impact of our decision to repatriate approximately \$2.7 billion of foreign earnings, of which \$2.2 billion receives the benefit under the American Jobs Creation Act of 2004. Excluding this item and the impact of gains and losses on sales of non-strategic businesses in both periods, our effective tax rate in the first nine months of 2005 increased by 3.2 percentage points compared with the first nine months of 2004. This increase is due principally to a higher effective tax rate on environmental, litigation, net repositioning and other charges in the prior year's first nine months.

Excluding the impact of cash repatriation, gains and losses on sales of non-strategic businesses and environmental, litigation, net repositioning and other charges, the effective tax rate in both periods was 26.5 percent. This rate was lower than the statutory rate of 35 percent due in part to tax benefits from export sales and foreign taxes.

**Income From Continuing Operations**

	<u>2005</u>	<u>2004</u>
Income from continuing operations	\$1,070	\$1,028
Earnings per share of common stock – assuming dilution	\$1.25	\$1.19

The increase of \$0.06 per share in the first nine months of 2005 compared with the first nine months of 2004 relates primarily to an increase in segment profit in each of our reportable segments, driven primarily by volume growth in our Aerospace reportable segment, partially offset by the tax charge in the second quarter of 2005 for the repatriation of foreign earnings related to the provisions of the American Jobs Creation Act of 2004.

**Income From Discontinued Operations**

	<u>2005</u>	<u>2004</u>
Income from discontinued operations	\$65	\$ –
Earnings per share of common stock – assuming dilution	\$0.08	\$ –

Income from discontinued operations of \$65 million, or \$0.08 per share, in the first nine months of 2005 relates to the operating results of the Indalex and Security Printing businesses which have been classified as discontinued operations.

**Review of Business Segments**

	<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Net Sales</b>		
Aerospace	\$ 7,772	\$ 7,225
Automation and Control Solutions	6,824	5,909
Specialty Materials	2,369	2,633
Transportation Systems	3,412	3,193
Corporate	1	1
	<u>\$ 20,378</u>	<u>\$ 18,961</u>
<b>Segment Profit</b>		
Aerospace	\$ 1,234	\$ 1,053
Automation and Control Solutions	743	637
Specialty Materials	195	137
Transportation Systems	437	430
Corporate	(129)	(117)
Total segment profit	<u>2,480</u>	<u>2,140</u>
Gain on sale of non-strategic businesses	11	270
Equity in income of affiliated companies	82	48
Other income	27	78
Interest and other financial charges	(260)	(247)
Pension and other postretirement benefits (expense) (A)	(423)	(482)
Repositioning, environmental, litigation and other charges (credits) (A)	(320)	(393)
Income from continuing operations before taxes	<u>\$ 1,597</u>	<u>\$ 1,414</u>

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

**Aerospace**

	<b>2005</b>	<b>2004</b>
Net sales	\$ 7,772	\$ 7,225
% change compared with prior period	8%	
Segment profit	\$ 1,234	\$ 1,053
% change compared with prior period	17%	

Aerospace sales by major customer end-markets for the first nine months ended September 30, 2005 and 2004 were as follows:

<b>Customer End-Markets</b>	<b>% of Aerospace Sales</b>		<b>% Change in Sales</b>
	<b>2005</b>	<b>2004</b>	<b>2005 Versus 2004</b>
<b>Commercial:</b>			
Air transport aftermarket	22%	22%	6%
Air transport original equipment	9	9	18
Regional transport aftermarket	7	8	(1)
Regional transport original equipment	2	3	(16)
Business and general aviation aftermarket	9	8	12
Business and general aviation original equipment	10	7	44
<b>Defense and Space:</b>			
Defense and space aftermarket	11	12	–
Defense and space original equipment	30	31	3
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>8%</b>

Aerospace sales increased by 8 percent in the first nine months of 2005 compared with the first nine months of 2004 due primarily to higher volumes. Details by customer end-markets driving the increase in sales are as follows:

- Air transport aftermarket sales improved in 2005 primarily related to a 7.5 percent increase in global flying hours.
- Air transport original equipment (OE) sales increased in 2005 primarily reflecting higher aircraft production rates by our OE customers.
- Business and general aviation aftermarket sales were higher in 2005 primarily driven by an increase in scheduled maintenance events, an increasing number of aircraft coming off new delivery warranties, and an increase in retrofits principally to meet certain mandated regulatory standards.
- Business and general aviation OE sales improved in 2005 due primarily to deliveries of the Primus Epic integrated avionics system and the HTF7000 engine to business jet OE manufacturers.
- Defense and space OE sales were higher in 2005 as an increase related to platform upgrades was partially offset by lower engineering sales.

Aerospace segment profit increased by 17 percent in the first nine months of 2005 compared with the first nine months of 2004 due primarily to volume growth.

## **Automation and Control Solutions**

	<b><u>2005</u></b>	<b><u>2004</u></b>
Net sales	\$6,824	\$5,909
% change compared with prior period	15%	
Segment profit	\$743	\$637
% change compared with prior period	17%	

Automation and Control Solutions sales increased by 15 percent in the first nine months of 2005 compared with the first nine months of 2004 due to acquisitions (mainly Novar's IBS business), net of divestitures, of 12 percent, the favorable effect of foreign exchange of 2 percent and higher volumes of 2 percent partially offset by the impact of lower prices of 1 percent. Sales increased by 23 percent for our Automation and Control Products businesses driven principally by the acquisition of Novar's IBS business. The increase was also due primarily to volume growth and acquisitions in our security and life safety products businesses. Sales for our Building Solutions business increased by 8 percent due primarily to the acquisition of Novar's IBS business and growth in service and energy retrofits partially offset by the divestiture of our Security Monitoring business in the prior year. Sales for our Process Solutions business increased by 4 percent primarily due to an acquisition and the favorable effect of foreign exchange.

Automation and Control Solutions segment profit increased by 17 percent in the first nine months of 2005 compared with the first nine months of 2004 as the favorable effects of productivity actions, acquisitions (mainly IBS) and higher sales volume more than offset the unfavorable effects of lower prices and investments in sales and marketing initiatives.

## **Specialty Materials**

	<b><u>2005</u></b>	<b><u>2004</u></b>
Net sales	\$2,369	\$2,633
% change compared with prior period	(10)%	
Segment profit	\$195	\$137
% change compared with prior period	42%	

Specialty Materials sales decreased by 10 percent in the first nine months of 2005 compared with the first nine months of 2004 due to divestitures of 14 percent (Performance Fibers and Industrial Wax businesses) and lower volumes of 5 percent, partially offset by the impact of higher prices of 8 percent (mainly in our Nylon and Chemicals businesses) and the favorable effect of foreign exchange of 1 percent. Sales for our Nylon business increased by 12 percent driven by price increases and favorable sales mix. Sales for our Chemicals business improved by 7 percent principally driven by price increases and demand for our refrigerant products. Sales for our Electronic Materials business decreased by 6 percent driven by lower volumes due to market softness in the semiconductor industry. Sales for our Performance Products business also decreased by 6 percent primarily driven by lower volumes in our specialty films business.

Specialty Materials segment profit increased by 42 percent in the first nine months of 2005 compared with the first nine months of 2004 due principally to price increases and the favorable effect of productivity actions partially offset by higher raw material costs (principally natural gas and benzene) and lower sales volumes.

## Transportation Systems

	<u>2005</u>	<u>2004</u>
Net sales	\$3,412	\$3,193
% change compared with prior period	7%	
Segment profit	\$437	\$430
% change compared with prior period	2%	

Transportation Systems sales increased by 7 percent in the first nine months of 2005 compared with the first nine months of 2004 due primarily to higher volumes of 3 percent, the favorable effect of foreign exchange of 2 percent and the impact of higher prices of 2 percent (principally ethylene glycol in our Consumer Products Group business). Sales for our Turbo Technologies business increased by 10 percent due to a favorable sales mix and volume growth and the favorable effect of foreign exchange. The favorable sales mix and volume growth were driven by continued strength in the North American truck segment and increased diesel penetration in Europe, partially offset by a shift in consumer demand in Europe among automotive platforms and slightly lower light vehicle production in Europe. Sales for our Consumer Products Group business increased by 6 percent largely due to higher prices (primarily ethylene glycol).

Transportation Systems segment profit increased by 2 percent in the first nine months of 2005 compared with the first nine months of 2004 due primarily to the impact of higher prices and productivity actions partially offset by higher raw material costs (mostly steel and other metals in each of the segment's businesses).

## Repositioning and Other Charges

A summary of repositioning and other charges follows:

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Severance	\$ 111	\$ 31	\$194	\$ 78
Asset impairments	–	7	4	17
Exit costs	5	2	11	8
Reserve adjustments	(6)	(3)	(20)	(26)
Total net repositioning charge	<u>110</u>	<u>37</u>	<u>189</u>	<u>77</u>
Asbestos related litigation charges, net of insurance	32	24	46	44
Other probable and reasonably estimable legal and environmental liabilities	31	39	132	230
Arbitration award related to phenol supply agreement	(67)	–	(67)	–
Business impairment charges	4	–	22	40
Other	–	1	10	8
Total net repositioning and other charges	<u>\$110</u>	<u>\$101</u>	<u>\$332</u>	<u>\$399</u>

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Cost of products and services sold	\$ 60(a)	\$100	\$ 277(a)	\$384
Selling, general and administrative expenses	50	1	43	9
Equity in (income) loss of affiliated companies	–	–	2	6
Other (income) expense	–	–	10	–
	<u>\$110</u>	<u>\$101</u>	<u>\$ 332</u>	<u>\$399</u>

(a) Amount includes a credit of \$67 million for an arbitration award related to a phenol supply agreement.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Aerospace	\$ 72	\$ –	\$ 92	\$ 4
Automation and Control Solutions	17	24	58	27
Specialty Materials	(62)(a)	24	(40)(a)	78
Transportation Systems	47	27	27(b)	114
Corporate	36	26	195	176
	<u>\$110</u>	<u>\$101</u>	<u>\$ 332</u>	<u>\$399</u>

(a) Amount includes a credit of \$67 million for an arbitration award related to a phenol supply agreement.

(b) Amount includes a repositioning charge of \$65 million and a net asbestos related credit of \$38 million.

In the third quarter of 2005, we recognized a repositioning charge of \$116 million primarily for severance costs related to workforce reductions of 1,931 manufacturing and administrative positions principally in our Aerospace reportable segment in connection with the implementation of a new organizational structure which reorganized our Aerospace businesses to better align with customer segments. The implementation of the new organizational structure was substantially completed in the third quarter of 2005. The repositioning charge also included severance costs for workforce reductions in our Automation and Control Solutions and Transportation Systems reportable segments. Also, during the third quarter of 2005, \$6 million of previously established accruals, primarily for severance at our Specialty Materials reportable segment, were returned to income principally due to changes in the scope of previously announced severance programs.

In the second quarter of 2005, we recognized a repositioning charge of \$59 million primarily for severance costs related to workforce reductions of 1,395 manufacturing and administrative positions principally in our Automation and Control Solutions, Aerospace and Transportation Systems reportable segments. Also, during the second quarter of 2005, \$8 million of previously established

accruals, primarily for severance at Corporate, were returned to income. The reversal of severance liabilities was comprised primarily of excise taxes relating to an executive severance amount previously paid which were determined in the second quarter of 2005 to no longer be payable.

In the first quarter of 2005, we recognized a repositioning charge of \$34 million primarily for severance costs related to workforce reductions of 1,340 manufacturing and administrative positions across all of our reportable segments. Also, during the first quarter of 2005, \$6 million of previously established accruals, primarily for severance at Corporate, were returned to income. The reversal of severance liabilities relates primarily to changes in the scope of previously announced severance programs and for severance amounts previously paid to an outside service provider as part of an outsourcing arrangement which were refunded to Honeywell in the first quarter of 2005.

In the third quarter of 2004, we recognized a repositioning charge of \$40 million primarily for severance costs related to workforce reductions of 866 manufacturing and administrative positions principally in our Specialty Materials and Automation and Control Solutions reportable segments. Also, \$3 million of previously established accruals for severance were returned to income in the third quarter of 2004, due to fewer employee separations than originally planned associated with certain prior repositioning actions, resulting in reduced severance liabilities in our Automation and Control Solutions and Corporate reportable segments.

In the second quarter of 2004, we recognized a repositioning charge of \$41 million primarily for severance costs related to workforce reductions of 761 manufacturing and administrative positions principally in our Automation and Control Solutions, Transportation Systems and Aerospace reportable segments. Also, \$16 million of previously established accruals, primarily for severance, were returned to income in the second quarter of 2004, due to fewer employee separations than originally planned associated with certain prior repositioning actions, resulting in reduced severance liabilities in our Automation and Control Solutions reportable segment.

In the first quarter of 2004, we recognized a repositioning charge of \$22 million primarily for severance costs related to workforce reductions of 587 manufacturing and administrative positions principally in our Automation and Control Solutions and Transportation Systems reportable segments. Also, \$7 million of previously established accruals for severance and other exit costs were returned to income in the first quarter of 2004. Severance liabilities were reduced by \$4 million mainly in our Automation and Control Solutions reportable segment due to fewer employee separations than originally planned associated with certain prior repositioning actions. Other exit costs liabilities were reduced by \$3 million related primarily to excess environmental remediation reserves for a closed facility in our Specialty Materials reportable segment.

The 2004 and 2005 repositioning actions will generate incremental pretax savings of approximately \$120 million in 2005 compared with 2004 principally from planned workforce reductions. Cash spending for severance and other exit costs necessary to execute these actions were \$105 million in the nine months ended September 30, 2005 and were funded through operating cash flows. Cash spending for severance and other exit costs necessary to execute these actions will approximate \$150 million in 2005 and will be funded primarily through operating cash flows.

In the third quarter of 2005, we recognized a charge of \$31 million for environmental liabilities deemed probable and reasonably estimable in the quarter. We recognized a charge of \$32 million for Bendix related asbestos claims filed and defense costs incurred during the third quarter of 2005, net of probable insurance recoveries. See Note 15 of Notes to Financial Statements for further discussion of

asbestos matters. We also recognized an impairment charge of \$4 million related to the write-down of property, plant and equipment held for sale in our Nylon business in our Specialty Materials reportable segment. We recognized a credit of \$67 million in connection with an arbitration award for overcharges by a supplier of phenol to our Specialty Materials business from June 2003 through the end of 2004. The arbitrator also awarded Honeywell an additional \$11.2 million of damages for overcharges in January through April 2005, which we will seek to confirm and have entered as a judgment in U.S. Federal Court. The arbitrator also found that the supplier has been in continuing breach of the supply agreement and indicated that additional damages will be awarded to Honeywell for damages since April 2005. An arbitration hearing on this issue is scheduled for November 2005.

In the second quarter of 2005, we recognized a charge of \$64 million primarily for environmental liabilities deemed probable and reasonably estimable in the quarter. We recognized a net credit of \$20 million consisting of a reduction in the Bendix related net asbestos liability of \$70 million related to an update of expected resolution values with respect to claims pending as of June 30, 2005, partially offset by a charge of \$50 million for Bendix related asbestos claims filed and defense costs incurred during the second quarter of 2005, net of probable insurance recoveries, and for the write-off of a Bendix related insurance receivable. See Note 15 of Notes to Financial Statements for further discussion of asbestos matters. We recognized an impairment charge of \$18 million related principally to the write-down of property, plant and equipment held and used in our Chemicals business in our Specialty Materials reportable segment. We also recognized a charge of \$10 million related to the modification of a lease agreement for the Corporate headquarters facility.

In the first quarter of 2005, we recognized a charge of \$37 million primarily for environmental liabilities deemed probable and reasonably estimable in the quarter. We also recognized a charge of \$34 million for Bendix related asbestos claims filed and defense costs incurred during the first quarter of 2005, net of probable insurance recoveries. The asbestos related charge also included the net effect of a settlement of certain NARCO related pending asbestos claims, a Bendix related structured insurance settlement and write-offs of certain Bendix related insurance receivables. See Note 15 of Notes to Financial Statements for further discussion of asbestos matters.

In the third quarter of 2004, we recognized a charge of \$24 million for Bendix related asbestos claims filed and defense costs incurred during the third quarter of 2004, net of probable insurance recoveries. See Note 15 of Notes to Financial Statements for further discussion of asbestos matters. We recognized a charge of \$25 million for environmental liabilities deemed probable and reasonably estimable in the quarter. We recognized a charge of \$14 million for legal settlements primarily related to property damage claims in our Automation and Control Solutions reportable segment. We also recognized a charge of \$1 million for the write-off of property, plant and equipment.

In the second quarter of 2004, we recognized a charge of \$161 million for environmental liabilities deemed probable and reasonably estimable in the quarter. This charge principally related to an increase in our estimate of design and study costs likely to be incurred during the pendency of our appeal of the matter entitled *Interfaith Community Organization, et al. v. Honeywell International Inc., et al.* and to estimated costs related to our decision in the second quarter of 2004 to seek a potential resolution of the principal issues in dispute in such matter. See Note 15 of Notes to Financial Statements for further discussion. We recognized an impairment charge of \$40 million related principally to the write-down of property, plant and equipment of our Performance Fibers business in our Specialty Materials reportable segment, which was classified as assets held for disposal as of June 30, 2004. We recognized a charge of \$9 million for Bendix related asbestos claims filed and defense costs incurred during the second quarter of 2004 including

an update of expected resolution values with respect to claims pending as of June 30, 2004. The charge is net of probable Bendix related insurance recoveries and an additional \$47 million of NARCO insurance deemed probable of recovery. See Note 15 of Notes to Financial Statements for further discussion of asbestos matters. We also recognized a charge of \$7 million principally for the write-off of property, plant and equipment.

In the first quarter of 2004, we recognized a charge of \$30 million for environmental liabilities deemed probable and reasonably estimable in the quarter, including liabilities for environmental conditions around Onondaga Lake in New York. We also recognized a charge of \$11 million for Bendix related asbestos claims filed and defense costs incurred during the first quarter of 2004, net of probable insurance recoveries. See Note 15 of Notes to Financial Statements for further discussion of environmental and asbestos matters.

### C. 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, 2005 and 2004, are summarized as follows:

	<u>2005</u>	<u>2004</u>
Cash provided by (used for):		
Operating activities	\$ 1,603	\$ 1,487
Investing activities	(2,058)	(140)
Financing activities	(1,609)	(892)
Effect of exchange rate changes on cash	(70)	28
Net (decrease) increase in cash and cash equivalents	<u>\$ (2,134)</u>	<u>\$ 483</u>

Cash provided by operating activities increased by \$116 million during the first nine months of 2005 compared with the first nine months of 2004 due primarily to increased earnings, dividends received from UOP, and a decrease in asbestos liability payments, net of insurance receipts, of \$55 million partially offset by an increase in working capital usage of \$216 million driven primarily by higher sales.

We made asbestos related payments of \$418 million, including legal fees, in the first nine months of 2005 and expect to make additional asbestos related payments of approximately \$274 million during the remainder of 2005. This estimate is based on our experience in the first nine months of 2005 regarding the timing of submissions of required evidential data by plaintiff firms. We had \$110 million of asbestos related insurance recoveries during the first nine months of 2005. We expect to receive approximately \$74 million in asbestos related insurance recoveries during the remainder of 2005. These cash flow projections are consistent with our existing asbestos reserves and anticipated insurance recoveries for asbestos related liabilities. See Note 15 of Notes to Financial Statements for further discussion of asbestos matters.

Cash used for investing activities increased by \$1,918 million during the first nine months of 2005 compared with the first nine months of 2004 due primarily to an increase in spending for acquisitions of \$1,827 million (primarily Novar and Zellweger) and lower proceeds from the sales of businesses of \$356 million as the prior year included the proceeds from the dispositions of our Security Monitoring and VCSEL Optical Products businesses, and higher capital spending of \$53 million. The increase in cash used for investing activities was

partially offset by an increase in proceeds of \$205 million from maturities of investment securities and from cash of \$86 million obtained in connection with the acquisition of Novar.

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.

Cash used for financing activities increased by \$717 million during the first nine months of 2005 compared with the first nine months of 2004 due primarily to higher net debt payments of \$507 million principally related to the repayment of debt assumed in the Novar acquisition and an increase in repurchases of common stock of \$237 million. In light of market conditions, during the third quarter of 2005, we repurchased common stock to offset the dilutive impact of employee stock based compensation plans, including some or all of anticipated 2006 dilution. Total debt of \$5,410 million at September 30, 2005 was \$137 million, or 3 percent higher than at December 31, 2004 principally due to higher commercial paper borrowings.

### **Liquidity**

See our 2004 Annual Report on Form 10-K for a detailed discussion of our liquidity. As of September 30, 2005, except for the acquisition of Novar which is described in detail in Note 4 of Notes to Financial Statements, there have been no material changes in our liquidity. The payment for Novar's share capital of approximately \$1.7 billion and the repayment of substantially all of Novar's existing debt of approximately \$700 million occurred in the second quarter of 2005 and was funded with our existing cash resources. The Indalex and Security Printing businesses acquired as part of the Novar transaction are expected to be sold later in 2005 for aggregate proceeds of approximately \$1.0 to \$1.5 billion. In September 2005, we reached a definitive agreement to sell Indalex to an affiliate of private investment firm Sun Capital Partners, Inc. for approximately \$425 million in cash. The sale, which is subject to regulatory review and other customary closing conditions, is expected to close in the fourth quarter of 2005. In October 2005, we entered into a definitive agreement to acquire the 50 percent interest in UOP currently owned by Union Carbide Corp., a wholly owned subsidiary of The Dow Chemical Company, giving Honeywell full ownership of the entity. The purchase of UOP, which is subject to regulatory approval, is expected to close in the fourth quarter of 2005. We will pay \$825 million for Dow's stake in UOP, with an adjustment for cash and outstanding debt in the venture at the closing date. We expect to fund the acquisition of UOP with our existing cash resources and fourth quarter 2005 cash flows.

By mid-October 2005, we had repatriated approximately \$1.9 billion of foreign earnings under the provisions of the American Jobs Creation Act of 2004. In July 2005, Moody's Investors Service affirmed its corporate rating on our long-term and short-term debt of A2 and P-1, respectively, and changed the ratings outlook to "stable" from "negative".

## **D. 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**

Statement of Financial Accounting Standards No. 87, "Employers Accounting for Pensions" requires recognition of an additional minimum pension liability if the fair value of plan assets is less than the accumulated benefit obligation at December 31, 2005 (the end of the plan year). Assuming interest rates and plan asset returns remain essentially unchanged in the 2005 fourth quarter from the 2005 third quarter and we make no contributions to the plan, we would be required to increase our Additional Minimum Pension Liability which would result in a decrease in Accumulated Other Nonowner Changes within Shareowners' Equity of approximately \$1.0 billion after-tax at December 31, 2005. The actual amount of required adjustment, if any, remains highly dependent upon the market conditions at December 31, 2005 and the required adjustment could be significantly higher or lower than this amount.

### **Recent Accounting Pronouncements**

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

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

See our 2004 Annual Report on Form 10-K (Item 7A). As of September 30, 2005, 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.

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

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. Honeywell has been served with several civil lawsuits regarding these incidents, for which we believe we have adequate insurance coverage. In addition, the United States Environmental Protection Agency (USEPA) and the United States Department of Justice (USDOJ) are conducting investigations of these incidents, including a federal grand jury convened to investigate the employee fatality. Honeywell has been informed by the USDOJ that it is a potential target of the grand jury investigation. If we are ultimately charged with wrongdoing, the Baton Rouge facility could be deemed ineligible to supply products or services under government contracts pending the completion of legal proceedings. Although the outcome of this matter cannot be predicted with certainty, we do not believe that it will have a material adverse effect on our consolidated financial position, consolidated results of operations or operating cash flows.

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 various environmental violations and failure to make required disclosures. Honeywell believes that the allegations in this matter are without merit and intends to vigorously defend against this lawsuit. In September 2004, the Court partially dismissed several of the ADEQ's significant allegations. In any event, we do not believe that this matter could have a material adverse effect on our consolidated financial position, consolidated results of operations or operating cash flows.

**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, 2005:

Period	Issuer Purchases of Equity Securities			
	(a)	(b)	(c)	(d)
	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under Plans or Programs
July 2005	—	—	—	(A)
August 2005	8,269,000	\$ 38.46	8,269,000	(A)
September 2005	6,784,300	\$ 38.49	6,784,300	(A)

- (A) Honeywell has previously announced its intention to repurchase sufficient outstanding shares of its common stock to offset the dilutive impact of employee stock based compensation plans, including future option exercises, restricted unit vesting and matching contributions under our savings plans, including some or all of anticipated 2006 dilution. In light of market conditions, we have repurchased 15,053,300 shares during the nine months ended September 30, 2005.

**ITEM 6. EXHIBITS**

- (a) Exhibits. See the Exhibit Index on page 52 of this Quarterly Report on Form 10-Q.

**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 28, 2005

By: /s/ Thomas A. Szlosek  
Thomas A. Szlosek  
Vice President and Controller  
(on behalf of the Registrant  
and as the Registrant's  
Principal Accounting Officer)

**EXHIBIT INDEX**

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
2	Omitted (Inapplicable)
3	Omitted (Inapplicable)
4	Omitted (Inapplicable)
10.6*	Supplemental Non-Qualified Savings Plan for Highly Compensated Employees of Honeywell International Inc. and its Subsidiaries, amended and restated (filed herewith)
10.8*	Salary and Incentive Award Deferral Plan for Selected Employees of Honeywell International Inc. and its Affiliates, amended and restated (filed herewith)
10.23*	Purchase and Sale Agreement between Catalysts, Adsorbents and Process Systems, Inc., and Honeywell Specialty Materials, LLC, dated September 30, 2005 (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)

**EXHIBIT INDEX**

**Exhibit Number**

**Description**

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)

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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 7 to the condensed consolidated financial statements in this report.

**SUPPLEMENTAL NON-QUALIFIED SAVINGS PLAN FOR HIGHLY COMPENSATED  
EMPLOYEES OF HONEYWELL INTERNATIONAL INC. AND ITS SUBSIDIARIES**

(amended and restated effective January 1, 2006,  
with amendments effective January 1, 2005)

History.

Effective January 1, 2006, the Supplemental Non-Qualified Savings Plan For Highly Compensated Employees Of Honeywell International Inc. And Its Subsidiaries (Career Band 5 and Below) (the "Supplemental Savings Plan") was merged with and into the Supplemental Non-Qualified Savings Plan for Highly Compensated Employees of Honeywell International Inc. and its Subsidiaries (Career Band 6 and above) (the "Executive Supplemental Savings Plan"), and the resulting plan shall be known as the Supplemental Non-Qualified Savings Plan for Highly Compensated Employees of Honeywell International Inc. and its Subsidiaries (the "Plan").

Effective January 1, 2005, the terms of the Supplemental Savings Plan, the Executive Supplemental Savings Plan and the Plan are intended to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and any corresponding rules and regulations promulgated under that Section. As such, Honeywell International Inc. (the "Corporation") reserves the right to take any action it deems necessary or desirable to comply with Section 409A.

1. Eligibility

(a) For plan years beginning on or after January 1, 2006, the following employees of the Corporation and its participating affiliates are eligible to participate in the Plan as of the first payday of the plan year:

- (1) any employee who is in Career Band 6 or above,
- (2) any employee (A) who is in Career Band 5 at any time during the designated election period for the applicable plan year (the "Open Enrollment Period"), and (B) whose Base Annual Salary (as defined in Section 3 below) that is paid and posted to the Plan's electronic recordkeeping system as of the last payday in September of the prior year exceeds the dollar limit for a highly compensated employee for the plan year under Section 414(q) of the Code.

provided that such employees are eligible to participate in any of the qualified (as determined under Code Section 401(a)) savings plans maintained by the Corporation or its subsidiaries, other than a plan as may be designated by the Corporation from time to time (the "Qualified Savings Plans").

Notwithstanding the foregoing provisions, a new employee of the Corporation or a participating affiliate who is in Career Band 6 or above is first eligible to participate in the Plan on the day enrollment materials are sent to him by the Corporation,

(b) For plan years beginning before January 1, 2006, the following employees were eligible to participate in the Executive Supplemental Savings Plan: those highly compensated

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employees of the Corporation and its subsidiaries within the meaning of Section 414(q) of the Code in Career Band 6 and above who were eligible to participate in any of the qualified (as determined under Code Section 401(a)) savings plans maintained by the Corporation or its subsidiaries, other than any such plan maintained by Pittway Corporation and its affiliates or by Honeywell Inc. prior to April 1, 2000, Pittway Corporation (or its successors) prior to January 1, 2004, or such other plans as may have been designated by the Corporation from time to time, were eligible to participate in the Executive Supplemental Savings Plan.

2. Definitions

Capitalized terms not otherwise defined in the Plan have the respective meanings set forth in the applicable Qualified Savings Plans.

3. Participation

(a) Time and Form of Election.

Effective for plan years beginning on or after January 1, 2005, an eligible employee may become a participant in the Plan or the Executive Supplemental Savings Plan, as applicable (a "Participant") by filing a timely written or electronic deferral election with the Plan Administrator (as defined in Section 10(a)) for the applicable plan year. Such election shall direct that a portion (determined in accordance with paragraph 4(a)) of the base annual salary exclusive of shift differentials, overtime or other premium pay, bonus, incentive or other extra compensation, but inclusive of severance pay for participants whose last day of active employment with the Corporation and its affiliates occurs before July 1, 2005 (unless otherwise specifically excluded by the severance pay plan) or salary deferred for the plan year under this Plan or the Executive Supplemental Savings Plan, as applicable, or otherwise ("Base Annual Salary"), which would have been payable to such Participant during such plan year, in lieu of such payment, be credited to a deferred compensation account maintained under the Plan as an unfunded book entry stated as a cash balance (the "Participant's Account").

As permitted by IRS Notice 2005-1, an eligible employee who made no election during the Open Enrollment Period for the 2005 plan year was permitted to file a deferral election with the Plan Administrator (as defined in Section 10(a)) for the 2005 plan year during a second Open Enrollment Period that began no earlier than January 1, 2005 and ended no later than March 15, 2005. Such election was effective only for Base Annual Salary paid for services performed after the election was filed.

Amounts so credited to the Participant's Account shall constitute "Participant Deferred Contributions."

A new employee of the Corporation or a participating subsidiary who is employed in Career Band 6 or above may become a participant in the Plan by filing with the Plan Administrator (as defined in Section 10(a)) a timely written deferral election that complies with the first paragraph above no later than 30 days after such employee is first eligible to participate in the Plan. Such election may only apply to Base Annual Salary paid for services to be performed after the election is filed.

(b) Change of Amount Deferred. Except as otherwise may be permitted by Section 409A of the Code and the Corporation, for plan years beginning on or after January 1, 2006, a Participant may not modify his deferral election at any time during the plan year.

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4. Contributions to Participants' Accounts

(a) Participant Deferred Contributions. For plan years beginning on or after January 1, 2006, a Participant may elect to defer an aggregate amount equal to (1) the difference between the maximum percentage of Base Annual Salary that the Participant may contribute for the plan year as Before-Tax Contributions under the Qualified Savings Plans (8% for 2006), without regard to any other limitations which may apply under the Code, and the actual Before-Tax Contributions the Participant contributes to the Qualified Savings Plans for the plan year, or (2) the difference between a full percentage of such Participant's Base Annual Salary from 1% to 35%, without regard to any other limitations which may apply under the Code, and the full amount of Before-Tax Contributions and After-Tax Contributions made by such Participant under the Qualified Savings Plans for the plan year; provided, however, that a Participant who elects to defer any amount hereunder shall be required to make the maximum Before-Tax Contributions permissible under the Qualified Savings Plans for the applicable Plan Year (after giving effect to deferrals under the Plan or otherwise).

(b) Plan Employer Contributions. There shall be credited to the Participant's Account employer contributions under the Plan ("Plan Employer Contributions") in an aggregate amount equal to (i) minus (ii), where (i) is 50% (for participants entitled to a 50% Employer Contribution in the Qualified Savings Plans) or 100% (for participants entitled to a 100% Employer Contribution in the Qualified Savings Plans) of the lesser of (x) 8% of the Participant's Base Annual Salary, or (y) the sum of the Participant's Participant Contributions under the Qualified Savings Plans and Participant Deferred Contributions under the Plan, expressed as a percentage of Base Annual Salary, and (ii) is the total amount of Employer Contributions made with respect to the Participant under the Qualified Savings Plans; provided, however, that in no event shall the combined Plan Employer Contributions and Employer Contributions made with respect to the Participant exceed 8% of the Participant's Base Annual Salary, and provided, further, that Plan Employer Contributions shall not be made with respect to a Participant during any period of suspension of Employer Contributions with respect to such Participant under the terms of the Qualified Savings Plans, whether or not such Participant continues to make Participant Contributions under the Qualified Savings Plans during the period of such suspension.

(c) Vesting. Participant Deferred Contributions, Plan Employer Contributions (collectively "Total Contribution Amounts") and all amounts accrued with respect to Total Contribution Amounts in accordance with Section 5, shall be vested at the time such amounts are credited to the Participant's Account.

(d) All Contributions Prorated. Total Contribution Amounts shall be credited to a Participant's Account each pay period.

5. The Participant's Account

Participant Deferred Contributions shall be credited to the Participant's Account under the Plan as unfunded book entries stated as cash balances.

Participant Deferred Contributions credited to the Participant's Account after December 31, 2004, and all Participant Deferred Contributions credited to a Participant's Account under the Supplemental Savings Plan before January 1, 2006, shall accrue amounts (to be posted each Valuation Date) equivalent to interest, compounded daily, at a rate based upon the cost to the Corporation of borrowing at a fixed rate for a 15-year term; provided however that, for 2005,

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Participant Deferred Contributions credited to the Executive Supplemental Savings Plan between January 1, 2005 and December 31, 2005 shall accrue amounts (to be posted each Valuation Date) equivalent to interest, compounded daily, at a rate equal to 8%. The 15-year corporate borrowing rate referred to in the preceding sentence shall be determined annually by the Chief Financial Officer of the Corporation in consultation with the Treasurer of the Corporation.

Participant Deferred Contributions credited to the Participant's Account under the Executive Supplemental Savings Plan prior to January 1, 1994 or after the Participant has terminated employment shall accrue amounts (to be posted each Valuation Date) equivalent to interest, compounded daily, at a rate based upon the cost to the Corporation of borrowing at a fixed rate for a 15-year term. Such rate shall be determined annually by the Chief Financial Officer of the Corporation in consultation with the Treasurer of the Corporation.

Participant Deferred Contributions credited to the Participant's Account under the Executive Supplemental Savings Plan between January 1, 1994 and December 31, 2004, but before a Participant terminates employment, shall accrue amounts (to be posted each Valuation Date) equivalent to interest, compounded daily, at a rate determined annually by the Management Development and Compensation Committee (the "Committee") of the Board of Directors (the "Board") of the Corporation. The rate established in the preceding sentence shall not exceed the greater of (i) 10% (8% for Participant Deferred Contributions credited on or after January 1, 2004 and such other percentage that may be established by the Committee for subsequent calendar years), or (ii) 200% of the 10-year U.S. Treasury Bond rate at the time of determination and, once established for a calendar year, shall remain in effect with respect to all Participant Deferred Contributions credited to the Participant's Account during such calendar year until such amounts are distributed.

Plan Employer Contributions shall be credited to the Participant's Account under the Plan as unfunded book entries stated as shares of Common Stock (including fractional shares). The number of shares of Common Stock credited to a Participant's Account shall be determined by dividing the equivalent cash amount (as determined under Section 4(b)) by the closing price of Common Stock on the day that such Plan Employer Contributions are credited to the Participant's Account. Amounts equivalent to the dividends that would have been payable in respect of the Common Stock shall be credited to the Participant's Account as if reinvested in Common Stock, with the number of shares credited determined by dividing the equivalent cash dividend amount by the closing price of Common Stock on the date the dividends would have been payable. Amounts credited to the Participant's Account shall accrue amounts equivalent to interest and dividends, as the case may be, until distributed in accordance with the Plan.

6. Distribution from Accounts

(a) Form and Timing of Payment.

(i) Participant Deferred Contributions. For plan years beginning on or after January 1, 2006, the aggregate amount of the Participant's Deferred Contributions, plus earnings credited thereon pursuant to Section 5 (collectively, the "Participant Deferred Contribution Amounts"), credited to the Participant's Account pursuant to such election shall be paid in one lump-sum payment; provided, however, that the Participant may elect to receive a number of annual installments (up to ten installments) if he terminates employment with the Corporation and its affiliates after he attains age 55 and is credited with at least ten years of service with the Corporation and its affiliates. The lump-sum payment or the first installment shall be paid in

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cash no later than January 31<sup>st</sup> of the calendar year immediately following the year in which the Participant terminates employment with the Corporation and its affiliates. Subsequent installments shall be paid in cash no later than January 31<sup>st</sup> of each succeeding calendar year until the entire amount of the Participant Deferred Contribution Amounts has been paid. The amount of each installment shall be determined by multiplying the balance of the Participant Deferred Contribution Amounts each year by a fraction, the numerator of which is one and the denominator of which is (A) the number of installments elected, reduced by (B) one for each annual installment previously received.

For the plan year beginning on January 1, 2005, the Participant Deferred Contribution Amounts credited to the Participant's Account pursuant to such election shall be paid in one lump-sum payment. The lump-sum payment shall be paid in cash no later than January 31<sup>st</sup> of the calendar year immediately following the year in which the Participant terminates employment with the Corporation and its affiliates.

Notwithstanding the preceding paragraphs, a distribution to a "key employee" on account of such employee's separation from service shall not occur or begin until at least six months have passed between the separation from service date (or, if earlier, the date of death) and the distribution date. If, because of this restriction, the key employee cannot receive a distribution by the January 31<sup>st</sup> of the calendar year immediately following the year in which he incurs a separation from service, such distribution shall occur or begin no later than January 31<sup>st</sup> of the second calendar year following the year in which the Participant incurs a separation from service. For purposes of the Plan, the term "key employee" is defined in Section 409A of the Code and shall be determined at the time and in the manner required or permitted by Section 409A of the Code and regulations promulgated thereunder.

For plan years beginning before January 1, 2005, the Participant made an election at the time the Participant made a deferral election for such years, with respect to the distribution of the Participant Deferred Contribution Amounts, credited to the Participant's Account pursuant to such election. A Participant elected to receive such amount in one lump-sum payment or in a number of annual installments (up to fifteen installments). The lump-sum payment or the first installment shall be paid in cash as soon as practicable during the month of January of such future calendar year as the Participant may designate or, if the Participant so elects, as soon as practicable during the month of January of the calendar year immediately following the later of the year in which the Participant last contributed to the Plan or the year in which the Participant terminates employment with the Corporation or any of its subsidiaries (whether by reason of Retirement or otherwise). Except as otherwise provided in Section 8, subsequent installments shall be paid in cash as soon as practicable during the month of January of each succeeding calendar year until the entire amount of the Participant Deferred Contribution Amounts shall have been paid. The amount of each installment shall be determined by multiplying the balance of the Participant Deferred Contribution Amounts each year by a fraction, the numerator of which is one and the denominator of which is (A) the number of installments elected, reduced by (B) one for each annual installment previously received.

(ii) Plan Employer Contributions. The distribution form and timing that apply to the Participant's Deferred Contribution Amounts for a plan year pursuant to subsection (i) above shall also apply to the form and timing of the distribution of the aggregate number of shares of Common Stock representing the Plan Employer Contributions plus reinvested dividends pursuant to Section 5 (collectively the "Plan Employer Contribution Amounts") credited to the Participant's Account pursuant to Section 5. Except to the extent otherwise provided with respect to fractional shares, all distributions of Plan Employer Contribution Amounts shall be

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made in Common Stock. Except as otherwise provided in Section 8, installments after the first installment payment, if applicable, shall be paid no later than January 31<sup>st</sup> of each succeeding calendar year until the entire amount of the Plan Employer Contribution Amounts shall have been paid. The amount of each installment shall be determined by (A) multiplying the balance of the Plan Employer Contribution Amounts on the last Valuation Date of each year by a fraction, the numerator of which is one and the denominator of which is (x) the number of installments elected, reduced by (y) one for each annual installment previously received, and (B) rounding the result down to the next whole share of Common Stock; provided, however, the amount of the last installment shall be determined without regard to the rounding requirement of the preceding portion of this sentence. Any fractional shares of Common Stock shall be paid in an equivalent cash amount, as determined using the closing price of Common Stock on the trading date next preceding the distribution date.

(b) Adjustment of Method of Distribution. For plan years beginning on or after January 1, 2005, a Participant may not change the timing or payment form of distribution of the Participant Deferred Contribution Amounts or the Plan Employer Contribution Amounts credited to the Participant's Account for any such plan year.

For plan years beginning before January 1, 2005, prior to the beginning of any calendar year, a Participant may elect to change the timing and method of distribution of the Participant Deferred Contribution Amounts and Plan Employer Contribution Amounts credited to the Participant's Account commencing with such calendar year. Participant Deferred Contribution Amounts and Plan Employer Contribution Amounts credited to the Participant's Account prior to the effective date of such change (the "Prior Balance"), and all amounts thereafter accrued with respect to the Prior Balance, shall not be affected by such change and, except as otherwise provided in this Section 6 or as determined by the Plan Administrator pursuant to Section 8, shall be distributed only in accordance with the election in effect at the time such Prior Balance was credited to the Participant's Account. Notwithstanding the foregoing provisions of this paragraph, a Participant's right to change the timing and method of distribution shall be suspended from January 1, 2005 to November 7, 2005 or such later date determined by the Corporation.

(c)(i) Distribution Default for Participant Deferred Contribution Amounts. Any Participant Deferred Contribution Amounts credited to a Participant's Account for plan years beginning before January 1, 2005 which are not covered by a timely distribution election under subsections (a) and (b) above shall be distributed to the Participant in one lump-sum cash payment as soon as practicable during the month of January of the calendar year immediately following the later of the year in which the Participant last contributed to the Plan or the year in which the Participant terminates his employment with the Corporation or any of its subsidiaries (whether by reason of Retirement or otherwise); provided, however, if the Participant has made an election pursuant to Sections 9(a)(i) or 9(a)(ii), the lump sum payment shall be made within the 90-day period following a Change in Control, as defined in Section 9(c).

(c)(ii) Distribution Default for Plan Employer Contribution Amounts. Any Plan Employer Contribution Amounts credited to a Participant's Account which are not covered by a timely distribution election under subsections (a) and (b) above shall be distributed to the Participant in Common Stock as soon as practicable during the month of January of the calendar year immediately following the later of the year in which the Participant last contributed to the Plan or the year in which the Participant terminates his employment with the Corporation or any of its subsidiaries (whether by reason of Retirement or otherwise); provided, however, if the Participant has made an election pursuant to Sections 9(a)(i) or (ii), the distribution shall be

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made within the 90-day period following a Change in Control, as defined in Section 9(c). Any fractional shares of Common Stock shall be paid in an equivalent cash amount, as determined using the closing price of Common Stock on the trading date next preceding the distribution date.

(d) Changing Prior Distribution Elections. For amounts attributable to plan years beginning before January 1, 2005, the Plan Administrator may from time to time allow Participants to request new elections with respect to the distribution of a Participant's Prior Balance under the Plan (other than with respect to any such Prior Balance for which distributions have already commenced). The Plan Administrator shall reserve the right to accept or reject any such request at any time and such election shall be subject to such restrictions and limitations as the Plan Administrator shall determine in its sole discretion, provided that any new election shall generally be required to be made at least twelve (12) months prior to any scheduled payment date. Notwithstanding the foregoing provisions of this paragraph, a Participant's right to request a new election shall be suspended from January 1, 2005 to November 7, 2005 or such later date determined by the Corporation.

For amounts attributable to plan years beginning before January 1, 2005, the Plan Administrator may also allow a Participant to request an immediate distribution of all or a portion of such Participant's Prior Balance (including any portion of such Prior Balance for which distributions have already commenced) and any Deferred Contribution Amounts and Plan Employer Contribution Amounts credited to the Participant's Account immediately prior to such request. Any such immediate distribution shall be subject to a penalty equal to six percent (6%) of the amount requested to be distributed and shall be subject to the approval of the Plan Administrator and such other restrictions or conditions as may be established by the Plan Administrator from time to time. Notwithstanding the foregoing provisions of this paragraph, a Participant's right to request an immediate distribution shall be suspended from January 1, 2005 to November 7, 2005 or such later date determined by the Corporation.

(e) Special Distribution Provision. Except as otherwise prohibited by Section 409A of the Code if such Section applies and notwithstanding any provision in this Plan to the contrary, if all or a portion of a Participant's Account is determined to be includible in the Participant's gross income and subject to income tax at any time prior to the time such Account would otherwise be paid, the Participant's Account or that portion of the Participant's Account shall be distributed to the Participant. For this purpose, an amount is determined to be includible in the Participant's gross income upon the earliest of: (i) a final determination by the Internal Revenue Service addressed to the Participant which is not appealed, (ii) a final determination by the United States Tax Court or any other federal court affirming an IRS determination, or (iii) an opinion addressed to the Corporation by the tax counsel for the Corporation that, by reason of the Code, Treasury Regulations, published Internal Revenue Service rulings, court decisions or other substantial precedent, the amount is subject to federal income tax prior to payment.

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7. Distribution on Death

(a) Participant Deferred Contribution Amounts. If a Participant should die before all Participant Deferred Contribution Amounts credited to the Participant's Account have been paid in accordance with Section 6, the balance of the Participant Deferred Contribution Amounts in such Participant's Account shall be paid in cash as soon as practicable following the Participant's death to the beneficiary designated in writing by the Participant and filed with the Plan Administrator; provided, however, if the Participant has made an election pursuant to Sections 9(a)(i) or 9(a)(ii) for plan years beginning before January 1, 2005, such amount shall be paid within the 90-day period following a Change in Control, as defined in Section 9(c). If (i) no beneficiary designation has been made, or (ii) the designated beneficiary shall have predeceased the Participant and no further designation has been made, then such balance shall be paid to the estate of the Participant. A Participant may change the designated beneficiary at any time during the Participant's lifetime by filing a subsequent designation in writing with the Plan Administrator.

(b) Plan Employer Contribution Amounts. If a Participant should die before all Plan Employer Contribution Amounts credited to the Participant's Account have been paid in accordance with Section 6, the balance of the Plan Employer Contribution Amounts in such Participant's Account shall be paid in Common Stock as soon as practicable following the Participant's death to the beneficiary designated in writing by the Participant and filed with the Plan Administrator; provided, however, if the Participant has made an election pursuant to Sections 9(a)(i) or 9(a)(ii) for plan years beginning before January 1, 2005, such amount shall be paid within the 90-day period following a Change in Control, as defined in Section 9(c). If (i) no such beneficiary designation has been made, or (ii) the designated beneficiary shall have predeceased the Participant and no further designation has been made, then such balance shall be paid to the estate of the Participant. A Participant may change the designated beneficiary at any time during the Participant's lifetime by filing a subsequent designation in writing with the Plan Administrator. Any fractional shares of Common Stock shall be paid in an equivalent cash amount, as determined using the closing price of Common Stock on the trading date next preceding the distribution date.

8. Payment in the Event of Hardship

Beginning January 1, 2006, for amounts attributable to plan years beginning on or after January 1, 2005, upon receipt of a request from a Participant, delivered in writing to the Plan Administrator along with a hardship distribution form, the Plan Administrator, or his designee, may cause the Corporation to distribute (or require the subsidiary of the participating company that employs or employed the Participant to distribute) payment of all or any part of the amount credited to the Participant's Account, including accrued amounts, if it finds in its sole discretion that payment of such amounts in accordance with the distribution form and timing requirements of Section 6 would result in an unforeseeable emergency for the Participant. An "unforeseeable emergency" means a severe financial hardship to the Participant resulting from (1) an illness or accident that occurs to the Participant, the Participant's spouse or the Participant's dependent (as defined in section 152(a) of the Code), (2) loss of the Participant's property due to casualty, or (3) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Participant's control.

If a Participant requests a withdrawal due to an unforeseeable emergency, the amount distributed cannot exceed the amount necessary to satisfy the emergency and estimated taxes the Participant shall incur as a result of the distribution. An emergency distribution may not be

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made under this Section 8 to the extent that such emergency is or may be relieved (a) through reimbursement or compensation by insurance or otherwise, or (b) by liquidation of the Participant's assets, to the extent the liquidation of assets would not itself cause severe financial hardship. Any distribution of Participant Deferred Contribution Amounts pursuant to this Section 8 shall be made in cash, while any distribution of Plan Employer Contribution Amounts pursuant to this Section 8 shall be made in Common Stock. Any fractional shares of Common Stock shall be paid in an equivalent cash amount, as determined using the closing price of Common Stock on the trading date next preceding the distribution date.

For amounts attributable to plan years beginning before January 1, 2005, upon receipt of a request from a Participant, delivered in writing to the Plan Administrator along with a Certificate of Unavailability of Resources form, the Plan Administrator, or his designee, may cause the Corporation to accelerate (or require the subsidiary of the Corporation which employs or employed the Participant to accelerate) payment of all or any part of the amount credited to the Participant's Account, including accrued amounts, if it finds in its sole discretion that payment of such amounts in accordance with the Participant's prior election under Section 6 would result in severe financial hardship to the Participant, and such hardship is the result of an unforeseeable emergency caused by circumstances beyond the control of the Participant. Acceleration of payment may not be made under this Section 8 to the extent that such hardship is or may be relieved (a) through reimbursement or compensation by insurance or otherwise, or (b) by liquidation of the Participant's assets, to the extent the liquidation of assets would not itself cause severe financial hardship. Any distribution of Participant Deferred Contribution Amounts pursuant to this Section 8 shall be made in cash, while any distribution of Plan Employer Contribution Amounts pursuant to this Section 8 shall be made in Common Stock. Any fractional shares of Common Stock shall be paid in an equivalent cash amount, as determined using the closing price of Common Stock on the trading date next preceding the distribution date. Notwithstanding the foregoing provisions of this paragraph, a Participant's right to request a hardship distribution shall be suspended from January 1, 2005 to November 7, 2005 or such later date determined by the Corporation.

#### 9. Change in Control

(a)(i) Initial Lump-Sum Payment Election. Notwithstanding any election made pursuant to Section 6, any person who became eligible to participate in the Plan filed a written election with the Plan Administrator at the time the individual made an election to participate to have the aggregate amount credited to the Participant's Account (commencing with the date on which such written election is filed) paid in one-lump sum payment as soon as practicable following a Change in Control, but in no event later than 90 days after such Change in Control. Any distribution of Participant Deferred Contribution Amounts pursuant to this Section 9 shall be made in cash, while any distribution of Plan Employer Contribution Amounts pursuant to this Section 9 shall be made in Common Stock (or the common stock of any successor corporation issued in exchange for, or with respect to, Common Stock incident to the Change in Control). Any fractional shares of Common Stock (or the common stock of any successor corporation issued in exchange for, or with respect to, Common Stock incident to the Change in Control) shall be paid in an equivalent cash amount.

(a)(ii) Subsequent Lump-Sum Payment Election. A Participant who did not make an election pursuant to Section 9(a)(i) or who has revoked, pursuant to Section 9(a)(iii), an election previously made under Section 9(a)(i) or this Section 9(a)(ii) may, prior to the earlier of a Change in Control or the beginning of the calendar year in which the election is to take effect, elect to have the aggregate amount credited to the Participant's Account for all calendar years

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commencing with the first calendar year beginning after the date the election is made, paid in one lump-sum payment as soon as practicable following a Change in Control, but in no event later than 90 days after such Change in Control.

(a)(iii) Revocation of Prior Change in Control Payment Elections. A Participant may, prior to a Change in Control, file an election revoking any election made pursuant to Sections 9(a)(i) or 9(a)(ii) or file a new lump sum payment election under this Section 9 with respect to amounts previously credited to the Participant's Account. Any such revocation or new election shall be made at the time specified by the Plan Administrator and shall be subject to such restrictions and limitations as the Plan Administrator shall determine from time to time.

(a)(iv) Applicability. The foregoing provisions of this Section 9(a) shall only apply to amounts attributable to plan years beginning before January 1, 2005. For amounts attributable to plan years beginning on or after January 1, 2005, the form and timing of Plan distributions shall be in accordance with the provisions of Section 6 and such form and timing shall not be changed as a result of a Change in Control.

(b) Interest Equivalents. Notwithstanding anything to the contrary in the Plan, after a Change in Control, the Plan may not provide, or be amended to provide, interest accruals with respect to Participant Deferred Contributions at rates lower than the rates in effect under Section 5 immediately prior to the Change in Control.

(c) Definition of Change in Control. For purposes of the Plan, a Change in Control is deemed to occur at the time (i) when any entity, person or group (other than the Corporation, any subsidiary or any savings, pension or other benefit plan for the benefit of employees of the Corporation or its subsidiaries) which therefore beneficially owned less than 30% of the common stock then outstanding acquires shares of Common Stock in a transaction or series of transactions that results in such entity, person or group directly or indirectly owning beneficially 30% or more of the outstanding Common Stock, (ii) of the purchase of shares of Common Stock pursuant to a tender offer or exchange offer (other than an offer by the Corporation) for all, or any part of, the Common Stock, (iii) of a merger in which the Corporation shall not survive as an independent, publicly owned corporation, a consolidation, or a sale, exchange or other disposition of all or substantially all of the Corporation's assets, (iv) of a substantial change in the composition of the Board during any period of two consecutive years such that individuals who at the beginning of such period were members of the Board cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election by the stockholders of the Corporation, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period, or (v) of any transaction or other event which the Corporate Governance Committee of the Board, in its discretion, determines to be a Change in Control for purposes of the Plan.

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10. Administration

(a) Plan Administrator. The Plan Administrator and “named fiduciary” for purposes of ERISA shall be the Senior Vice President-Human Resources and Communications of the Corporation (or the person acting in such capacity in the event such position is abolished, restructured or renamed). The Plan Administrator shall have the authority to appoint one or more other named fiduciaries of the Plan and to designate persons, other than named fiduciaries, to carry out fiduciary responsibilities under the Plan, pursuant to Section 405(c)(1)(B) of ERISA. Any person acting on behalf of the Plan Administrator shall serve without additional compensation. The Plan Administrator shall keep or cause to be kept such records and shall prepare or cause to be prepared such returns or reports as may be required by law or necessary for the proper administration of the Plan.

(b) Powers and Duties of Plan Administrator. The Plan Administrator shall have the full discretionary power and authority to construe and interpret the Plan (including, without limitation, supplying omissions from, correcting deficiencies in, or resolving inconsistencies or ambiguities in, the language of the Plan); to determine all questions of fact arising under the Plan, including questions as to eligibility for and the amount of benefits; to establish such rules and regulations (consistent with the terms of the Plan) as it deems necessary or appropriate for administration of the Plan; to delegate responsibilities to others to assist it in administering the Plan; to retain attorneys, consultants, accountants or other persons (who may be employees of the Corporation and its subsidiaries) to render advice and assistance as it shall determine to be necessary to effect the proper discharge of any duty for which it is responsible; and to perform all other acts it believes reasonable and proper in connection with the administration of the Plan. The Plan Administrator shall be entitled to rely on the records of the Corporation and its subsidiaries in determining any Participant’s entitlement to and the amount of benefits payable under the Plan. Any determination of the Plan Administrator, including interpretations of the Plan and determinations of questions of fact, shall be final and binding on all parties.

(c) Indemnification. To the extent permitted by law, the Corporation shall indemnify the Plan Administrator from all claims for liability, loss, or damage (including payment of expenses in connection with defense against such claims) arising from any act or failure to act in connection with the Plan.

11. Claims Procedures and Appeals

(a) Any request or claim for Plan benefits must be made in writing and shall be deemed to be filed by a Participant when a written request is made by the claimant or the claimant’s authorized representative which is reasonably calculated to bring the claim to the attention of the Plan Administrator.

(b) The Plan Administrator shall provide notice in writing to any Participant when a claim for benefits under the Plan has been denied in whole or in part. Such notice shall be provided within 90 days of the receipt by the Plan Administrator of the Participant’s claim or, if special circumstances require, and the Participant is so notified in writing, within 180 days of the receipt by the Plan Administrator of the Participant’s claim. The notice shall be written in a manner calculated to be understood by the claimant and shall:

- (i) set forth the specific reasons for the denial of benefits;
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(ii) contain specific references to Plan provisions relative to the denial;

(iii) describe any material and information, if any, necessary for the claim for benefits to be allowed, that had been requested, but not received by the Plan Administrator; and

(iv) advise the Participant that any appeal of the Plan Administrator's adverse determination must be made in writing to the Plan Administrator within 60 days after receipt of the initial denial notification, and must set forth the facts upon which the appeal is based.

(c) If the Participant fails to appeal the Plan Administrator's denial of benefits in writing and within 60 days after receipt by the claimant of written notification of denial of the claim (or within 60 days after a deemed denial of the claim), the Plan Administrator's determination shall become final and conclusive.

(d) If the Participant appeals the Plan Administrator's denial of benefits in a timely fashion, the Plan Administrator shall re-examine all issues relevant to the original denial of benefits. Any such claimant, or his or her duly authorized representative, may review any pertinent documents, as determined by the Plan Administrator, and submit in writing any issues or comments to be addressed on appeal.

(e) The Plan Administrator shall advise the Participant and such individual's representative of its decision, which shall be written in a manner calculated to be understood by the claimant, and include specific references to the pertinent Plan provisions on which the decision is based. Such response shall be made within 60 days of receipt of the written appeal, unless special circumstances require an extension of such 60-day period for not more than an additional 60 days. Where such extension is necessary, the claimant shall be given written notice of the delay.

## 12. Miscellaneous

(a) Anti-Alienation. The right of a Participant to receive any amount credited to the Participant's Account shall not be transferable or assignable by the Participant, except by will or by the laws of descent and distribution. To the extent that any person acquires a right to receive any amount credited to a Participant's Account hereunder, such right shall be no greater than that of an unsecured general creditor of the Corporation. Except as expressly provided herein, any person having an interest in any amount credited to a Participant's Account under the Plan shall not be entitled to payment until the date the amount is due and payable. No person shall be entitled to anticipate any payment by assignment, pledge or transfer in any form or manner prior to actual or constructive receipt thereof.

(b) Unsecured General Creditor. Neither the Corporation nor any of its subsidiaries shall be required to reserve or otherwise set aside funds, Common Stock or other assets for the payment of its obligations hereunder. However, the Corporation or any subsidiary may, in its sole discretion, establish funds for payment of its obligations hereunder. Any such funds shall remain assets of the Corporation or such subsidiary, as the case may be, and subject to the claims of its general creditors. Such funds, if any, shall not be deemed to be assets of the Plan. The Plan is intended to be unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended.

(c) Withholding. The Corporation shall withhold from any distribution made from Participant Deferred Contribution Amounts the amount necessary to satisfy applicable federal,

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state and local tax withholding requirements. With respect to distributions of Plan Employer Contribution Amounts, the delivery of the shares of Common Stock shall be delayed until the Participant makes arrangements, pursuant to procedures to be adopted by the Plan Administrator, to satisfy the applicable federal, state and local tax withholding requirements.

(d) Termination and Amendment. The Corporation may at any time amend or terminate the Plan. Notwithstanding the foregoing, the Plan may not, without the consent of an affected Participant, be amended in any manner which would (i) adversely affect such Participant's rights and expectations with respect to Deferred Amounts credited to such Participant's Account immediately prior to such amendment (including, but not limited to, any amendment which would adversely affect the rights or features applicable to, or any of the components that are taken into account in determining, the Deferred Amount of any Participant hereunder) or, (ii) with respect to any Participant whose employment terminates either during a Potential Change in Control Period or within two years following a Change in Control under circumstances entitling such Participant to severance benefits under the Corporation's Severance Plan for Corporate Staff Employees or Part II of the Corporation's Severance Plan for Senior Executives, adversely affect such Participant's rights and expectations with respect to amounts that would otherwise have been credited to such Participant's Account as a result of the election of such Participant to defer the receipt of severance payments pursuant to such plan. For purposes of the preceding sentence, a "Potential Change in Control Period" shall commence when: (A) the Corporation enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; (B) the Corporation or any person or group publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control; (C) any person or group (other than the Corporation, any subsidiary or any savings, pension or other benefit plan for the benefit of employees of the Corporation or its subsidiaries) becomes the beneficial owner, directly or indirectly, of securities of the Corporation representing 15% or more of either the then outstanding shares of common stock of the Corporation or the combined voting power of the Corporation's then outstanding securities (not including in the securities beneficially owned by such person or group any securities acquired directly from the Corporation or its affiliates); or (D) the Board adopts a resolution to the effect that, for purposes of the Plan, a Potential Change in Control Period has commenced. The Potential Change in Control Period shall continue until the earlier of (I) a Change in Control or (II) the adoption by the Board of a resolution stating that, for purposes of the Plan, the Potential Change in Control Period has expired.

(e) Benefit Statements. Each Participant shall receive periodic statements (not less frequently than annually) regarding the Participant's Account. Each such statement shall indicate the amount of the balances credited to the Participant's Account as of the end of the period covered by such statement.

(f) Legal Interpretation. This Plan and its provisions shall be construed in accordance with the laws of the State of Delaware to the extent such Delaware law is not inconsistent with the provisions of ERISA. The text of this Plan shall, to the extent permitted by law, govern the determination of the rights and obligations created or referred to herein. Headings to the Sections, paragraphs and subparagraphs are for reference purposes only and do not limit or extend the meaning of any of the Plan's provisions.

(g) Employment. The adoption and maintenance of this Plan shall not be deemed to constitute a contract between the Corporation or its subsidiaries and any employee or to be a

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consideration for or condition of employment of any person. No provision of the Plan shall be deemed to give any employee the right to continue in the employ of the Corporation or its subsidiaries or to interfere with the right of the Corporation or its subsidiaries to discharge any employee at any time without regard to the effect which such discharge might have upon the employee's participation in the Plan or benefits under it.

(h) Fiduciary Capacities. Any person or group of persons may serve in more than one fiduciary capacity with respect to the Plan. For purposes of this Section 12(h), the term "fiduciary" shall have the same meaning as in ERISA.

(i) Participants Subject to Section 16. Notwithstanding anything herein to the contrary, if any request, election or other action under the Plan affecting a Participant subject to Section 16 of the Securities Exchange Act of 1934 should require the approval of the Committee to exempt such request, election or other action from potential liability under Section 16, then the approval of the Committee shall be obtained in lieu of the approval of the Plan Administrator.

IN WITNESS WHEREOF, pursuant to the authority granted to me by the Management Development and Compensation Committee of the Board of Directors on July 29, 2005, the Plan is hereby amended this 17<sup>th</sup> day of October, 2005.

/s/ Thomas Weidenkopf  
By: THOMAS WEIDENKOPF  
Honeywell International Inc.  
Senior Vice President – Human Resources  
and Communications

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**Salary and Incentive Award Deferral Plan  
for  
Selected Employees of Honeywell International Inc. and its  
Affiliates**

Amended and Restated  
effective January 1, 2006  
(with amendments effective  
January 1, 2005)

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## History.

Effective January 1, 2005, the terms of this supplemental non-qualified Salary and Incentive Award Deferral Plan for Selected Employees of Honeywell International Inc. and its Affiliates (the "Plan") are intended to comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and any corresponding rules and regulations under that Section. As such, Honeywell International Inc. (the "Corporation") reserves the right to take any action it deems necessary or desirable to comply with Section 409A.

### 1. Eligibility

For plan years beginning on or after January 1, 2006, the following employees of the Corporation and its participating affiliates are eligible to participate in the Plan as of the first day of the plan year:

- (1) any employee who is in Career Band 6 or above, and
- (2) any employee who is in Career Band 5 at any time during the designated election period for the applicable plan year (the "Open Enrollment Period").

Notwithstanding the foregoing provisions, a new employee of the Corporation or a participating affiliate who is in Career Band 6 or above is first eligible to participate in the Plan on the day enrollment materials are sent to him by the Corporation,

For plan years beginning before January 1, 2006, the following employees were eligible to participate in the Plan: those employees of Corporation and its participating affiliates who were designated by the Management Development and Compensation Committee (the "Committee") were eligible to participate in the Plan.

### 2. Participation

An eligible employee may become a participant in the Plan (a "Participant") by filing a timely written deferral election with the Corporation. Such election shall request that a portion of the compensation elements described in paragraph 3(a) and, for eligible employees employed before July 29, 2005, paragraph 3(b), be credited to an unfunded deferred compensation account maintained for the Participant under the Plan (the "Participant Account" or "Account"). A Participant's direction, if accepted by the Corporation, shall become effective for the first pay period in the next succeeding calendar year or payment date in a succeeding calendar year (or for a newly eligible Participant, for the next succeeding pay period or payment date after the receipt of the direction by the Corporation), and shall continue in effect until the Participant terminates such direction, effective as of the end of the calendar year. Except as otherwise may be permitted by Section 409A of the Code and the Corporation, for plan years beginning on or after January 1, 2005, a Participant may not modify his or her deferral election for a plan year at any time during the plan year.

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A new employee of the Corporation or a participating affiliate who is employed in Career Band 6 or above may become a participant in the Plan by filing with the Plan Administrator (as defined in Section 11(a)) a timely written deferral election that complies with the paragraph above no later than 30 days after such employee is first eligible to participate in the Plan.

3. Contributions to Participant Accounts

(a) Base Annual Salary. A Participant who is employed in Career Band 6 and above (or a Participant who occupies a position equivalent thereto) before July 29, 2005 may, prior to the beginning of any calendar year (and with respect to a newly eligible Participant, within thirty days after first becoming so eligible) elect to defer an aggregate amount of base annual salary otherwise payable in such subsequent calendar year (or with respect to a newly eligible Participant, in the remainder of the calendar year), exclusive of any bonus or any other compensation or allowance paid or payable by the Corporation or its affiliates (the "Base Annual Salary"). The amount deferred under this paragraph 3(a) shall not be greater than fifty percent (50%) of the Participant's Base Annual Salary for such pay period. Effective July 29, 2005, no new deferral elections shall be permitted under this paragraph.

(b) Incentive Awards. A Participant may, to the extent that the Honeywell International Inc. Incentive Compensation Plan For Executive Employees (the "Incentive Plan") (or any successor plan) permits deferrals of an incentive award (the "Incentive Award") payable thereunder, elect to defer an amount not greater than one hundred percent of such Incentive Award. Any amount so deferred shall be deemed to be deferred under this Plan but shall, to the extent the provisions of the Incentive Plan are not inconsistent with this Plan, otherwise be subject to the terms of the Incentive Plan. Any deferral of an Incentive Award shall be made by filing an appropriate deferral election with the Corporation not later than the date established by the Corporation from time to time.

(c) Deferral Amounts. All amounts determined under this paragraph 3 which are the subject of a written deferral election (the "Deferral Amounts") shall, in accordance with the relevant Participant direction, be credited to a Participant Account maintained under the Plan on the same day the Base Annual Salary or Incentive Award would otherwise have been payable.

4. Deferral Requirements

For plan years beginning on or after January 1, 2006, amounts deferred under this Plan will be paid in one lump-sum payment; provided, however, that the Participant may elect to receive a number of annual installments (up to ten installments) if he terminates employment with the Corporation and its affiliates after he attains age 55 and is credited with at least ten years of service with the Corporation and its affiliates. The lump-sum payment or the first installment shall be paid in cash no later than January 31<sup>st</sup> of the calendar year immediately following the year in which the Participant

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terminates employment with the Corporation and its affiliates. Subsequent installments shall be paid in cash no later than January 31<sup>st</sup> of each succeeding calendar year until the entire amount of the Participant Account has been paid.

For plan years beginning before January 1, 2006, amounts deferred under this Plan shall be paid as soon as practicable during the month of January following the calendar year in which the Participant terminates employment, provided, however, amounts deferred under this Plan may be paid at such other date permitted to be designated by the Participant that provides for a minimum period of deferral of at least three years or such shorter period as may be approved by the Committee. Except as otherwise provided in paragraphs 9 or 10 or as approved by the Committee, no amount shall be withdrawn from a Participant Account prior to the earlier of: three years following the last day of the calendar year in which the Deferral Amounts were earned; the date the Participant reaches normal retirement age and is eligible to receive a benefit under a pension plan of the Corporation or one of its affiliates; the date of Participant's death; or the date the Participant ceases to be employed by the Corporation or any of its affiliates.

Notwithstanding the preceding paragraphs, for amounts subject to Section 409A of the Code, a distribution to a "key employee" on account of such employee's separation from service shall not occur or begin until at least six months have passed between the separation from service date (or, if earlier, the date of death) and the distribution date. If, because of this restriction, the key employee cannot receive a distribution by the January 31<sup>st</sup> of the calendar year immediately following the year in which he incurs a separation from service, such distribution shall occur or begin no later than January 31<sup>st</sup> of the second calendar year following the year in which the Participant incurs a separation from service. For purposes of the Plan, the term "key employee" is defined in Section 409A of the Code and shall be determined at the time and in the manner required or permitted by Section 409A of the Code and regulations promulgated thereunder.

Notwithstanding the preceding provisions of this Section 4, a Participant may request an immediate withdrawal of all or a portion of such Participant's Account prior to any date described above or prior to the date the Account has been completely withdrawn, provided that such a request and withdrawal shall be subject to the approval of the Corporation and such penalties, restrictions or conditions as may be established by the Corporation from time to time. The penalty shall be a percentage of the amount requested to be withdrawn, calculated as the difference between (a) 6%, and (b) 50% of the amount, if any, by which 10% exceeds the interest rate on 10-year U.S. Treasury Bonds on the first business day of the calendar quarter during which the withdrawal request is made. A Participant's right to request an immediate distribution under this paragraph shall (i) be suspended from January 1, 2005 to November 7, 2005 or such later date determined by the Corporation, and (ii) shall apply only to amounts attributable to plan years beginning before January 1, 2002 (i.e., Incentive Awards earned in performance years beginning before January 1, 2002 and Base Annual Salary earned and payable before January 1, 2002).

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5. Interest Equivalents

Deferral Amounts shall accrue additional amounts equivalent to interest ("Interest Equivalents"), compounded daily, from the date the Deferral Amount is credited to the Account to the date of distribution.

Deferral Amounts credited to a Participant's Account for plan years beginning on or after January 1, 2006, and Deferral Amounts under Section 3(b) credited to a Participant's Account in 2006 for the plan year beginning January 1, 2005, shall accrue Interest Equivalents at a rate based upon the cost to the Corporation of borrowing at a fixed rate for a 15-year term. Such rate shall be determined annually by the Chief Financial Officer of the Corporation in consultation with the Treasurer of the Corporation. Interest Equivalents described in this paragraph shall be vested at the time such amounts are credited to the Participant's Account.

Deferral Amounts under Section 3(a) credited to a Participant's Account in 2005 for the plan year beginning on January 1, 2005 shall accrue Interest Equivalents at a single rate established by the Committee, in its sole discretion, and such rate is subject to change beginning January 1, 2006.

Deferral Amounts credited to a Participant's Account for plan years beginning before January 1, 2005 shall accrue Interest Equivalents at a single rate established by the Committee, in its sole discretion, for all Deferral Amounts credited to Participant Accounts in each calendar year. The rate established by the Committee shall not exceed the greater of (i) 10% or (ii) 200% of the 10-year U.S. Treasury Bond rate at the time of determination. Such Interest Equivalents, once established for a calendar year, shall remain in effect with respect to Deferral Amounts credited to Participant Accounts during the calendar year until the Deferral Amounts are distributed.

The rate of notional interest established hereunder shall be set forth on Schedule A attached hereto and made a part hereof. Any portion of such rate designated as the "Contingent Rate" shall become nonforfeitable only if the Participant is still employed by the Corporation or any affiliate at the end of the third full calendar year following the calendar year in which the Deferral Amount relates, provided, however, in the event a Participant terminates employment with the Corporation or an affiliate prior to such date for reasons other than gross cause, the Committee shall treat such portion as nonforfeitable in the event the Participant's employment with the Corporation or Affiliate is involuntarily terminated (including a termination for "good reason" under any applicable severance plan of the Corporation or affiliate) or is terminated for such reasons as the Committee may determine from time to time in its sole discretion. Notwithstanding the preceding sentence, in the event a Participant withdraws any portion of the Deferral Amount prior to the end of the third full calendar year following the calendar year to which the Deferral Amount relates, the amount of Contingent Rate interest credited with respect to such Deferred Amount at the time of withdrawal shall remain credited to such Account subject to the provisions of the preceding sentence but shall not be credited with any Interest Equivalents after such date ("Frozen Contingent Interest"). The rate established by the Committee and set forth on Schedule A shall remain in effect until superceded by action of the Committee and amendment of such Schedule A.

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Notwithstanding anything in the Plan to the contrary, from and after the occurrence of a Change in Control, the rate at which Deferral Amounts accrue Interest Equivalents may not be decreased.

6. Participant Accounts

All amounts credited to a Participant's Account pursuant to paragraphs 3 and 4 shall be unfunded general obligations of the Corporation, and no Participant shall have any claim to or security interest in any asset of the Corporation on account thereof.

7. Distribution from Accounts

For plan years beginning on or after January 1, 2006, the Participant's Deferral Amounts and Interest Equivalents will be paid in one lump-sum payment; provided, however, that the Participant may elect to receive a number of annual installments (up to ten installments) if he terminates employment with the Corporation and its affiliates after he attains age 55 and is credited with at least ten years of service with the Corporation and its affiliates. The lump-sum payment or the first installment shall be paid in cash no later than January 31<sup>st</sup> of the calendar year immediately following the year in which the Participant terminates employment with the Corporation and its affiliates. Subsequent installments shall be paid in cash no later than January 31<sup>st</sup> of each succeeding calendar year until the entire amount of the Participant's Deferral Amounts and Interest Equivalents has been paid.

For plan years beginning before January 1, 2005, the Participant made an election at the time the Participant made a deferral election for such years, with respect to the distribution of the Deferral Amounts and Interest Equivalents accrued thereon which are credited to the Participant's Account pursuant to such election. A Participant elected to receive such distribution in one lump-sum payment or in a number of approximately equal annual payments (provided the payment period may not include more than fifteen such installments). The lump-sum or the first installment shall be paid as soon as practicable during the month of January of the calendar year following termination of employment or such other calendar year validly designated by the Participant. Except as otherwise provided in paragraphs 8, 9 and 10, all installment payments following the initial installment payment shall be paid in cash as soon as practicable during the month of January of each succeeding calendar year until the entire amount in the Account shall have been paid. Notwithstanding the foregoing, in the event a Participant's employment with the Company is terminated either voluntarily (other than on account of retirement as defined in the qualified pension plan in which the Participant participates or for "good reason" under any applicable severance plan of the Company) or for "gross cause" (as defined in the AlliedSignal Inc. Severance Plan for Senior Executives), the nonforfeitable portion of such Participant's Deferred Amounts for performance years beginning after 1997 for amounts deferred under paragraph 3(b) or after 1998 for amount deferred under paragraph 3(a) (including the vested portion of any applicable notional interest credited thereto) shall be distributed in a lump sum as soon as practicable in January of the calendar year following such termination of employment. Any Frozen Contingent Interest credited to the Participant's Account shall

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be payable to the Participant in one lump sum after the date the Frozen Contingent Interest becomes nonforfeitable pursuant to Paragraph 5.

Notwithstanding the preceding paragraphs, a distribution of amounts subject to the requirements of Code Section 409A to a "key employee" on account of such employee's separation from service shall not occur or begin until at least six months have passed between the separation from service date (or, if earlier, the date of death) and the distribution date. If, because of this restriction, the key employee cannot receive a distribution by the January 31st of the calendar year immediately following the year in which he incurs a separation from service, such distribution shall occur or begin no later than January 31st of the second calendar year following the year in which the Participant incurs a separation from service. For purposes of the Plan, the term "key employee" is defined in Section 409A of the Code and shall be determined at the time and in the manner required or permitted by Section 409A of the Code and regulations promulgated thereunder.

The Corporation may from time to time allow Participants to request new elections with respect to the distribution of all Deferral Amounts and Interest Equivalents accrued thereon that are credited to such Participant under the Plan (other than any such amounts currently payable to a Participant). The Corporation shall reserve the right to accept or reject any such request at any time and such election shall be subject to such restrictions and limitations as the Corporation shall determine in its sole discretion, provided that any new election shall generally be required to be made at least twelve (12) months prior to any scheduled payment date. A Participant's right to request a new election under this paragraph shall (i) be suspended from January 1, 2005 to November 7, 2005 or such later date determined by the Corporation, and (ii) shall apply only to amounts attributable to plan years beginning before January 1, 2002 (i.e., Incentive Awards earned in performance years beginning before January 1, 2002 and Base Annual Salary earned and payable before January 1, 2002).

As permitted by IRS Notice 2005-1, (i) an eligible employee who elected to defer all or part of the Incentive Award earned in 2004 and payable in 2005 was permitted to completely cancel this election during a period that began no earlier than January 1, 2005 and ended no later than March 15, 2005 and (ii) an eligible employee who elected to defer all or part of the Incentive Award earned in 2005 and payable in 2006 will be permitted to completely cancel this deferral election during a period that will end no later than December 31, 2005.

Except as otherwise prohibited by Section 409A of the Code if such Section applies and notwithstanding any provision in this Plan to the contrary, if all or a portion of a Participant's Account is determined to be includible in the Participant's gross income and subject to income tax at any time prior to the time such Account would otherwise be paid, the Participant's Account or that portion of the Participant's Account shall be distributed to the Participant. For this purpose, an amount is determined to be includible in the Participant's gross income upon the earliest of: (i) a final determination by the Internal Revenue Service addressed to the Participant which is not appealed, (ii) a final determination by the United States Tax Court or any other federal court affirming an IRS determination, or (iii) an opinion addressed to the Corporation by the tax counsel for the Corporation that, by reason of the Code, Treasury Regulations, published Internal

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Revenue Service rulings, court decisions or other substantial precedent, the amount is subject to federal income tax prior to payment.

8. Distribution on Death

If a Participant should die before all amounts credited to the Participant's Account have been distributed, the balance in the Account shall be paid as soon as practical thereafter to the beneficiary designated in writing by the Participant. Payment to a beneficiary pursuant to a designation by a Participant shall be made in one lump sum to the designated beneficiary as soon as practicable following the death of the Participant. Such beneficiary designations shall be effective when received by the Corporation, and shall remain in effect until rescinded or modified by the Participant by an appropriate written direction. If no beneficiary is properly designated by the Participant or if the designated beneficiary shall have predeceased the Participant, such balance in the Account shall be paid to the estate of the Participant.

9. Payment in the Event of Hardship

Beginning January 1, 2006, for amounts attributable to plan years beginning on or after January 1, 2002, upon receipt of a request from a Participant, delivered in writing to the Plan Administrator along with a hardship distribution form and supporting documentation of the hardship, the Senior Vice President – Human Resources and Communications, or his designee, may cause the Corporation to accelerate (or require the subsidiary of the participating company that employs or employed the Participant to distribute) payment of all or any part of the amount credited to the Participant's Account, including accrued amounts, if it finds in its sole discretion that payment of such amounts in accordance with the distribution form and timing requirements of Section 7 would result in an unforeseeable emergency for the Participant. An "unforeseeable emergency" means a severe financial hardship to the Participant resulting from (1) an illness or accident that occurs to the Participant, the Participant's spouse or the Participant's dependent (as defined in section 152(a) of the Code), (2) loss of the Participant's property due to casualty, or (3) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the Participant's control.

If a Participant requests a withdrawal due to an unforeseeable emergency, the amount distributed cannot exceed the amount necessary to satisfy the emergency and estimated taxes the Participant shall incur as a result of the distribution. An emergency distribution may not be made under this Section 9 to the extent that such emergency is or may be relieved (a) through reimbursement or compensation by insurance or otherwise, or (b) by liquidation of the Participant's assets, to the extent the liquidation of assets would not itself cause severe financial hardship. Any distribution pursuant to this Section 9 shall be made in cash.

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For amounts attributable to plan years beginning before January 1, 2002, upon receipt of a request from a Participant, delivered in writing to the Corporation along with a Certificate of Unavailability of Other Resources form, the Committee, the Senior Vice President – Human Resources and Communications, or his designee, may cause the Corporation to accelerate (or require the subsidiary of the Corporation which employs or employed the Participant to accelerate) payment of all or any part of the Deferral Amount and Interest Equivalents credited to the Participant's Account, if it finds in its sole discretion that payment of such amounts in accordance with the Participant's prior election under paragraph 3 would result in severe financial hardship to the Participant and such hardship is the result of an unforeseeable emergency caused by circumstances beyond the control of the Participant. Acceleration of payment may not be made under this paragraph 9 to the extent that such hardship is or may be relieved (i) through reimbursement or compensation by insurance or otherwise, (ii) by liquidation of the Participant's assets, to the extent the liquidation of assets would not itself cause severe financial hardship or (iii) by cessation of deferrals under this Plan or any tax-qualified savings plan of the Corporation. Notwithstanding the foregoing provisions of this paragraph, a Participant's right to request a hardship distribution shall be suspended from January 1, 2005 to November 7, 2005 or such later date determined by the Corporation.

10. Change in Control

(a) Initial Lump Sum Election. Notwithstanding any election made pursuant to paragraph 7, a Participant may file a written election with the Corporation to have the Deferral Amounts and Interest Equivalents accrued thereon which are credited thereafter to the Participant's Account paid in one lump-sum payment as soon as practicable following a Change in Control, but in no event later than 90 days after such Change in Control. The Interest Equivalents on any Deferred Amount payable pursuant to this paragraph 10(a) shall include the "Contingent Rate" credited to such Deferred Amount without regard to whether such amount has become nonforfeitable as provided in paragraph 5 at the time payment is made under this paragraph 10(a).

(b) Revocation of Lump-Sum Election. A Participant may revoke an election made pursuant to paragraph 10(a) (including an election not to be paid in one lump sum upon a Change in Control) by filing an appropriate written notice with the Corporation. A revocation notice filed pursuant to this paragraph 10(b) shall be subject to such terms and conditions as the Corporation shall establish and shall be effective with respect to any or all of the Participant's Deferral Amounts and Interest Equivalents accrued thereon which are credited to such Participant under the Plan. Any such election shall be subject to such restrictions and limitations as the Corporation shall determine in its sole discretion.

(c) Limitation on Elections. Any election made pursuant to paragraph 10(a) or 10(b) shall not be effective unless filed with the Corporation at least 90 days prior to a Change in Control.

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(d) Definition of Change in Control. For purposes of the Plan, a Change in Control is deemed to occur at the time (i) when an entity, person or group (other than the Corporation, any subsidiary or savings, pension or other benefit plan for the benefit of employees of the Corporation or its subsidiaries) which theretofore beneficially owned less than 30% of the Corporation's common stock (the "Common Stock") then outstanding, acquires shares of Common Stock in a transaction or a series of transactions that results in such entity, person or group directly or indirectly owning beneficially 30% or more of the outstanding Common Stock, (ii) of the purchase of Common Stock pursuant to a tender offer or exchange offer (other than an offer by the Corporation) for all, or any part of, the Common Stock (iii) of a merger in which the Corporation will not survive as an independent, publicly owned corporation, a consolidation, a sale, exchange or other disposition of all or substantially all of the Corporation's assets, (iv) of a substantial change in the composition of the Board during any period of two consecutive years such that individuals who at the beginning of such period were members of the Board cease for any reason to constitute at least a majority thereof, unless the election, or the nomination for election by the shareowners of the Corporation, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period, or (v) of any transaction or other event which the Committee, in its sole discretion, determines to be a Change in Control for purposes of the Plan.

11. Administration

(a) Plan Administrator. The Plan Administrator and "named fiduciary" for purposes of ERISA shall be the Senior Vice President-Human Resources and Communications of the Corporation (or the person acting in such capacity in the event such position is abolished, restructured or renamed). The Plan Administrator shall have the authority to appoint one or more other named fiduciaries of the Plan and to designate persons, other than named fiduciaries, to carry out fiduciary responsibilities under the Plan, pursuant to Section 405(c)(1)(B) of ERISA. Any person acting on behalf of the Plan Administrator shall serve without additional compensation. The Plan Administrator shall keep or cause to be kept such records and shall prepare or cause to be prepared such returns or reports as may be required by law or necessary for the proper administration of the Plan.

(b) Powers and Duties of Plan Administrator. The Plan Administrator shall have the full discretionary power and authority to construe and interpret the Plan (including, without limitation, supplying omissions from, correcting deficiencies in, or resolving inconsistencies or ambiguities in, the language of the Plan); to determine all questions of fact arising under the Plan, including questions as to eligibility for and the amount of benefits; to establish such rules and regulations (consistent with the terms of the Plan) as it deems necessary or appropriate for administration of the Plan; to delegate responsibilities to others to assist it in administering the Plan; to retain attorneys, consultants, accountants or other persons (who may be employees of the Corporation or its subsidiaries) to render advice and assistance as it shall determine to be necessary to effect the proper discharge of any duty for which it is responsible; and to perform all other acts it believes reasonable and proper in connection with the administration of the Plan. The Plan Administrator shall be entitled to rely on the

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records of the Corporation and its subsidiaries in determining any Participant's entitlement to and the amount of benefits payable under the Plan. Any determination of the Plan Administrator, including interpretations of the Plan and determinations of questions of fact, shall be final and binding on all parties.

(c) Indemnification. To the extent permitted by law, the Corporation shall indemnify the Plan Administrator from all claims for liability, loss, or damage (including payment of expenses in connection with defense against such claims) arising from any act or failure to act in connection with the Plan.

## 12. Claims Procedures and Appeals

(a) Claim for Benefits. Any request or claim for Plan benefits must be made in writing and shall be deemed to be filed by a Participant when a written request is made by the claimant or the claimant's authorized representative which is reasonably calculated to bring the claim to the attention of the Plan Administrator.

(b) Notice of Claim Denial. The Plan Administrator shall provide notice in writing to any Participant when a claim for benefits under the Plan has been denied in whole or in part. Such notice shall be provided within 90 days of the receipt by the Plan Administrator of the Participant's claim or, if special circumstances require, and the Participant is so notified in writing, within 180 days of the receipt by the Plan Administrator of the Participant's claim. The notice shall be written in a manner calculated to be understood by the claimant and shall:

- (i) set forth the specific reasons for the denial of benefits;
- (ii) contain specific references to Plan provisions relative to the denial;
- (iii) describe any material and information, if any, necessary for the claim for benefits to be allowed, that had been requested, but not received by the Plan Administrator; and
- (iv) advise the Participant that any appeal of the Plan Administrator's adverse determination must be made in writing to the Plan Administrator within 60 days after receipt of the initial denial notification, and must set forth the facts upon which the appeal is based.

(c) Appeal of Denied Claims. If a claim is denied by the Plan Administrator within the time periods set forth above, the claimant shall be permitted to proceed to the review procedures set forth below. If the Participant fails to appeal the Plan Administrator's denial of benefits in writing and within 60 days after receipt by the claimant of written notification of denial of the claim (or within 60 days after a deemed denial of the claim), the Plan Administrator's determination shall become final and conclusive.

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(d) Conduct of Appeal Review. If the Participant appeals the Plan Administrator's denial of benefits in a timely fashion, the Plan Administrator shall re-examine all issues relevant to the original denial of benefits. Any such claimant, or his or her duly authorized representative, may review any pertinent documents, as determined by the Plan Administrator, and submit in writing any issues or comments to be addressed on appeal.

(e) Notice of Appeal Decision. The Plan Administrator shall advise the Participant and such individual's representative of its decision, which shall be written in a manner calculated to be understood by the claimant, and include specific references to the pertinent Plan provisions on which the decision is based. Such response shall be made within 60 days of receipt of the written appeal, unless special circumstances require an extension of such 60-day period for not more than an additional 60 days. Where such extension is necessary, the claimant shall be given written notice of the delay.

13. Miscellaneous

(a) No Alienation of Benefits. Except insofar as may otherwise be required by law, no amount payable at any time under the Plan shall be subject in any manner to alienation by anticipation, sale, transfer, assignment, bankruptcy, pledge, attachment, charge, or encumbrance of any kind nor in any manner be subject to the debts or liabilities of any person and any attempt to so alienate or subject any such amount, whether presently or thereafter payable, shall be void. If any person shall attempt to, or shall alienate, sell, transfer, assign, pledge, attach, charge, or otherwise encumber any amount payable under the Plan, or any part thereof, or if by reason of such person's bankruptcy or other event happening at any such time such amount would be made subject to the person's debts or liabilities or would otherwise not be enjoyed by that person, then the Corporation, if it so elects, may direct that such amount be withheld and that same or any part thereof be paid or applied to or for the benefit of such person, the person's spouse, children or other dependents, or any of them, in such manner and proportion as the Corporation may deem proper.

(b) No Right or Interest in Corporation's Assets. Neither the Corporation nor any of its Affiliates shall be required to reserve or otherwise set aside funds for the payment of obligations arising under this Plan. The Corporation may, in its sole discretion, establish funds, segregate assets or take such other action as it shall determine necessary or appropriate to secure the payment of its obligations arising under this Plan. This Plan is intended to be unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended. Nothing contained herein, and no action taken pursuant to the provisions of this Plan shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Corporation and any Participant or any other person. To the extent that any person acquires a right to receive payments under this Plan, such right shall be no greater than the right of an unsecured creditor of the Corporation.

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(c) Amendment. The Corporation may amend, modify or terminate the Plan at any time, or from time to time; provided, however, that no change to the Plan shall impair the right of any Participant with respect to amounts then credited to an Account; and further provided that during a Potential Change in Control Period (as defined in Section 13(g) hereof) and from and after the occurrence of a Change in Control, the Plan may not, without the consent of the Participant, be amended in any manner which would adversely affect such Participant's rights and expectations with respect to Deferred Amounts credited to such Participant's Account immediately prior to such amendment.

(d) Accounting. Each Participant shall receive periodic statements (not less frequently than annually) setting forth the cumulative Deferral Amounts and Interest Equivalents credited to, and any distributions from, the Participant's Account.

(e) Facility of Payments. If the Corporation shall find that any person to whom any amount is payable under the plan is unable to care for his or her affairs because of illness or accident, or is a minor, or has died, then any payment due the person or the person's estate (unless a prior claim therefore has been made by a duly appointed legal representative), may, if the Corporation so elects in its sole discretion, be paid to the person's spouse, a child, a relative, an institution having custody of such person, or any other person deemed by the Corporation to be a proper recipient on behalf of such person otherwise entitled to payment. Any such payment shall be a complete discharge of the liability of the Corporation and the Plan therefore.

(f) Governing Law. The Plan is intended to constitute an unfunded deferred compensation arrangement for a select group of management or highly compensated personnel and all rights thereunder shall be governed by and construed in accordance with the laws of New York.

(g) Potential Change in Control Period. A "Potential Change in Control Period" shall commence when: (i) the Corporation enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; (ii) the Corporation or any person or group publicly announces an intention to take or to consider taking actions which, if consummated, would result in a Change in Control; (iii) any person or group (other than the Corporation, any subsidiary or any savings, pension or other benefit plan for the benefit of employees of the Corporation or its subsidiaries) becomes the beneficial owner, directly or indirectly, of securities of the Corporation representing 15% or more of either the then outstanding shares of common stock of the Corporation or the combined voting power of the Corporation's then outstanding securities (not including in the securities beneficially owned by such person or group any securities acquired directly from the Corporation or its affiliates); or (iv) the Board adopts a resolution to the effect that, for purposes of the Plan, a Potential Change in Control Period has commenced. The Potential Change in Control Period shall continue until the

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**SCHEDULE A**  
**Notional Interest Rate**

Deferred Incentive Awards (Band 6 and Above)

<u>Year Award Earned</u>	<u>Vested Rate</u>	<u>Contingent Rate</u>	<u>Total Rate</u>
1975 – 1992	Treasury bills + 3%*	N/A	Treasury bills + 3%*
1993 – 1997	10%	N/A	10%
1998 – 2000	8%	3%	11%
2001- 2002	7%	3%	10%
2003	3%	5%	8%
2004**	3%	5%	8%
2005**	**	N/A	**

\*/Three-month Treasury bill average rate for the immediately preceding calendar quarter as reported by the Federal Reserve Bank; rate changes each calendar quarter.  
 \*\*/For periods on and after January 1, 2006, rate is based on the Corporation's 15-year borrowing rate and is subject to change annually.

Deferred Incentive Awards (Band 5 and Below)

<u>Year Award Earned</u>	<u>Vested Rate</u>	<u>Contingent Rate</u>	<u>Total Rate</u>
1975 – 1997	Treasury bills + 3%*	N/A	Treasury bills + 3%*
1998 - 2002	6%	3%	9%
2003	3%	5%	8%
2004**	3%	5%	8%
2005**	**	N/A	**

\*/Three-month Treasury bill average rate for the immediately preceding calendar quarter as reported by the Federal Reserve Bank; rate changes each calendar quarter.  
 \*\*/For periods on and after January 1, 2006, rate is based on the Corporation's 15-year borrowing rate and is subject to change annually.

Deferred Salary (Band 6 and Above)

<u>Year Salary Earned</u>	<u>Vested Rate</u>	<u>Contingent Rate</u>	<u>Total Rate</u>
1994 – 1998	10%	N/A	10%
1999 – 2001	8%	3%	11%
2002 - 2002	7%	3%	10%
2003	3%	5%	8%
2004	3%	5%	8%
2005**	3%	5%	8%

\*\*/For periods on and after January 1, 2006, rate is subject to change.

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**PURCHASE AND SALE AGREEMENT**

**THIS PURCHASE AND SALE AGREEMENT** is made as of September 30, 2005 by and between Catalysts, Adsorbents and Process Systems, Inc., a corporation organized under the laws of the State of Maryland ("Seller"), and Honeywell Specialty Materials, LLC, a limited liability company organized under the laws of the State of Delaware ("Purchaser") and an assignee of EMS (as defined below).

**WHEREAS**, each of Seller and Purchaser is a holder of a fifty percent (50%) membership interest (each, a "Membership Interest" and collectively, the "Membership Interests") in UOP LLC, a Delaware limited liability company (the "Company");

**WHEREAS**, the transfer of a Membership Interest is governed by the Limited Liability Company Agreement, dated as of November 3, 1997, between Seller and EM Sector Holdings Inc., a Delaware corporation ("EMS"), as amended by the Letter Agreement, dated as of October 6, 1998 and the Amendment of Limited Liability Company Agreement, dated as of March 12, 2004 (the "LLC Agreement");

**WHEREAS**, pursuant to Section 8.5(a) of the LLC Agreement, Seller delivered to Purchaser an Offer Notice (as defined in the LLC Agreement) dated August 18, 2005, and Purchaser delivered to Seller an Acceptance Notice (as defined in the LLC Agreement) dated September 8, 2005 notifying Seller of Purchaser's desire to purchase Seller's Membership Interest from Seller on the terms and subject to the conditions set forth in the Offer Notice and the LLC Agreement; and

**WHEREAS**, the parties desire to set forth certain actions to be completed in connection with such purchase and sale and provide for certain other agreements between the parties.

**NOW, THEREFORE**, the parties agree as follows:

**ARTICLE I**

**DEFINITIONS**

**Section 1.01 Definitions.** The following terms shall have the following meanings for the purposes of this Agreement:

"Accounting Firm" shall have the meaning set forth in Section 2.04(b).

"Affiliate" shall mean, with respect to any specified Person, any other Person which, directly or indirectly, controls, is under common control with, or is controlled by, such specified Person. The term "control" as used in the preceding sentence means, with respect to a corporation, the right to exercise, directly or indirectly, more than 50% of the voting rights attributable to the shares of the controlled corporation, or with respect to any Person other than a

corporation, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person.

"Agreement" shall mean this Purchase and Sale Agreement, including the Exhibits hereto, as it may be amended, modified or supplemented from time to time in accordance with its terms.

"Board of Managers" shall mean the board of managers of the Company created pursuant to Section 5.1 of the LLC Agreement.

"Business Day" shall mean any day of the year other than (i) any Saturday or Sunday or (ii) any other day on which banks located in the United States generally are closed for business.

"CAPS Transfer Agreement" shall mean the CAPS Transfer Agreement, dated August 22, 1988, by and among Union Carbide Corporation, Katalistiks International, Inc., UOP, Allied-Signal Inc. and UOP Inc.

"Closing" shall mean the consummation of the transactions contemplated hereby in accordance with Article VI.

"Closing Date" shall mean the date on which the Closing occurs or is to occur.

"Closing Net Cash" shall have the meaning set forth in Section 2.04(a).

"Code" shall mean the Internal Revenue Code of 1986, as amended, including the regulations promulgated thereunder.

"Company" shall have the meaning set forth in the recitals to this Agreement.

"Confidentiality Agreement" shall have the meaning set forth in Section 5.03.

"Dollars" or numbers preceded by the symbol "\$" shall mean amounts in United States Dollars.

"EMS" shall have the meaning set forth in the recitals to this Agreement.

"Estimated Closing Net Cash" shall have the meaning set forth in Section 2.03.

"Governmental Authority" shall mean any federal, state, local or foreign government or subdivision thereof, court of competent jurisdiction, governmental agency, authority, instrumentality or regulatory body.

“Initial Purchase Price” shall have the meaning set forth in Section 2.02.

“Law” shall mean any law, statute, regulation, ordinance, rule, order, decree or governmental requirement enacted, promulgated or imposed by any Governmental Authority.

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“LIBOR Rate” shall mean the rate of interest announced publicly by the British Bankers Association as its three (3) month LIBOR rate for Dollars on the Business Day immediately following the day the Statement becomes final and binding as provided in Section 2.04(b).

“LLC Agreement” shall have the meaning set forth in the recitals to this Agreement.

“Mayer Brown” shall have the meaning set forth in Section 5.03.

“Membership Interest” or “Membership Interests” shall have the meaning set forth in the recitals to this Agreement.

“Net Cash” shall have the meaning set forth in Section 2.03.

“Person” shall mean an individual, partnership, corporation, limited liability company, trust, unincorporated association or other entity or association.

“Purchaser” shall have the meaning set forth in the preamble to this Agreement.

“Seller” shall have the meaning set forth in the preamble to this Agreement.

“Seller’s Membership Interest” shall mean the Membership Interest held by Seller.

“Statement” shall have the meaning set forth in Section 2.04(a).

“Statement of Objections” shall have the meaning set forth in Section 2.04(b).

“Taxes” shall mean all taxes, charges, fees, duties, levies or other assessments (including income, gross receipts, net proceeds, ad valorem, turnover, real and personal property (tangible and intangible), sales, use, franchise, excise, goods and services, value added, stamp, user, transfer, fuel, excess profits, occupational, interest equalization, windfall profits, severance, payroll, unemployment and Social Security taxes) that are imposed by any Governmental Authority, and such term shall include any interest, penalties or additions to tax attributable thereto.

“Tax Matters Agreement” shall mean the Tax Matters Agreement, dated November 3, 1997, by and between EMS and Seller.

**Section 1.02 Interpretation.** The headings preceding the text of Articles and Sections included in this Agreement and the headings to the Exhibits attached to this Agreement are for convenience only and shall not be deemed part of this Agreement or be given any effect in interpreting this Agreement. The use of the masculine, feminine or neuter gender or the singular or plural form of words herein shall not limit any provision of this Agreement. The use of the terms “including” or “include” shall in all cases herein mean “including, without limitation” or “include, without limitation,” respectively. Reference to any Person includes such Person’s successors and assigns to the extent such successors and assigns are permitted by the terms of the applicable agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually. Reference to any agreement (including this Agreement), document or instrument means such agreement, document or

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instrument as amended or modified and in effect from time to time in accordance with the terms thereof and, if applicable, the terms hereof. Underscored references to Articles, Sections, clauses, or the Exhibits shall refer to those portions of this Agreement. The use of the terms “hereunder,” “hereof,” “hereto,” “hereby” and words of similar import shall refer to this Agreement as a whole and not to any particular Article, Section or clause of, or Exhibit to, this Agreement.

## ARTICLE II

### PURCHASE AND SALE OF MEMBERSHIP INTEREST

**Section 2.01 Purchase and Sale.** On the terms and subject to the conditions hereof, at the Closing, Seller shall sell, transfer, convey and assign to Purchaser, free and clear of all liens, claims and encumbrances, and Purchaser shall purchase, acquire and accept, all right, title and interest in and to Seller’s Membership Interest.

**Section 2.02 Payment of Initial Purchase Price.** In consideration of and in exchange for the sale of Seller’s Membership Interest to Purchaser, at the Closing, Purchaser shall pay to Seller an aggregate sum of (a) eight hundred twenty-five million Dollars (\$825,000,000) and (b) an amount equal to fifty percent (50%) of the Estimated Closing Net Cash (collectively, the “Initial Purchase Price”), subject to adjustment as set forth in Section 2.04. The Initial Purchase Price shall be paid in accordance with Section 9.04 at the Closing to the account designated by Seller not later than three (3) Business Days prior to the Closing Date.

**Section 2.03** Calculation of Estimated Closing Net Cash. Seller and Purchaser shall cause the Company to deliver to Seller and Purchaser not later than seven (7) days prior to the Closing Date a written statement setting forth the Company's good faith estimate of the Net Cash of the Company as of the Closing Date (the "Estimated Closing Net Cash"), together with any supporting information that Seller or Purchaser may reasonably request; provided, that each party will receive a copy of any information delivered by the Company with respect to any such request. Seller and Purchaser shall in good faith work together in the seven (7) days prior to Closing to agree on the amount of the Estimated Closing Net Cash; provided, however, that in the absence of agreement by the parties with respect to the Estimated Closing Net Cash, the Closing shall occur in accordance with Article VI based on the Company's good faith estimate of the Net Cash of the Company delivered to Seller and Purchaser in accordance with this Section 2.03. "Net Cash" means, as of any specified date, an amount determined by subtracting (a) the aggregate amount of the Company's consolidated indebtedness as of such date from (b) the aggregate amount of the Company's consolidated cash and cash equivalents as of such date. For purposes of calculating Net Cash, the Company's cash and cash equivalents and indebtedness will be determined in accordance with the accounting principles and consistent with the accounting practices used by the Company to prepare its audited consolidated balance sheet for the year ended December 31, 2004. For illustrative purposes only, Exhibit A sets forth the calculation of Net Cash of the Company as of December 31, 2004.

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**Section 2.04** Purchase Price Adjustment.

(a) Within ninety (90) days after the Closing Date, Seller shall prepare and deliver to Purchaser a statement (the "Statement"), setting forth the Net Cash as of the close of business on the Closing Date (the "Closing Net Cash") determined in accordance with Section 2.03, together with any supporting information that Purchaser may reasonably request. In connection with preparing the Statement, Seller shall have the right, but not the obligation, to conduct, at Seller's expense, an audit of the balance sheet of the Company as of the Closing Date in accordance with generally accepted auditing standards; provided, however, that nothing in this sentence shall either change the definition of Net Cash from that set forth in Section 2.03 or extend the time frame in which Seller must deliver the Statement to Purchaser. After the Closing Date, at Seller's request, Purchaser shall, and shall cause the Company to, assist Seller and its representatives in the preparation of the Statement and the conduct of the audit and shall provide Seller and its representatives any information reasonably requested and shall provide them access at all reasonable times to the personnel, properties and books and records of the Company for such purposes.

(b) Within thirty (30) days after receipt of the Statement, Purchaser shall deliver to Seller a written statement describing its objections, if any, to the Statement (the "Statement of Objections"). If Purchaser does not deliver a Statement of Objections to Seller within such thirty-day period, the Statement shall become final and binding upon the parties. If Purchaser delivers a Statement of Objections to Seller within such thirty-day period, and the parties cannot resolve any such objection within ten (10) Business Days after the receipt by Seller of such Statement of Objections, any remaining disputes shall be resolved by Ernst & Young LLP (the "Accounting Firm"). The Accounting Firm shall be instructed to resolve such disputes within thirty (30) days after receipt by the Accounting Firm of the materials delivered by Seller to Purchaser pursuant to Section 2.04(a) and by Purchaser to Seller pursuant to this Section 2.04(b), which materials shall be delivered by Seller and Purchaser to the Accounting Firm within five (5) Business Days following the expiration of the ten (10) Business Day period referenced in the preceding sentence. The resolution of disputes by the Accounting Firm shall be set forth in writing and shall be conclusive and binding upon the parties, and the Statement, as modified by such resolution, shall become final and binding upon the date of such resolution. The determination of the Accounting Firm for any item in dispute cannot be in excess of, nor less than, the greatest or lowest value, respectively, claimed for that particular item in the Statement, in the case of Seller, or in the Statement of Objections, in the case of Purchaser. The Accounting Firm shall have no right to make any determination with respect to the undisputed portions of the Statement, and no such determination with respect to the undisputed portions of the Statement shall be binding on Seller or Purchaser. The Accounting Firm shall be instructed to calculate Net Cash in accordance with Section 2.03. The fees and expenses of the Accounting Firm shall be apportioned between Seller and Purchaser by the Accounting Firm based on the degree to which Seller's and Purchaser's claims were unsuccessful and shall be paid by Seller and Purchaser in accordance with such determination.

(c) Upon the Statement becoming final and binding in accordance with Section 2.04(b), the Initial Purchase Price shall be increased by fifty percent (50%) of the amount by which the Closing Net Cash exceeds the Estimated Closing Net Cash or decreased

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by fifty percent (50%) of the amount by which the Closing Net Cash is less than the Estimated Closing Net Cash. If the Closing Net Cash exceeds the Estimated Closing Net Cash, Purchaser shall pay to Seller fifty percent (50%) of the amount of such excess, together with a sum equivalent to interest thereon at a rate equal to the LIBOR Rate from the Closing Date to the date of payment. If the Estimated Closing Net Cash exceeds the Closing Net Cash, Seller shall pay to Purchaser fifty percent (50%) of the amount of such excess, together with a sum equivalent to interest thereon at a rate equal to the LIBOR Rate from the Closing Date to the date of payment. Any such payment hereunder shall be made in accordance with Section 9.04 within five (5) Business Days after final determination of the Statement to an account designated in writing by Purchaser or Seller, as the case may be.

**ARTICLE III**

**REPRESENTATIONS AND WARRANTIES OF SELLER**

Seller represents and warrants to Purchaser as follows:

**Section 3.01** Ownership of Seller's Membership Interest. Seller has good and marketable title to Seller's Membership Interest, free and clear of all liens, claims and encumbrances (other than any restrictions or obligations pursuant to the LLC Agreement). Other than as set forth in the LLC Agreement,

there are no (a) options, warrants, convertible securities or other rights, agreements, arrangements or commitments of any character relating to Seller's Membership Interest or obligating Seller to issue or sell any membership interest in the Company or (b) voting trusts, stockholder or membership agreements, proxies or other agreements or understandings in effect with respect to the voting or transfer of any of Seller's Membership Interest. At the Closing, pursuant to Section 2.01, Seller shall sell, transfer, convey and assign to Purchaser, free and clear of all liens, claims and encumbrances, all right, title and interest in and to Seller's fifty percent (50%) membership interest in the Company.

**Section 3.02** Authority. Seller is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation and Seller has full right, power and authority to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution of this Agreement by Seller, the performance by Seller of its obligations hereunder and the consummation by Seller of the transactions contemplated hereby have been duly authorized by all requisite action on the part of Seller. This Agreement has been duly executed and delivered by Seller and, assuming due authorization, execution and delivery by Purchaser, this Agreement constitutes legal, valid and binding obligations of Seller enforceable against Seller in accordance with its terms, except to the extent that enforcement may be affected by Laws relating to bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium and other Laws affecting creditors' rights, and by the availability of injunctive relief, specific performance and other equitable remedies.

**Section 3.03** No Conflict. Assuming that all filings and notifications contemplated by Section 5.02 have been made and any applicable waiting periods have expired or been terminated, the execution, delivery and performance of this Agreement by Seller does not and will not (a) violate, conflict with or result in the breach of any provision of the organizational documents of Seller, (b) conflict with or violate any Law applicable to Seller, where such

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conflict or violation would adversely affect the ability of Seller to carry out its obligations under, and to consummate the transaction contemplated by, this Agreement, or (c) conflict with, result in any breach of, constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, require any consent under, or give to others any right of termination, amendment, acceleration, suspension, revocation or cancellation of, or result in the creation of any lien or encumbrance on Seller's Membership Interest pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, sublease, license, permit or other instrument or arrangement to which Seller is a party or by which any of Seller's Membership Interest is bound or affected. The execution, delivery and performance of this Agreement by Seller does not and will not require (i) any consent, approval, authorization or other order of, action by, filing with, or notification to any Governmental Authority, except as contemplated by Section 5.02 or (ii) any other third party consents, approvals or authorizations.

#### ARTICLE IV

##### REPRESENTATIONS AND WARRANTIES OF PURCHASER

**Section 4.01** Authority. Purchaser is duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation and Purchaser has full right, power and authority to enter into this Agreement, to perform its obligations hereunder and to consummate the transactions contemplated hereby. The execution of this Agreement by Purchaser, the performance by Purchaser of its obligations hereunder and the consummation by Purchaser of the transactions contemplated hereby have been duly authorized by all requisite action on the part of Purchaser. This Agreement has been duly executed and delivered by Purchaser and, assuming due authorization, execution and delivery by Seller, this Agreement constitutes legal, valid and binding obligations of Purchaser enforceable against Purchaser in accordance with its terms, except to the extent that enforcement may be affected by Laws relating to bankruptcy, reorganization, insolvency, fraudulent conveyance, moratorium and other Laws affecting creditors' rights, and by the availability of injunctive relief, specific performance and other equitable remedies.

**Section 4.02** No Conflict. Assuming that all filings and notifications contemplated by Section 5.02 have been made and any applicable waiting periods have expired or been terminated, the execution, delivery and performance of this Agreement by Purchaser does not and will not (a) violate, conflict with or result in the breach of any provision of the organizational documents of Purchaser, (b) conflict with or violate any Law applicable to Purchaser, where such conflict or violation would adversely affect the ability of Purchaser to carry out its obligations under, and to consummate the transaction contemplated by, this Agreement, or (c) conflict with, result in any breach of, constitute a default (or event which with the giving of notice or lapse of time, or both, would become a default) under, require any consent under, or give to others any right of termination, amendment, acceleration, suspension, revocation or cancellation of any note, bond, mortgage, indenture, contract, agreement, lease, sublease, license, permit or other instrument or arrangement to which Purchaser is a party. The execution, delivery and performance of this Agreement by Purchaser does not and will not require (i) any consent, approval, authorization or other order of, action by, filing with, or notification to any Governmental Authority, except as contemplated by Section 5.02 or (ii) any other third party consents, approvals or authorizations.

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#### ARTICLE V

##### CONDITIONS TO CLOSING; PRE-CLOSING COVENANTS

**Section 5.01** Closing Conditions.

(a) Subject to Section 6.01, the obligations of Seller and Purchaser under Article VI are subject to the conditions set forth in Section 8.5(f)(i)-(iv) of the LLC Agreement; provided, however, that Purchaser may waive the conditions set forth in Section 8.5(f)(iii) and/or (iv) of the LLC

Agreement, in which case (assuming the satisfaction of all other conditions contemplated by this Section 5.01) Seller and Purchaser would be obligated to complete the transactions contemplated hereby.

(b) Unless waived by Purchaser in its sole discretion, the obligations of Purchaser to be performed by Purchaser at Closing are also subject to and conditioned upon each representation and warranty of Seller set forth in Article III being true and correct as of the Closing as though such representation and warranty were made on and as of such time.

(c) Unless waived by Seller in its sole discretion, the obligations of Seller to be performed by Seller at Closing are also subject to and conditioned upon each representation and warranty of Purchaser set forth in Article IV being true and correct as of the Closing as though such representation and warranty were made on and as of such time.

**Section 5.02** Governmental Approvals. Purchaser shall, as promptly as practicable following the date hereof, make all necessary filings, applications, statements and reports to all Governmental Authorities in order to obtain any approval or clearance from any Governmental Authority required to consummate the transactions contemplated hereby. Purchaser shall respond promptly to inquiries from any Governmental Authority in connection with such filings, applications, statements and reports, including providing any supplemental information that may be requested. Purchaser shall provide to Seller copies of all filings made with any Governmental Authority at the time they are filed or delivered and shall keep Seller informed of any discussions with, or further requests by, any Governmental Authority. Seller shall provide to Purchaser such reasonable assistance as is necessary to make any such filing, application, statement or report or obtain any such approval or clearance.

**Section 5.03** Termination of the Confidentiality Agreement. On or before the Closing Date, (a) Seller and Purchaser shall, and to the extent applicable shall cause their Affiliates to, terminate the Agreement, dated November 8, 2004, between Purchaser, Honeywell International Inc., Seller, Union Carbide Corporation and The Dow Chemical Company (the "Confidentiality Agreement"), and (b) Seller shall return the data room materials located at the offices of Mayer, Brown, Rowe & Maw LLP, at 71 South Wacker Drive, Chicago, Illinois, 60606 ("Mayer Brown") to the Company and shall request the return or destruction of any Evaluation Information (as defined in the Confidentiality Agreement) that was received by any third party in connection with a proposed transfer of Seller's Membership Interest subsequent to the termination of the Discussions (as defined in the Confidentiality Agreement).

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## ARTICLE VI

### CLOSING

#### **Section 6.01** Closing.

(a) The Closing shall take place at Mayer Brown, at 9:00 a.m., Central Time, on November 30, 2005, provided all conditions to the obligations of Purchaser and Seller set forth in Section 5.01 shall have been satisfied or waived, other than those conditions to be satisfied at the Closing. In the event that the Closing does not occur on November 30, 2005 because the conditions to the obligations of Purchaser and Seller set forth in Section 5.01 have not been satisfied or waived, then the Closing shall take place at Mayer Brown, at 9:00 a.m., Central Time, on the tenth (10<sup>th</sup>) day after all conditions to the obligations of Purchaser and Seller set forth in Section 5.01 shall have been satisfied or waived, other than those conditions to be satisfied at the Closing, or at such other place and on such other date as the parties agree.

(b) If the Closing does not occur by July 1, 2006, Seller shall have the right, but not the obligation, to terminate this Agreement and to abandon the transactions contemplated herein. If this Agreement is terminated pursuant to this Section 6.01(b), this Agreement shall become null and void and of no further force and effect.

#### **Section 6.02** Deliveries by Seller. At the Closing, Seller shall deliver to Purchaser the following:

- (a) a signed copy of the assignment agreement in the form set forth in Exhibit B (the "Assignment Agreement");
- (b) the resignations of each member of the Board of Managers who was appointed by Seller;
- (c) a certificate to the effect that Seller is not a "foreign person" within the meaning of Section 1445(f)(3) of the Code; and
- (d) a certificate, dated as of the date of the Closing and duly executed by an authorized representative of Seller, to the effect that the conditions set forth in Section 5.01(b) have been satisfied.

#### **Section 6.03** Deliveries by Purchaser. At the Closing, Purchaser shall deliver to Seller the following:

- (a) the Initial Purchase Price;
- (b) a signed copy of the Assignment Agreement;
- (c) a written acceptance of the resignations of each of the members of the Board of Managers who were appointed by Seller delivered pursuant to Section 6.02(b); and

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(d) a certificate, dated as of the date of the Closing and duly executed by an authorized representative of Purchaser, to the effect that the conditions set forth in Section 5.01(c) have been satisfied.

## ARTICLE VII

### INDEMNIFICATION

**Section 7.01 Indemnification by Purchaser.** Following the Closing, Purchaser agrees to indemnify Seller for (a) any breach of any representation or warranty of Purchaser set forth in Article IV and (b) all Company liabilities; provided, however, that such agreement to indemnify shall have no effect on and shall not limit the rights of any party to indemnification, or the obligation of Seller or its Affiliates to indemnify any party, pursuant to Article 13 of the CAPS Transfer Agreement. Notwithstanding the foregoing, and for the avoidance of doubt, Purchaser and Seller agree that Purchaser's indemnification of Seller shall not include any U.S. federal, state or local or foreign income Taxes imposed on Seller with respect to the income of the Company for any Tax period or portion thereof ending on or prior to the Closing Date, or imposed on Seller's sale of Seller's Membership Interest hereunder.

**Section 7.02 Indemnification by Seller.** Following the Closing, Seller agrees to indemnify Purchaser for any breach of any representation or warranty of Seller set forth in Article III.

## ARTICLE VIII

### COVENANTS

**Section 8.01 Continuation of Certain Provisions of the LLC Agreement.**

(a) Following the Closing, Purchaser shall cause the Company to continue to provide the indemnity under Section 5.9 of the LLC Agreement (subject to the limitations set forth in Section 5.9 of the LLC Agreement) to any individual employed or appointed by Seller serving in any of the capacities set forth in Section 5.9 of the LLC Agreement.

(b) The provisions of Sections 6.3 and 6.4 of the LLC Agreement and the provisions of the Tax Matters Agreement shall continue in effect with respect to all taxable years (or portions thereof) ending on or before the Closing Date, including the Company's short taxable year ending on the Closing Date.

(c) Purchaser shall cooperate with Seller with respect to the preparation of all tax returns for the Company for all taxable periods beginning before the Closing Date and to the extent necessary to permit Seller to perform its obligations pursuant to the Tax Matters Agreement for such periods. Pursuant to the Tax Matters Agreement, Purchaser shall take no action inconsistent with past practices with respect to any taxable period or portion thereof of the Company ending on or prior to the Closing Date that would give rise to a materially detrimental income Tax consequence to Seller or any of its Affiliates.

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(d) Following the Closing, Seller shall continue to comply with the provisions of Section 6.7 of the LLC Agreement for the period of ten (10) years from the Closing Date.

(e) For the avoidance of doubt, Seller acknowledges that, following the Closing, Seller shall remain bound by the provisions of Section 11.2 of the LLC Agreement in accordance with the terms and conditions thereof.

(f) While the parties have specifically identified certain sections of the LLC Agreement for clarification in this Agreement, inclusion of such sections in this Agreement shall have no precedential impact or create any inferences on the interpretation or applicability of any other section of the LLC Agreement.

## ARTICLE IX

### MISCELLANEOUS

**Section 9.01 Expenses.** Each party hereto shall bear its own expenses incurred in connection with the negotiation, preparation, execution, delivery and performance of this Agreement. Purchaser and Seller shall each be responsible for any transfer taxes imposed on it, and Purchaser and Seller shall each be responsible for fifty percent (50%) of any transfer taxes imposed on the Company, by any Governmental Authority as a result of the transactions contemplated by this agreement.

**Section 9.02 Amendment.** This Agreement may be amended, modified or supplemented but only in writing signed by Purchaser and Seller.

**Section 9.03 Notices.** Any notice, request, instruction or other document to be given hereunder by a party hereto shall be in writing and shall be deemed to have been given, (a) when received if given in person or by courier or a courier service or (b) on the date of transmission if sent by telex, facsimile or other wire transmission (receipt confirmed) on a Business Day during or before the normal business hours of the intended recipient, and if not so sent on such a day and at such a time, on the following Business Day:

(i) If to Purchaser, addressed as follows:

Honeywell Specialty Materials LLC  
c/o Honeywell International Inc.  
Columbia Road and Park Avenue  
P.O. Box 4000  
Morristown, NJ 07962  
Attention: Senior Vice President and General Counsel  
Facsimile: 973.455.4217  
  
Attention: Vice President and General Counsel –  
Specialty Materials  
Facsimile: 973.455.6840

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(ii) If to Seller, addressed as follows:

Catalysts, Adsorbents and Process Systems, Inc.  
400 West Sam Houston Parkway South  
Houston, TX 77042  
Attention: President  
Facsimile: 713.978.2394

with a copy to:

Union Carbide Corporation  
400 West Sam Houston Parkway South  
Houston, TX 77042  
Attention: General Counsel  
Facsimile: 713.978.2394

The Dow Chemical Company  
2030 Dow Center  
Midland, MI 48674  
Attention: General Counsel  
Facsimile: 989.636.7711

or to such other individual or address as a party hereto may designate for itself by notice given as herein provided.

**Section 9.04** Payments in Dollars. All payments pursuant hereto shall be made by wire transfer in Dollars in immediately available funds without any set-off, deduction or counterclaim whatsoever.

**Section 9.05** Allocation of Tax Items.

(a) For purposes of Section 706(c)(2) and 706(d) of the Code, the Company's taxable year with respect to Seller shall end as of the close of business on the Closing Date, and Seller's distributive share of the Company's income, gain, loss, deduction and credit and items thereof as determined for federal income Tax purposes with respect to its interest in the Company shall be allocated between Seller and Purchaser based on a closing of the books of the Company as of the close of business on the Closing Date; provided, however, that any event not in the ordinary course of business occurring on the Closing Date but after the Closing shall, for purposes of this Section 9.05(a), be treated as occurring after the close of business on the Closing Date. Without limiting the generality of the foregoing, the parties acknowledge that Purchaser intends, as soon as possible after the Closing, to cause the Company to transfer its interest in its foreign subsidiaries to various foreign subsidiaries of Honeywell International Inc., the sole member of Purchaser. Any such transfer occurring on the Closing Date, but after the Closing, shall, for purposes of this Section 9.05(a), be treated as occurring after the close of business on the Closing Date.

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(b) Notwithstanding anything to the contrary contained herein or in the LLC Agreement, (i) following the Closing, Purchaser agrees to indemnify Seller for any foreign income Taxes imposed on the Company (but not any foreign income Taxes imposed on Seller with respect to income of the Company) for any Tax period or portion thereof ending on or prior to the Closing Date and (ii) the foreign Tax credits with respect to any such foreign income Taxes shall be specially allocated to Purchaser.

**Section 9.06** Publicity. Neither party shall issue any publicity, release or announcement concerning the execution of this Agreement, any of the provisions of this Agreement or the transactions contemplated hereby without the advance written approval of the form and content thereof by the other party, which approval shall not be unreasonably withheld; provided, however, that no such consent shall be required when such disclosure is required by applicable Law or the rules or regulations of a national or foreign securities exchange.

**Section 9.07** Severability. If any provision of this Agreement shall be held invalid, illegal or unenforceable, the validity, legality or enforceability of the other provisions hereof shall not be affected thereby, and there shall be deemed substituted for the provision at issue a valid, legal and enforceable provision as similar as possible to the provision at issue.

**Section 9.08** Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, including any successor of Purchaser to the Membership Interests (in whole or in part) or any interest in the Company; provided, that no assignment of any rights or obligations hereunder, by operation of law or otherwise, shall be made by either party without the prior written consent of the other party.

**Section 9.09** Applicable Law. This Agreement shall be construed and enforced in accordance with and governed by the laws of the State of New York, without reference to its conflict of laws rules or principles.

**Section 9.10** Jurisdiction of Disputes. In the event either party to this Agreement commences any litigation, proceeding or other legal action in connection with or relating to this Agreement or any matters contemplated hereby, each party to this Agreement hereby (a) agrees that any such litigation, proceeding or other legal action may be brought in a court of competent jurisdiction of the State of New York and the federal courts of the United States, located in the City of New York; (b) agrees that in connection with any such litigation, proceeding or action, such party will consent and submit to personal jurisdiction in any such court described in clause (a) of this Section 9.10 and to service of process upon it in accordance with the rules and statutes governing service of process; (c) agrees to waive to the full extent permitted by law any objection that it may now or hereafter have to the venue of any such litigation, proceeding or action in any such court or that any such litigation, proceeding or action was brought in an inconvenient forum; and (d) designates, appoints and directs either CT Corporation System or Corporation Service Company as its authorized agent to receive on its behalf service of any and all process and documents in any such litigation, proceeding or action in the State of New York.

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**Section 9.11** Counterparts. This Agreement may be executed in counterparts, including by facsimile, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument.

**Section 9.12** Entire Agreement. This Agreement in combination, where appropriate, with the LLC Agreement and other written agreements between Seller and Purchaser constitute the entire agreement and understanding between the parties with respect to the transfer of Seller's Membership Interest to Purchaser, and this Agreement supercedes the various drafts and discussions leading hereto. The parties agree that no inferences may be based on prior verbal discussions or the deletion or revision of any language to this Agreement proposed by either party, including with respect to the interpretation of the LLC Agreement or any other written agreement between the parties.

**Section 9.13** Waiver. Any waiver of rights hereunder must be set forth in a writing signed by the party against whom the waiver is to be effective. A waiver of any breach or failure to enforce any of the terms or conditions of this Agreement shall not in any way affect, limit or waive any party's rights at any time to enforce strict compliance thereafter with every term or condition of this Agreement for any other breach or failure to comply with the terms of this Agreement.

**Section 9.14** Further Assurances. From time to time after the Closing, without further consideration, Seller and Purchaser shall cooperate with each other and shall execute and deliver instruments of transfer or assignment or assumption or such other documents to the other as the other reasonably may request to evidence or perfect Purchaser's right, title and interest to Seller's Membership Interest and to otherwise carry out the transactions contemplated hereby.

*[Signature Page Follows]*

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the date first above written.

**CATALYSTS, ADSORBENTS AND PROCESS SYSTEMS, INC.**

By: /s/ John P. Yimoyines  
Name: John P. Yimoyines  
Title: President

By: /s/ Nance K. Dicciani  
 Name: Nance K. Dicciani  
 Title: Authorized Person

**Exhibit A**

**Net Cash**

**(as of December 31, 2004)**

**(U.S. dollars in thousands)**

Cash & cash equivalents	72,006
<b>Total cash &amp; cash equivalents</b>	<b>72,006</b>
Short-term debt	15,995
[Current portion of long-term debt]	-
Long-term debt	114,655
<b>Total indebtedness</b>	<b>130,650</b>
<b>Closing Net Cash</b>	<b>[58,644]*</b>

\* If, on the actual Closing Date, the total cash and cash equivalents exceeded total indebtedness, the Closing Net Cash would be a positive number.

**Exhibit B**

**ASSIGNMENT AGREEMENT**

**THIS ASSIGNMENT AGREEMENT** (this "Agreement"), dated as of [November 30, 2005], is by and between Catalysts, Adsorbents and Process Systems, Inc., a corporation organized under the laws of the State of Maryland ("Seller"), and Honeywell Specialty Materials LLC, a limited liability company organized under the laws of Delaware ("Purchaser"). Capitalized terms used herein that are not otherwise defined shall have the meaning assigned to such terms in the Purchase and Sale Agreement, dated as of September \_\_, 2005 (as it may be amended or otherwise modified from time to time in accordance with its terms, the "Purchase and Sale Agreement"), by and between Seller and Purchaser.

1. On the terms and subject to the conditions of the Purchase and Sale Agreement, Seller hereby sells, transfers, conveys and assigns to Purchaser free and clear of all liens, claims and encumbrances, and Purchaser hereby accepts, all right, title and interest in and to Seller's Membership Interest.

2. Seller hereby acknowledges receipt from Purchaser of \_\_\_\_\_ Dollars (\$ \_\_\_\_\_), which amount shall be subject to adjustment as provided in Section 2.04 of the Purchase and Sale Agreement.

3. This Agreement shall be construed and enforced in accordance with and governed by the laws of the State of Delaware, without reference to its conflict of laws rules or principles.

4. This Agreement may be executed in counterparts, including by facsimile, each of which shall be deemed an original, but both of which together shall constitute one and the same instrument.

*[Signature page follows]*

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed and delivered as of the date first above written.

**CATALYSTS, ADSORBENTS AND PROCESS SYSTEMS, INC.**

By: \_\_\_\_\_  
Name:  
Title:

**HONEYWELL SPECIALTY MATERIALS, LLC**

By: \_\_\_\_\_  
Name:  
Title:

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**HONEYWELL INTERNATIONAL, INC.**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**  
 Nine Months Ended September 30, 2005  
 (Dollars in millions)

Determination of Earnings:		
Income before taxes	\$	1,597
Add (Deduct):		
Amortization of capitalized interest		17
Fixed charges		340
Equity income, net of distributions		8
Total earnings, as defined	\$	<u>1,962</u>
Fixed Charges:		
Rents(a)	\$	80
Interest and other financial charges		<u>260</u>
		340
Capitalized interest		<u>13</u>
Total fixed charges	\$	<u>353</u>
Ratio of earnings to fixed charges		<u>5.56</u>

(a) Denotes the equivalent of an appropriate portion of rentals representative of the interest factor on all rentals other than for capitalized leases.

October 28, 2005

Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549

Commissioners:

We are aware that our report dated October 28, 2005 on our review of interim financial information of Honeywell International Inc. (the "Company") for the three and nine month periods ended September 30, 2005 and 2004 and included in the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2005 is incorporated by reference in its Registration Statements on Form S-8 (Nos. 33-09896, 33-51455, 33-55410, 33-58347, 333-57515, 333-57517, 333-57519, 333-83511, 333-34764, 333-49280, 333-57868, 333-91582, 333-91736, 333-105065 and 333-108461), and Form S-3 (Nos. 33-14071, 33-55425, 333-22355, 333-49455, 333-68847, 333-74075, 333-34760, 333-86874 and 333-101455), and on Form S-4 (No. 333-82049).

Very truly yours,

/s/ PricewaterhouseCoopers LLP  
PricewaterhouseCoopers LLP

**CERTIFICATION PURSUANT TO  
SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, David M. Cote, Chief Executive Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Honeywell International Inc.;
  2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2005

By: /s/ David M. Cote

David M. Cote  
Chief Executive Officer

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**CERTIFICATION PURSUANT TO  
SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, David J. Anderson, Chief Financial Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Honeywell International Inc.;
  2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
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5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 28, 2005

By: /s/ David J. Anderson  
David J. Anderson  
Chief Financial Officer

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Honeywell International Inc. (the Company) on Form 10-Q for the period ending September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, David M. Cote, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ David M. Cote

David M. Cote

Chief Executive Officer

October 28, 2005

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**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Honeywell International Inc. (the Company) on Form 10-Q for the period ending September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, David J. Anderson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ David J. Anderson  
David J. Anderson  
Chief Financial Officer  
October 28, 2005

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