

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 June 30, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-8974

**Honeywell International Inc.**

(Exact name of registrant as specified in its charter)

Delaware

22-2640650

(State or other jurisdiction of  
incorporation or organization)

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

101 Columbia Road  
Morris Township, New Jersey

07962

(Address of principal executive offices)

(Zip Code)

(973) 455-2000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year,  
if changed since last report)

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

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

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

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

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

There were 772,209,603 shares of Common Stock outstanding at June 30, 2010.

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Cautionary Statement about Forward-Looking Statements

This report contains “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are those that address activities, events or developments that we or our management intends, expects, projects, believes or anticipates will or may occur in the future. They are based on management’s assumptions and assessments in the light of past experience and trends, current economic and industry conditions, expected future developments and other relevant factors. They are not guarantees of future performance, and actual results, developments and business decisions may differ from those envisaged by our forward-looking statements. Our forward-looking statements are also subject to risks and uncertainties, which can affect our performance in both the near- and long-term. These forward-looking statements should be considered in the light of the information included in this report and our other filings with the Securities and Exchange Commission, including, without limitation, the Risk Factors, as well as the description of trends and other factors in Management’s Discussion and Analysis of Financial Condition and Results of Operations, set forth in our Form 10-K for the year ended December 31, 2009.

## PART I. FINANCIAL INFORMATION

The financial information as of June 30, 2010 should be read in conjunction with the financial statements for the year ended December 31, 2009 contained in our Form 10-K filed on February 12, 2010.

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
(Dollars in millions, except per share amounts)				
Product sales	\$ 6,419	\$ 5,804	\$ 12,466	\$ 11,622
Service sales	1,742	1,762	3,471	3,514
<b>Net sales</b>	<b>8,161</b>	<b>7,566</b>	<b>15,937</b>	<b>15,136</b>
Costs, expenses and other				
Cost of products sold	5,060	4,516	9,847	9,124
Cost of services sold	1,208	1,166	2,403	2,314
	6,268	5,682	12,250	11,438
Selling, general and administrative expenses	1,162	1,084	2,298	2,236
Other (income) expense	(9)	51	(11)	53
Interest and other financial charges	92	123	199	240
	7,513	6,940	14,736	13,967
Income before taxes	648	626	1,201	1,169
Tax expense	172	166	332	310
Net income	476	460	869	859
Less: Net income attributable to the noncontrolling interest	8	10	15	12
<b>Net income attributable to Honeywell</b>	<b>\$ 468</b>	<b>\$ 450</b>	<b>\$ 854</b>	<b>\$ 847</b>
Earnings per share of common stock-basic	\$ 0.61	\$ 0.60	\$ 1.11	\$ 1.14
Earnings per share of common stock-assuming dilution	\$ 0.60	\$ 0.60	\$ 1.10	\$ 1.14
Cash dividends per share of common stock	\$ 0.3025	\$ 0.3025	\$ 0.6050	\$ 0.6050

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

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

	June 30, 2010	December 31, 2009
(Dollars in millions)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,451	\$ 2,801
Accounts, notes and other receivables	6,495	6,274
Inventories	3,596	3,446
Deferred income taxes	922	1,034
Investments and other current assets	1,460	381
Total current assets	14,924	13,936
Investments and long-term receivables	544	579
Property, plant and equipment - net	4,535	4,847
Goodwill	10,315	10,494
Other intangible assets - net	2,057	2,174
Insurance recoveries for asbestos related liabilities	854	941
Deferred income taxes	1,776	2,017
Other assets	1,086	1,016
Total assets	\$ 36,091	\$ 36,004
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 3,751	\$ 3,633
Short-term borrowings	57	45
Commercial paper	1,148	298
Current maturities of long-term debt	23	1,018
Accrued liabilities	5,708	6,153
Total current liabilities	10,687	11,147
Long-term debt	6,254	6,246
Deferred income taxes	576	542
Postretirement benefit obligations other than pensions	1,551	1,594
Asbestos related liabilities	1,534	1,040
Other liabilities	6,361	6,481
<b>SHAREOWNERS' EQUITY</b>		
Capital - common stock issued	958	958
- additional paid-in capital	3,913	3,823
Common stock held in treasury, at cost	(8,699)	(8,995)
Accumulated other comprehensive income (loss)	(5,031)	(4,429)
Retained earnings	17,867	17,487
Total Honeywell shareowners' equity	9,008	8,844
Noncontrolling interest	120	110
Total shareowners' equity	9,128	8,954
Total liabilities and shareowners' equity	\$ 36,091	\$ 36,004

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

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

	Six Months Ended June 30,	
	2010	2009
	(Dollars in millions)	
<b>Cash flows from operating activities:</b>		
Net income attributable to Honeywell	\$ 854	\$ 847
Adjustments to reconcile net income attributable to Honeywell to net cash provided by operating activities:		
Depreciation and amortization	474	469
Repositioning and other charges	270	255
Net payments for repositioning and other charges	(221)	(294)
Pension and other postretirement expense(income)	385	(3)
Pension and other postretirement payments	(89)	(96)
Stock compensation expense	86	77
Deferred income taxes	395	345
Excess tax benefits from share based payment arrangements	(4)	—
Other	(194)	286
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts, notes and other receivables	(189)	342
Inventories	(150)	254
Other current assets	17	8
Accounts payable	116	(641)
Accrued liabilities	83	(382)
Net cash provided by operating activities	<u>1,833</u>	<u>1,467</u>
<b>Cash flows from investing activities:</b>		
Expenditures for property, plant and equipment	(185)	(226)
Proceeds from disposals of property, plant and equipment	2	17
Increase in investments	(311)	—
Decrease in investments	10	1
Cash paid for acquisitions, net of cash acquired	(137)	(28)
Acquisition escrow	(859)	—
Other	(12)	(48)
Net cash used for investing activities	<u>(1,492)</u>	<u>(284)</u>
<b>Cash flows from financing activities:</b>		
Net increase/(decrease) in commercial paper	850	(1,033)
Net increase/(decrease) in short-term borrowings	12	(193)
Proceeds from issuance of common stock	55	9
Proceeds from issuance of long-term debt	—	1,488
Payments of long-term debt	(1,001)	(493)
Excess tax benefits from share based payment arrangements	4	—
Cash dividends paid	(464)	(452)
Net cash used for financing activities	<u>(544)</u>	<u>(674)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(147)	32
Net (decrease)/increase in cash and cash equivalents	(350)	541
Cash and cash equivalents at beginning of period	2,801	2,065
Cash and cash equivalents at end of period	<u>\$ 2,451</u>	<u>\$ 2,606</u>

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

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

**Note 1. Basis of Presentation**

In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of Honeywell International Inc. and its consolidated subsidiaries at June 30, 2010 and the results of operations for the three and six months ended June 30, 2010 and 2009 and cash flows for the six months ended June 30, 2010 and 2009. The results of operations for the three and six months ended June 30, 2010 should not necessarily be taken as indicative of the results of operations that may be expected for the entire year. We have evaluated subsequent events through the date of issuance of our consolidated financial statements.

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 provide appropriate disclosures. Our actual closing dates for the three and six months ended June 30, 2010 and 2009 were July 3, 2010 and July 4, 2009, respectively.

The financial information as of June 30, 2010 should be read in conjunction with the financial statements for the year ended December 31, 2009 contained in our Form 10-K filed on February 12, 2010

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

**Note 2. Recent Accounting Pronouncements**

Changes to accounting principles generally accepted in the United States of America (U.S. GAAP) are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASU's) to the FASB's Accounting Standards Codification.

The Company considers the applicability and impact of all ASU's. ASU's not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position and results of operations.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for transfers of financial assets. The guidance requires additional disclosures for transfers of financial assets and changes the requirements for derecognizing financial assets. The guidance was effective for fiscal years beginning after November 15, 2009. The implementation of this standard did not have a material impact on our consolidated financial position and results of operations.

In June 2009, the FASB issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities. The guidance affects the overall consolidation analysis and requires enhanced disclosures on involvement with variable interest entities. The guidance was effective for fiscal years beginning after November 15, 2009. The implementation of this standard did not have a material impact on our consolidated financial position and results of operations.

In October 2009, the FASB issued amendments to the accounting and disclosure for revenue recognition. These amendments, effective for fiscal years beginning on or after June 15, 2010 (early adoption is permitted), modify the criteria for recognizing revenue in multiple element arrangements and the scope of what constitutes a non-software deliverable. The Company has elected to early adopt this guidance, on a prospective basis for

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

applicable transactions originating or materially modified after January 1, 2010. The implementation of this amended accounting guidance did not have a material impact on our consolidated financial position and results of operations in the period of adoption. Adoption impacts in future periods will vary based upon the nature and volume of new or materially modified transactions but are not expected to have a significant impact on sales.

**Note 3. Acquisitions**

In May 2010, we announced our intention to acquire all of the issued and outstanding shares of Sperian Protection (Sperian) through an all-cash tender offer (the "Offer") and a stock purchase agreement with two shareholders holding, directly and indirectly, an aggregate of 28.2% of Sperian's share capital (the "SPA"). The aggregate value of the Offer is approximately \$1,400 million, including the assumption of approximately \$315 million of outstanding debt, net of cash. The Sperian board has unanimously recommended the Offer. Completion of this acquisition is subject to regulatory approval. Completion of the Offer is also subject to shares representing at least 57% of Sperian's outstanding ordinary shares on a fully diluted basis (including the shares to be acquired pursuant to the SPA) being validly tendered into the Offer. We expect to complete the acquisition of Sperian in the third quarter of 2010 and to fund the acquisition with existing cash resources. During the second quarter of 2010, \$859 million in cash was held in escrow and is classified as Investments and Other Current Assets on our Consolidated Balance Sheet. These escrow funds will be utilized to fund the acquisition.

Sperian is a French public company which operates globally in the personal protection equipment (PPE) design and manufacturing industry and had reported 2009 revenues of approximately \$900 million. Sperian will be integrated into our Automaton and Controls Solution segment.

**Note 4. Repositioning and Other Charges**

A summary of repositioning and other charges follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Severance	\$ 26	\$ 80	\$ 59	\$ 142
Asset impairments	1	2	9	4
Exit costs	—	2	4	3
Adjustments	(3)	(18)	(8)	(39)
<b>Total net repositioning charge</b>	<b>24</b>	<b>66</b>	<b>64</b>	<b>110</b>
Asbestos related litigation charges, net of insurance	49	37	87	73
Probable and reasonably estimable environmental liabilities	55	36	101	67
Other	—	5	18	5
<b>Total net repositioning and other charges</b>	<b>\$ 128</b>	<b>\$ 144</b>	<b>\$ 270</b>	<b>\$ 255</b>

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Cost of products and services sold	\$ 123	\$ 114	\$ 262	\$ 208
Selling, general and administrative expenses	5	30	8	47
	<u>\$ 128</u>	<u>\$ 144</u>	<u>\$ 270</u>	<u>\$ 255</u>

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Aerospace	\$ 6	\$ 34	\$ 6	\$ 32
Automation and Control Solutions	5	4	29	27
Specialty Materials	—	1	11	5
Transportation Systems	48	62	107	113
Corporate	69	43	117	78
	<u>\$ 128</u>	<u>\$ 144</u>	<u>\$ 270</u>	<u>\$ 255</u>

In the quarter ended June 30, 2010, we recognized repositioning charges totaling \$27 million primarily for severance costs related to workforce reductions of 350 manufacturing and administrative positions in our Aerospace, Transportation Systems and Automation and Control Solutions segments. The workforce reductions were related to cost savings actions taken in connection with our ongoing functional transformation and productivity initiatives and factory transitions in our Aerospace segment to more cost-effective locations.

In the quarter ended June 30, 2009, we recognized repositioning charges totaling \$84 million primarily for severance costs related to workforce reductions of 1,811 manufacturing and administrative positions principally in our Aerospace, Automation and Control Solutions and Transportation Systems segments. The workforce reductions were related to organizational realignments of portions of our Aerospace and Transportation Systems segments, adverse market conditions experienced by many of our businesses and a factory transition in our Transportation Systems segment to a more cost-effective location. Also, \$18 million of previously established accruals, primarily for severance at our Automation and Control Solutions and Aerospace segments, were returned to income in the quarter ended June 30, 2009 due principally to fewer employee separations than originally planned associated with prior severance programs.

In the six months ended June 30, 2010, we recognized repositioning charges totaling \$72 million including severance costs of \$59 million related to workforce reductions of 967 manufacturing and administrative positions primarily in our Automation and Control Solutions, Transportation Systems and Aerospace segments. The workforce reductions were primarily related to the planned shutdown of certain manufacturing facilities in our Automation and Control Solutions and Transportation Systems segments, cost savings actions taken in connection with our ongoing functional transformation and productivity initiatives and factory transitions in our Aerospace segment to more cost-effective locations. The repositioning charge also included asset impairments of \$9 million principally related to manufacturing plant and equipment in facilities scheduled to close.

In the six months ended June 30, 2009, we recognized repositioning charges totaling \$149 million primarily for severance costs related to workforce reductions of 3,120 manufacturing and administrative positions across all of our segments. The workforce reductions were primarily related to the adverse market conditions



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

experienced by many of our businesses, cost savings actions taken in connection with our ongoing functional transformation initiative, and organizational realignments of portions of our Aerospace and Transportation Systems segments. Also, \$39 million of previously established accruals, primarily for severance at our Aerospace, Automation and Control Solutions and Transportation Systems segments, were returned to income in the six months ended June 30, 2009 due to fewer employee separations than originally planned associated with prior severance programs and changes in the scope of previously announced repositioning actions.

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

	Severance Costs	Asset Impairments	Exit Costs	Total
December 31, 2009	\$ 303	\$ —	\$ 37	\$ 340
Charges	59	9	4	72
Usage - cash	(88)	—	(5)	(93)
Usage - noncash	—	(9)	—	(9)
Foreign currency translation	(12)	—	—	(12)
Adjustments	(8)	—	—	(8)
June 30, 2010	\$ 254	\$ —	\$ 36	\$ 290

Certain repositioning projects in our Aerospace, Automation and Control Solutions and Transportation Systems segments included exit or disposal activities, the costs related to which will be recognized in future periods when the actual liability is incurred. The nature of these exit or disposal costs principally includes product recertification and requalification and employee training and travel. The following tables summarize by segment, expected, incurred and remaining exit and disposal costs related to 2010 and 2008 repositioning actions which we were not able to recognize at the time the actions were initiated. The exit and disposal costs related to the repositioning actions in 2009, which we were not able to recognize at the time the actions were initiated were not significant.

2008 Repositioning Actions	Aerospace	Automation and Control Solutions	Transportation Systems	Total
Expected exit and disposal costs	\$ 96	\$ 27	\$ 6	\$ 129
Costs incurred during				
Year ended December 31, 2008	(12)	—	(1)	(13)
Year ended December 31, 2009	(44)	(1)	(2)	(47)
Current year-to-date	(23)	(5)	—	(28)
Remaining exit and disposal costs	\$ 17	\$ 21	\$ 3	\$ 41
	\$ 9	\$ 6	\$ 3	\$ 18
2010 Repositioning Actions	Aerospace	Automation and Control Solutions	Transportation Systems	Total
Expected exit and disposal costs	\$ 9	\$ 6	\$ 3	\$ 18
Costs incurred during Current year-to-date	—	—	—	—
Remaining exit and disposal costs	\$ 9	\$ 6	\$ 3	\$ 18

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

In the quarter ended June 30, 2010, we recognized a charge of \$55 million for environmental liabilities deemed probable and reasonably estimable in the quarter. We also recognized a charge of \$49 million primarily representing an update to our estimated liability for the resolution of Bendix related asbestos claims as of June 30, 2010, net of probable insurance recoveries. Environmental and Asbestos matters are discussed in detail in Note 15, Commitments and Contingencies.

In the quarter ended June 30, 2009, we recognized a charge of \$36 million for environmental liabilities deemed probable and reasonably estimable in the quarter. We also recognized a charge of \$37 million primarily representing an update to our estimated liability for the resolution of Bendix related asbestos claims as of June 30, 2009, net of probable insurance recoveries.

In the six months ended June 30, 2010, we recognized a charge of \$101 million for environmental liabilities deemed probable and reasonably estimable in the period. We also recognized a charge of \$87 million primarily representing an update to our estimated liability for the resolution of Bendix related asbestos claims as of June 30, 2010, net of probable insurance recoveries. We also recognized other charges of \$18 million in connection with the evaluation of potential settlements of certain legal matters.

In the six months ended June 30, 2009, we recognized a charge of \$67 million for environmental liabilities deemed probable and reasonably estimable in the period. We also recognized a charge of \$73 million primarily representing an update to our estimated liability for the resolution of Bendix related asbestos claims as of June 30, 2009, net of probable insurance recoveries.

**Note 5. Other (income) expense**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Equity (income)/loss of affiliated companies	\$ (9)	\$ (9)	\$ (13)	\$ (15)
Interest income	(7)	(6)	(16)	(18)
Foreign exchange	(3)	5	8	27
Other, net	10	61	10	59
	<u>\$ (9)</u>	<u>\$ 51</u>	<u>\$ (11)</u>	<u>\$ 53</u>

Other, net in the second quarter of 2009 includes an other-than-temporary impairment charge of \$62 million. See Note 11 for further details.

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

**Note 6. Earnings Per Share**

The details of the earnings per share calculations for the three and six months ended June 30, 2010 and 2009 are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
<b>Basic</b>				
Net income attributable to Honeywell	\$ 468	\$ 450	\$ 854	\$ 847
Weighted average shares outstanding	769.6	747.7	767.7	742.7
Earnings per share of common stock	\$ 0.61	\$ 0.60	\$ 1.11	\$ 1.14
<b>Assuming Dilution</b>				
Net income attributable to Honeywell	\$ 468	\$ 450	\$ 854	\$ 847
<b>Average Shares</b>				
Weighted average shares outstanding	769.6	747.7	767.7	742.7
Dilutive securities issuable - stock plans	7.7	2.4	6.8	2.0
Total weighted average shares outstanding	777.3	750.1	774.5	744.7
Earnings per share of common stock	\$ 0.60	\$ 0.60	\$ 1.10	\$ 1.14

The diluted earnings per share calculations exclude the effect of stock options when the options' assumed proceeds exceed the average market price of the common shares during the period. For the three and six months ended June 30, 2010, the weighted average number of stock options excluded from the computations were 14.8 and 16.6 million, respectively. For the three and six months ended June 30, 2009, the weighted average number of stock options excluded from the computations were 45.6 and 43.4 million, respectively. These stock options were outstanding at the end of each of the respective periods.

**Note 7. Accounts, Notes and Other Receivables**

	June 30, 2010	December 31, 2009
Trade	\$ 6,164	\$ 6,183
Other	571	326
	6,735	6,509
Less - Allowance for doubtful accounts	(240)	(235)
	\$ 6,495	\$ 6,274

Trade Receivables includes \$1,215 and \$1,167 million of unbilled balances under long-term contracts as of June 30, 2010 and December 31, 2009, respectively. These amounts are billed in accordance with the terms of customer contracts to which they relate.

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

**Note 8. Inventories**

	June 30, 2010	December 31, 2009
Raw materials	\$ 1,037	\$ 988
Work in process	807	796
Finished products	1,909	1,823
	3,753	3,607
Reduction to LIFO cost basis	(157)	(161)
	<u>\$ 3,596</u>	<u>\$ 3,446</u>

**Note 9. Goodwill and Other Intangible Assets - Net**

The change in the carrying amount of goodwill for the six months ended June 30, 2010 by segment is as follows:

	December 31, 2009	Acquisitions	Divestitures	Currency Translation Adjustment	June 30, 2010
Aerospace	\$ 1,891	\$ —	\$ —	\$ (16)	\$ 1,875
Automation and Control Solutions	6,918	107	—	(246)	6,779
Specialty Materials	1,164	—	—	(15)	1,149
Transportation Systems	521	—	—	(9)	\$ 512
	<u>\$ 10,494</u>	<u>\$ 107</u>	<u>\$ —</u>	<u>\$ (286)</u>	<u>\$ 10,315</u>

	June 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Determinable life intangibles:						
Patents and technology	\$ 1,052	\$ (626)	\$ 426	\$ 1,053	\$ (595)	\$ 458
Customer relationships	1,341	(331)	1,010	1,359	(282)	1,077
Trademarks	95	(64)	31	164	(62)	102
Other	528	(385)	143	514	(406)	108
	<u>3,016</u>	<u>(1,406)</u>	<u>1,610</u>	<u>3,090</u>	<u>(1,345)</u>	<u>1,745</u>
Indefinite life intangibles:						
Trademarks	447	—	447	429	—	429
	<u>\$ 3,463</u>	<u>\$ (1,406)</u>	<u>\$ 2,057</u>	<u>\$ 3,519</u>	<u>\$ (1,345)</u>	<u>\$ 2,174</u>

Amortization expense related to intangible assets for the six months ended June 30, 2010 and 2009 was \$119 and \$125 million, respectively.

We completed our annual impairment testing of goodwill and indefinite-lived intangibles as of March 31, 2010 and determined that there was no impairment as of that date.

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

**Note 10. Long-term Debt and Credit Agreements**

	June 30, 2010	December 31, 2009
7.50% notes due 2010	\$ —	\$ 1,000
6.125% notes due 2011	500	500
5.625% notes due 2012	400	400
4.25% notes due 2013	600	600
3.875% notes due 2014	600	600
5.40% notes due 2016	400	400
5.30% notes due 2017	400	400
5.30% notes due 2018	900	900
5.00% notes due 2019	900	900
Industrial development bond obligations, floating rate maturing at various dates through 2037	47	47
6.625% debentures due 2028	216	216
9.065% debentures due 2033	51	51
5.70% notes due 2036	550	550
5.70% notes due 2037	600	600
Other (including capitalized leases), 0.62%-15.50% maturing at various dates through 2017	113	100
	<u>6,277</u>	<u>7,264</u>
Less current portion	(23)	(1,018)
	<u>\$ 6,254</u>	<u>\$ 6,246</u>

	June 30, 2010
2010	\$ 17
2011	519
2012	404
2013	605
2014	606
Thereafter	4,126
	<u>6,277</u>
Less-current portion	(23)
	<u>\$ 6,254</u>

In the first quarter of 2010, the Company repaid \$1,000 million of its 7.50% notes. The repayment was funded with the issuance of commercial paper and cash provided by operating activities.

We sell interests in designated pools of trade accounts receivables to third parties. As of June 30, 2010 and December 31, 2009 none of the receivables in the designated pools had been sold to third parties. The terms of the trade accounts receivable program permit the repurchase of receivables from the third parties at our discretion. As a result, program receivables remain on the Company's balance sheet, reflected as Accounts, notes and other receivables with a corresponding amount recorded as either Short-term borrowings or Long-term debt. Program costs are recognized as Interest and other financial charges in the Consolidated Statement of Operations.

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**Note 11. Financial Instruments and Fair Value Measures**

*Credit and Market Risk*—Financial instruments, including derivatives, expose us to counterparty credit risk for nonperformance and to market risk related to changes in interest and currency exchange rates and commodity prices. We manage our exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties, and procedures to monitor concentrations of credit risk. Our counterparties in derivative transactions are substantial investment and commercial banks with significant experience using such derivative instruments. We monitor the impact of market risk on the fair value and cash flows of our derivative and other financial instruments considering reasonably possible changes in interest rates, currency exchange rates and commodity prices and restrict the use of derivative financial instruments to hedging activities.

We continually monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. The terms and conditions of our credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer. Our sales are not materially dependent on a single customer or a small group of customers.

*Foreign Currency Risk Management*—We conduct our business on a multinational basis in a wide variety of foreign currencies. Our exposure to market risk for changes in foreign currency exchange rates arises from international financing activities between subsidiaries, foreign currency denominated monetary assets and liabilities and transactions arising from international trade. Our objective is to preserve the economic value of non-functional currency denominated cash flows. We attempt to hedge transaction exposures with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign currency exchange forward and option contracts with third parties.

We hedge monetary assets and liabilities denominated in non-functional currencies. Prior to conversion into U.S. dollars, these assets and liabilities are remeasured at spot exchange rates in effect on the balance sheet date. The effects of changes in spot rates are recognized in earnings and included in Other (Income) Expense.

We partially hedge forecasted sales and purchases, which predominantly occur in the next twelve months and are denominated in non-functional currencies, with currency forward contracts. Changes in the forecasted non-functional currency cash flows due to movements in exchange rates are substantially offset by changes in the fair value of the currency forward contracts designated as hedges. Market value gains and losses on these contracts are recognized in earnings when the hedged transaction is recognized. Open foreign currency exchange forward contracts mature predominantly in the next twelve months. At June 30, 2010 and 2009, we had contracts with notional amounts of \$3,212 million and \$3,622 million respectively, to exchange foreign currencies, principally the U.S. dollar, Euro, British pound, Canadian dollar, Hong Kong dollar, Mexican peso, Swiss franc, Czech koruna, Chinese renminbi, Indian rupee and Singapore dollar.

*Commodity Price Risk Management*—Our exposure to market risk for commodity prices can result in changes in our cost of production. We primarily mitigate our exposure to commodity price risk through the use of long-term, fixed-price contracts with our suppliers and formula price agreements with suppliers and customers. We also enter into forward commodity contracts with third parties designated as hedges of anticipated purchases of several commodities. Forward commodity contracts are marked-to-market, with the resulting gains and losses recognized in earnings when the hedged transaction is recognized. At June 30, 2010 and 2009, we had contracts with notional amounts of \$26 million and \$20 million, respectively, related to forward commodity agreements, principally base metals and natural gas.

*Interest Rate Risk Management*—We use a combination of financial instruments, including long-term, medium-term and short-term financing, variable-rate commercial paper, and interest rate swaps to manage the interest rate mix of our total debt portfolio and related overall cost of borrowing. At June 30, 2010 and December

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31, 2009, interest rate swap agreements designated as fair value hedges effectively changed \$600 million of fixed rate debt at a rate of 3.875 percent to LIBOR based floating debt. Our interest rate swaps mature in 2014.

*Fair Value of Financial Instruments*— The FASB's accounting guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The FASB's guidance classifies the inputs used to measure fair value into the following hierarchy:

Level 1	Unadjusted quoted prices in active markets for identical assets or liabilities
Level 2	Unadjusted quoted prices in active markets for similar assets or liabilities, or Unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or Inputs other than quoted prices that are observable for the asset or liability
Level 3	Unobservable inputs for the asset or liability

The Company endeavors to utilize the best available information in measuring fair value. Financial and nonfinancial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company has determined that our financial assets and liabilities are level 2 in the fair value hierarchy. The following table sets forth the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
<b>Assets:</b>		
Foreign currency exchange contracts	\$ 40	\$ 11
Available for sale investments	356	141
Interest rate swap agreements	20	1
Forward commodity contracts	2	4
<b>Liabilities:</b>		
Foreign currency exchange contracts	\$ 36	\$ 3
Interest rate swap agreements	—	3
Forward commodity contracts	3	—

The foreign currency exchange contracts, interest rate swap agreements, and forward commodity contracts are valued using broker quotations, or market transactions in either the listed or over-the-counter markets. As such, these derivative instruments are classified within level 2. The Company also holds investments in marketable equity securities, commercial paper, certificates of deposits, and time deposits that are designated as available for sale and are valued using market transactions in over-the-counter markets. As such, these investments are classified within level 2.

The carrying value of cash and cash equivalents, trade accounts and notes receivables, payables, commercial paper and short-term borrowings contained in the Consolidated Balance Sheet approximates fair

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value. The following table sets forth the Company's financial assets and liabilities that were not carried at fair value:

	June 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets</b>				
Long-term receivables	\$ 270	\$ 257	\$ 317	\$ 303
<b>Liabilities</b>				
Long-term debt and related current maturities	\$ 6,277	\$ 6,978	\$ 7,264	\$ 7,677

In the three and six months ended June 30, 2010, the Company had assets with a net book value of \$4 million and \$18 million, respectively, specifically property, plant and equipment, software and intangible assets, which were accounted for at fair value on a nonrecurring basis. These assets were tested for impairment and based on the fair value of these assets the Company recognized losses of \$4 million and \$17 million, respectively, in the three and six months ended June 30, 2010. The Company has determined that the fair value measurements of these nonfinancial assets are level 3 in the fair value hierarchy. In the three and six months ended June 30, 2009, the Company had assets with a net book value of \$27 million and \$29 million, respectively, that were accounted for at fair value on a nonrecurring basis. Based on the fair value of these assets the Company recognized losses of \$7 million and \$9 million, respectively, in the three and six months ended June 30, 2009.

The Company holds investments in marketable equity securities that are designated as available for sale securities. Due to an other-than-temporary decline in fair value of these investments, the Company recognized an impairment charge of \$62 million in the three months ended June 30, 2009 that is included in Other (Income) Expense.

The derivatives utilized for risk management purposes as detailed above are included on the Consolidated Balance Sheet and impacted the Statement of Operations as follows:



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Fair value of derivatives classified as assets consist of the following:

Designated as a Hedge	Balance Sheet Classification	June 30, 2010	December 31, 2009
Foreign currency exchange contracts	Accounts, notes, and other receivables	\$ 39	\$ 8
Interest rate swap agreements	Other assets	20	1
Commodity contracts	Accounts, notes, and other receivables	2	4

  

Not Designated as a Hedge	Balance Sheet Classification	June 30, 2010	December 31, 2009
Foreign currency exchange contracts	Accounts, notes, and other receivables	\$ 1	\$ 3

Fair value of derivatives classified as liabilities consist of the following:

Designated as a Hedge	Balance Sheet Classification	June 30, 2010	December 31, 2009
Foreign currency exchange contracts	Accrued liabilities	\$ 31	\$ 1
Interest rate swap agreements	Accrued liabilities	—	3
Commodity contracts	Accrued liabilities	3	—

  

Not Designated as a Hedge	Balance Sheet Classification	June 30, 2010	December 31, 2009
Foreign currency exchange contracts	Accrued liabilities	\$ 5	\$ 3

Gains (losses) recognized in OCI (effective portions) consist of the following:

Designated Cash Flow Hedge	Three Months Ended June, 30		Six Months Ended June, 30	
	2010	2009	2010	2009
Foreign currency exchange contracts	\$ (12)	\$ 33	\$ 8	\$ 9
Commodity contracts	(1)	8	(3)	5

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Gains (losses) reclassified from AOCI to income consist of the following:

Designated Cash Flow Hedge	Income Statement Location	Three Months Ended June 30,		Six Months Ended June 30,	
		2010	2009	2010	2009
Foreign currency exchange contracts	Product sales	\$ (3)	\$ 12	\$ (6)	\$ 10
	Cost of products sold	7	(10)	9	(12)
	Sales & general administrative	(4)	(2)	(3)	(2)
Commodity contracts	Cost of products sold	\$ (2)	\$ (3)	\$ (3)	\$ (4)

Ineffective portions of commodity derivative instruments designated in cash flow hedge relationships were less than \$1 million in the three and six months ended June 30, 2010 and are located in cost of products sold. Ineffective portions of commodity derivative instruments designated in cash flow hedge relationships were approximately \$1 million in the three and six months ended June 30, 2009 and are located in cost of products sold. Foreign currency exchange contracts in cash flow hedge relationships qualify as critical matched terms hedge relationships and as a result have no ineffectiveness.

Interest rate swap agreements are designated as hedge relationships with gains or (losses) on the derivative recognized in Interest and other financial charges offsetting the gains and losses on the underlying debt being hedged. Gains on interest rate swap agreements recognized in earnings were \$16 and \$20 million in the three and six months ended June 30, 2010. These gains were fully off-set by losses on the underlying debt being hedged. Gains on interest rate swap agreements recognized in earnings were \$1 million in both the three and six months ended June 30, 2009. These gains were fully off-set by losses on the underlying debt being hedged.

We also economically hedge our exposure to changes in foreign exchange rates principally with forward contracts. These contracts are marked-to-market with the resulting gains and losses recognized in earnings offsetting the gains and losses on the non-functional currency denominated monetary assets and liabilities being hedged. For the three and six months ended June 30, 2010, we recognized \$6 million of income and \$16 million of expense, respectively in Other (Income) Expense. For the three and six months ended June 30, 2009, we recognized \$29 million and \$68 million of income, respectively in Other (Income) Expense.

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**Note 12. Comprehensive Income/(Loss)**

Comprehensive income/(loss) consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	\$ 476	\$ 460	\$ 869	\$ 859
Foreign exchange translation adjustments	(421)	389	(705)	139
Pension and postretirement benefit adjustments	(41)	57	73	83
Change in fair value of effective cash flow hedges	(6)	46	1	24
Change in unrealized losses on available for sale investments <sup>(a)</sup>	(21)	45	28	51
	(13)	997	266	1,156
Comprehensive Income attributable to noncontrolling interest <sup>(b)</sup>	(9)	(9)	(16)	(11)
Comprehensive Income/(Loss) attributable to Honeywell	\$ (22)	\$ 988	\$ 250	\$ 1,145

(a) Includes reclassification adjustment for losses included in net income.

(b) Comprehensive Income/(Loss) attributable to noncontrolling interest consisted predominately of net income.

Changes in Noncontrolling Interest consist of the following:

December 31, 2009	\$ 110
Comprehensive Income/(Loss) attributable to noncontrolling interest	16
Dividends paid	(6)
	_____
June 30, 2010	\$ 120

In the first six months of 2010 there were no increases or decreases to Honeywell additional paid in capital for purchases or sales of existing noncontrolling interests.

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**Note 13. Segment Financial Data**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Net Sales</b>				
Aerospace	\$ 2,647	\$ 2,719	\$ 5,153	\$ 5,478
Automation and Control Solutions	3,237	3,013	6,361	6,014
Specialty Materials	1,259	1,048	2,398	2,102
Transportation Systems	1,018	786	2,025	1,542
Corporate	—	—	—	—
	<u>\$ 8,161</u>	<u>\$ 7,566</u>	<u>\$ 15,937</u>	<u>\$ 15,136</u>
<b>Segment Profit</b>				
Aerospace	\$ 443	\$ 454	\$ 856	\$ 942
Automation and Control Solutions	401	346	787	657
Specialty Materials	214	150	384	275
Transportation Systems	115	25	211	22
Corporate	(66)	(45)	(95)	(90)
	<u>1,107</u>	<u>930</u>	<u>2,143</u>	<u>1,806</u>
Total Segment Profit				
Other income/ (expense) <sup>(a)</sup>	—	(60)	(2)	(68)
Interest and other financial charges	(92)	(123)	(199)	(240)
Stock compensation expense <sup>(b)</sup>	(36)	(35)	(86)	(77)
Pension (expense) <sup>(b)</sup>	(191)	(30)	(391)	(56)
Other postretirement income/(expense) <sup>(b)</sup>	(12)	88	6	59
Repositioning and other charges <sup>(b)</sup>	(128)	(144)	(270)	(255)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Income before taxes	<u>\$ 648</u>	<u>\$ 626</u>	<u>\$ 1,201</u>	<u>\$ 1,169</u>

(a) Equity income/(loss) of affiliated companies is included in Segment Profit.

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

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**Note 14. Pension and Other Postretirement Benefits**

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

<u>Pension Benefits</u>	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Service cost	\$ 64	\$ 54	\$ 137	\$ 111
Interest cost	250	250	497	492
Expected return on plan assets	(319)	(333)	(630)	(654)
Amortization of prior service cost	11	5	16	12
Recognition of actuarial losses	178	45	354	81
Settlements and curtailments	—	—	4	—
	\$ 184	\$ 21	\$ 378	\$ 42

  

<u>Other Postretirement Benefits</u>	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Service cost	\$ —	\$ —	\$ 1	\$ 3
Interest cost	19	23	43	52
Amortization of prior service (credit)	(8)	(12)	(18)	(22)
Recognition of actuarial losses	10	(1)	14	7
Settlements and curtailments	(9)	(98)	(46)	(98)
	\$ 12	\$ (88)	\$ (6)	\$ (58)

On February 1, 2010, in connection with a new collective bargaining agreement reached with one of its union groups, Honeywell amended its U.S. retiree medical plan eliminating the subsidy for those union employees who retire after February 1, 2013. This plan amendment reduced the accumulated postretirement benefit obligation by \$39 million which will be recognized as part of net periodic postretirement benefit cost over the average future service period to full eligibility of the remaining active union employees still eligible for a retiree medical subsidy. This plan amendment also resulted in a curtailment gain of \$37 million in the six months ended June 30, 2010 which was included as part of net periodic postretirement benefit cost. The curtailment gain represents the recognition of previously unrecognized negative prior service costs attributable to the future years of service of the union group for which future accrual of benefits has been eliminated.

We recorded a one-time, non-cash charge of \$13 million related to income taxes in the first quarter of 2010, resulting from the March 2010 enactment of the Patient Protection and Affordable Care Act, including modifications made in the Health Care and Education Reconciliation Act of 2010. The charge results from a change in the tax treatment of the Medicare Part D program.

In April 2010, Honeywell contributed marketable securities valued at \$100 million to one of its non-U.S. pension plans. In May 2010, we made a \$200 million voluntary contribution of Honeywell common stock to our U.S. pension plans to improve the funded status of our plans.

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**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 substances are in accordance with environmental and safety laws and regulations. However, mainly because of past operations and operations of predecessor companies, we, like other companies engaged in similar businesses, have incurred remedial response and voluntary cleanup costs for site contamination and are a party to lawsuits and claims associated with environmental and safety matters, including past production of products containing hazardous 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. 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, regulatory 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 recorded liabilities. We expect to fund expenditures for these matters from operating cash flow. The timing of cash expenditures depends on a number of factors, including the timing of remedial investigations and feasibility studies, the timing of litigation and settlements of remediation liability, personal injury and property damage claims, regulatory approval of cleanup projects, remedial techniques to be utilized and agreements with other parties.

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

December 31, 2009	\$	779
Accruals for environmental matters deemed probable and reasonably estimable		107
Environmental liability payments		(86)
Other		10
		<hr/>
June 30, 2010	\$	810
		<hr/> <hr/>

Environmental liabilities are included in the following balance sheet accounts:

	June 30, 2010	December 31, 2009
	<hr/>	<hr/>
Accrued liabilities	\$ 316	\$ 314
Other liabilities	494	465
	<hr/>	<hr/>
	\$ 810	\$ 779
	<hr/> <hr/>	<hr/> <hr/>

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

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amount of the ultimate costs associated with environmental matters can be determined, they could be material to our consolidated results of operations or operating cash flows in the periods recognized or paid. However, considering our past experience and existing reserves, we do not expect that these environmental matters will have a material adverse effect on our consolidated financial position.

*New Jersey Chrome Sites*—The excavation and offsite disposal of approximately one million tons of chromium residue present at a predecessor Honeywell site located in Jersey City, New Jersey, known as Study Area 7 was completed in January 2010. We have also received approval of the United States District Court for the District of New Jersey for the implementation of related groundwater and sediment remedial actions, and are seeking the appropriate permits from state and federal agencies. Provisions have been made in our financial statements for the estimated cost of these remedies.

The above-referenced site is the most significant of the 21 sites located in Hudson County, New Jersey that are the subject of an Administrative Consent Order (ACO) entered into with the New Jersey Department of Environmental Protection (NJDEP) in 1993 (the "Honeywell ACO Sites"). Remedial investigations and activities consistent with the ACO have also been conducted and are underway at the other Honeywell ACO Sites. We have recorded reserves for the Honeywell ACO Sites where appropriate under the accounting policy described above.

On May 3, 2005, NJDEP filed a lawsuit in New Jersey Superior Court against Honeywell and two other companies seeking declaratory and injunctive relief, unspecified damages, and the reimbursement of unspecified total costs relating to sites in New Jersey allegedly contaminated with chrome ore processing residue. The claims against Honeywell relate to the activities of a predecessor company which ceased its New Jersey manufacturing operations in the mid-1950's. Honeywell and the two other companies have agreed to settle this litigation with NJDEP, subject to Court approval. Under the settlement, Honeywell would pay \$5 million of NJDEP's past costs, as well as accept sole responsibility to remediate 24 of the 53 "Publicly Funded Sites" (i.e., those sites for which none of the three companies had previously accepted responsibility). Honeywell would also bear 50% of the costs at another 10 Publicly Funded Sites. We have recorded reserves for the Publicly Funded Sites where appropriate under the accounting policy described above.

We have entered into court-approved settlements of litigation filed in federal court against Honeywell and other landowners seeking the cleanup of chrome residue at groups of properties known as Study Areas 5, 6 South and 6 North of the Honeywell ACO Sites. The required remedial actions are consistent with our recorded reserves.

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

*Onondaga Lake, Syracuse, NY*—We are implementing a combined dredging/capping remedy of Onondaga Lake pursuant to a consent decree approved by the United States District Court for the Northern

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District of New York in January 2007. We have accrued for our estimated cost of remediating Onondaga Lake based on currently available information and analysis performed by our engineering consultants. Honeywell is also conducting remedial investigations and activities at other sites in Syracuse. We have recorded reserves for these investigations and activities where appropriate under the accounting policy described above.

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

#### Asbestos Matters

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

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

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

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

We believe that, as part of the NARCO plan of reorganization, a trust will be established for the benefit of all asbestos claimants, current and future, pursuant to Trust Distribution Procedures negotiated with the NARCO Asbestos Claimants Committee and the Court-appointed legal representative for future asbestos claimants. If the trust is put in place and approved by the Court as fair and equitable, Honeywell as well as NARCO will be entitled to a permanent channeling injunction barring all present and future individual actions in state or federal courts and requiring all asbestos related claims based on exposure to NARCO products to be made against the federally-supervised trust. Honeywell has reached agreement with the representative for future NARCO claimants and the Asbestos Claimants Committee to cap its annual contributions to the trust with respect to future claims at a level that would not have a material impact on Honeywell'S operating cash flows.

In November 2007, the Bankruptcy Court entered an amended order confirming the NARCO Plan without modification and approving the 524(g) trust and channeling injunction in favor of NARCO and Honeywell. In December 2007, certain insurers filed an appeal of the Bankruptcy Court Order in the United States District Court for the Western District of Pennsylvania. The District Court affirmed the Bankruptcy Court Order in July 2008. In August 2008, insurers filed a notice of appeal to the Third Circuit Court of Appeals. The appeal is fully briefed, oral argument took place on May 21, 2009, and the matter was submitted for decision. In connection with the settlement of an insurance coverage litigation matter, the insurer appellants will withdraw their appeal regarding the NARCO Plan. The NARCO Plan of Reorganization cannot become effective, however, until the



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resolution of an appeal of the Chapter 11 proceedings of a NARCO affiliate; in June 2010, the Third Circuit directed that this appeal be reheard en banc. We expect that the stay enjoining litigation against NARCO and Honeywell will remain in effect until the effective date of the NARCO Plan of Reorganization.

Our consolidated financial statements reflect an estimated liability for settlement of pending and future NARCO-related asbestos claims of \$1,127 million and \$1,128 million as of June 30, 2010 and December 31, 2009, respectively. The estimated liability for pending claims is based on terms and conditions, including evidentiary requirements, in definitive agreements with approximately 260,000 current claimants, and an estimate of the unsettled claims pending as of the time NARCO filed for bankruptcy protection. Substantially all settlement payments with respect to current claims have been made. Approximately \$100 million of payments due pursuant to these settlements is due only upon establishment of the NARCO trust.

The estimated liability for future claims represents the estimated value of future asbestos related bodily injury claims expected to be asserted against NARCO through 2018 and the aforementioned obligations to NARCO's parent. In light of the uncertainties inherent in making long-term projections we do not believe that we have a reasonable basis for estimating asbestos claims beyond 2018. The estimate is based upon the disease criteria and payment values contained in the NARCO Trust Distribution Procedures negotiated with the NARCO Asbestos Claimants Committee and the NARCO future claimants' representative. Honeywell projected the probable number and value, including trust claim handling costs, of asbestos related future liabilities based upon experience of asbestos claims filing rates in the tort system and in certain operating asbestos trusts, and the claims experience in those forums. The valuation methodology also includes an analysis of the population likely to have been exposed to asbestos containing products, epidemiological studies to estimate the number of people likely to develop asbestos related diseases, NARCO claims filing history, the pending inventory of NARCO asbestos related claims and payment rates expected to be established by the NARCO trust. This methodology used to estimate the liability for future claims has been commonly accepted by numerous courts and resulted in a range of estimated liability for future claims of \$743 to \$961 million. We believe that no amount within this range is a better estimate than any other amount and accordingly, we have recorded the minimum amount in the range.

As of June 30, 2010 and December 31, 2009, our consolidated financial statements reflect an insurance receivable corresponding to the liability for settlement of pending and future NARCO-related asbestos claims of \$816 and \$831 million, respectively. This coverage reimburses Honeywell for portions of the costs incurred to settle NARCO related claims and court judgments as well as defense costs and is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. At June 30, 2010, a significant portion of this coverage is with insurance companies with whom we have agreements to pay full policy limits based on corresponding Honeywell claims costs. We conduct analyses to determine the amount of insurance that we estimate is probable of recovery in relation to payment of current and estimated future claims. While the substantial majority of our insurance carriers are solvent, some of our individual carriers are insolvent, which has been considered in our analysis of probable recoveries. We made judgments concerning insurance coverage that we believe are reasonable and consistent with our historical dealings with our insurers, our knowledge of any pertinent solvency issues surrounding insurers and various judicial determinations relevant to our insurance programs.

In the second quarter of 2006, Travelers Casualty and Insurance Company ("Travelers") filed a lawsuit against Honeywell and other insurance carriers in the Supreme Court of New York, County of New York, disputing obligations for NARCO-related asbestos claims under high excess insurance coverage issued by Travelers and other insurance carriers. In July 2010, the Company entered into a settlement agreement resolving all asbestos coverage issues with certain plaintiffs. Approximately \$200 million of unsettled coverage under these policies is included in our NARCO-related insurance receivable at June 30, 2010. Honeywell believes it is entitled to the coverage at issue and expects to prevail in this matter. In the third quarter of 2007, Honeywell prevailed on a critical choice of law issue concerning the appropriate method of allocating NARCO-related asbestos liabilities to triggered policies. The plaintiffs appealed and the trial court's ruling was upheld by the intermediate appellate court in the second quarter of 2009. Plaintiffs' further appeal to the New York Court of Appeals, the highest court in New York, was denied in October 2009. A related New Jersey action brought by Honeywell has been

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dismissed, but all coverage claims against plaintiffs have been preserved in the New York action. Based upon (i) our understanding of relevant facts and applicable law, (ii) the terms of insurance policies at issue, (iii) our experience on matters of this nature, and (iv) the advice of counsel, we believe that the amount due from Travelers and other insurance carriers is probable of recovery. While Honeywell expects to prevail in this matter, an adverse outcome could have a material impact on our results of operations in the period recognized but would not be material to our consolidated financial position or operating cash flows.

Projecting future events is subject to many uncertainties that could cause the NARCO related asbestos liabilities or assets to be higher or lower than those projected and recorded. There is no assurance that the plan of reorganization will become final, that insurance recoveries will be timely or whether there will be any NARCO related asbestos claims beyond 2018. Given the inherent uncertainty in predicting future events, we review our estimates periodically, and update them based on our experience and other relevant factors. Similarly, we will reevaluate our projections concerning our probable insurance recoveries in light of any changes to the projected liability or other developments that may impact insurance recoveries.

*Friction Products*—Honeywell's Bendix friction materials (Bendix) business manufactured automotive brake parts that contained chrysotile asbestos in an encapsulated form. Existing and potential claimants consist largely of individuals who allege exposure to asbestos from brakes from either performing or being in the vicinity of individuals who performed brake replacements.

From 1981 through June 30, 2010, we have resolved approximately 154,000 Bendix related asbestos claims. We had 129 trials resulting in favorable verdicts and 17 trials resulting in adverse verdicts. Four of these adverse verdicts were reversed on appeal, five verdicts were vacated on post-trial motions, three claims were settled and the remaining five have been or will be appealed. The claims portfolio was reduced in 2009 due to settlements, dismissals and the elimination of significantly aged (i.e., pending for more than six years), inactive (including claims for which the required medical and exposure showings have not been made) and duplicate claims.

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

Claims Activity	Six Months Ended June 30, 2010	Year Ended December 31,	
		2009	2008
Claims Unresolved at the beginning of period	19,940	51,951	51,658
Claims Filed during the period	1,215	2,697	4,003
Claims Resolved and Reactivated during the period <sup>(a)</sup>	204	(34,708)	(3,710)
Claims Unresolved at the end of period	21,359	19,940	51,951

(a) Includes approximately 1,500 claims previously classified as inactive (90% non-malignant and accrued liability of approximately \$3.4 million) which were activated during the current period.

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Disease Distribution of Unresolved Claims	June 30, 2010	December 31,	
		2009	2008
Mesothelioma and Other Cancer Claims	4,861	4,727	5,575
Other Claims	16,498	15,213	46,376
<b>Total Claims</b>	<b>21,359</b>	<b>19,940</b>	<b>51,951</b>

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

	Year Ended December 31,			
	2009	2008	2007	2006
	(in whole dollars)			
Malignant claims	\$ 50,000	\$ 65,000	\$ 33,000	\$ 33,000
Nonmalignant claims	\$ 200	\$ 1,500	\$ 500	\$ 250

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

Our consolidated financial statements reflect an estimated liability for resolution of pending and future Bendix related asbestos claims of \$579 and \$566 million at June 30, 2010 and December 31, 2009, respectively. Our liability for the estimated cost of future Bendix related asbestos claims is based on historic claims filing experience, disease classifications, expected resolution values, and historic dismissal rates. In the fourth quarter of each year, we update our analysis of the estimated cost of future Bendix related asbestos claims. We have valued Bendix pending and future claims using average resolution values for the previous four years. Changes in the tort system, which began in 2006, refocused asbestos litigation on mesothelioma cases, making the four year period 2006 through 2009 representative for forecasting purposes. We will continue to update the expected resolution values used to estimate the cost of pending and future Bendix claims during the fourth quarter each year.

The estimated liability for future claims represents the estimated value of future asbestos related bodily injury claims expected to be asserted against Bendix over the next five years. In light of the uncertainties inherent in making long-term projections, as well as certain factors unique to friction product asbestos claims, we do not believe that we have a reasonable basis for estimating asbestos claims beyond the next five years. The estimate is based upon Bendix historical experience in the tort system for the four years ended December 31, 2009 with respect to claims filing and resolution values. The methodology used to estimate the liability for future claims has been commonly accepted by numerous courts. It is similar to that used to estimate the future NARCO related asbestos claims liability.

Honeywell currently has approximately \$1,900 million of insurance coverage remaining with respect to pending and potential future Bendix related asbestos claims, of which \$154 and \$172 million are reflected as receivables in our consolidated balance sheet at June 30, 2010 and December 31, 2009, respectively. This coverage is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. Insurance receivables are recorded in the financial statements simultaneous with the recording of the liability for the estimated value of the underlying asbestos claims. The amount of the insurance receivable recorded is based on our ongoing analysis of the insurance that we estimate is probable of recovery. This determination is based on our analysis of the underlying insurance policies, our historical experience with our insurers, our ongoing review of the solvency of our insurers, our interpretation of judicial determinations relevant to our insurance programs, and our consideration of the impacts of any settlements reached with our insurers. Insurance receivables are also recorded when structured

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insurance settlements provide for future fixed payment streams that are not contingent upon future claims or other events. Such amounts are recorded at the net present value of the fixed payment stream.

On a cumulative historical basis, Honeywell has recorded insurance receivables equal to approximately 45 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 35 percent.

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

*Refractory and Friction Products* — The following tables summarize information concerning NARCO and Bendix asbestos related balances:

**Asbestos Related Liabilities**

	<u>Bendix</u>	<u>NARCO</u>	<u>Total</u>
December 31, 2009	\$ 566	\$ 1,128	\$ 1,694
Accrual for update to estimated liability	81	2	83
Asbestos related liability payments	(68)	(3)	(71)
June 30, 2010	<u>\$ 579</u>	<u>\$ 1,127</u>	<u>\$ 1,706</u>

**Insurance Recoveries for Asbestos Related Liabilities**

	<u>Bendix</u>	<u>NARCO</u>	<u>Total</u>
December 31, 2009	\$ 172	\$ 831	\$ 1,003
Probable insurance recoveries related to estimated liability	9	—	9
Insurance receipts for asbestos related liabilities	(27)	(2)	(29)
Insurance receivables settlements and write-offs	—	(13)	(13)
June 30, 2010	<u>\$ 154</u>	<u>\$ 816</u>	<u>\$ 970</u>

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

	June 30, 2010	December 31, 2009
Other current assets	\$ 116	\$ 62
Insurance recoveries for asbestos related liabilities	854	941
	<u>\$ 970</u>	<u>\$ 1,003</u>
Accrued liabilities	\$ 172	\$ 654
Asbestos related liabilities	1,534	1,040
	<u>\$ 1,706</u>	<u>\$ 1,694</u>

**Other Matters**

We are subject to a number of other lawsuits, investigations and disputes (some of which involve substantial amounts claimed) arising out of the conduct of our business, including matters relating to commercial transactions, government contracts, product liability, prior acquisitions and divestitures, employee benefit plans, intellectual property, and health and safety matters. We recognize a liability for any contingency that is probable of occurrence and reasonably estimable. We continually assess the likelihood of adverse judgments of outcomes in these matters, as well as potential ranges of possible losses (taking into consideration any insurance recoveries), based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts. Included in these other matters are the following:

*Allen, et al. v. Honeywell Retirement Earnings Plan*—Pursuant to a settlement approved by the U.S. District Court for the District of Arizona in February 2008, 18 of 21 claims alleged by plaintiffs in this class action lawsuit were dismissed with prejudice in exchange for approximately \$35 million and the maximum aggregate liability for the remaining three claims (alleging that Honeywell impermissibly reduced the pension benefits of certain employees of a predecessor entity when the plan was amended in 1983 and failed to calculate benefits in accordance with the terms of the plan) was capped at \$500 million. Any amounts payable, including the settlement amount, have or will be paid from the Company's pension plan. In October 2009, the Court granted summary judgment in favor of the Honeywell Retirement Earnings Plan with respect to the claim regarding the calculation of benefits. We continue to expect to prevail on the remaining claims in light of applicable law and our substantial affirmative defenses, which have not yet been considered fully by the Court. Accordingly, we do not believe that a liability is probable of occurrence and reasonably estimable with respect to these claims and we have not recorded a provision for the remaining claims in our financial statements.

*Quick Lube*—On March 31, 2008, S&E Quick Lube, a filter distributor, filed suit in U.S. District Court for the District of Connecticut alleging that twelve filter manufacturers, including Honeywell, engaged in a conspiracy to fix prices, rig bids and allocate U.S. customers for aftermarket automotive filters. This suit is a purported class action on behalf of direct purchasers of filters from the defendants. Parallel purported class actions, including on behalf of indirect purchasers of filters, have been filed by other plaintiffs in a variety of jurisdictions in the United States and Canada. The U.S cases have been consolidated into a single multi-district litigation in the Northern District of Illinois. We intend to vigorously defend the claims raised in these actions. The Antitrust Division of the Department of Justice notified Honeywell on January 21, 2010 that it has officially closed its investigation into possible collusion in the replacement auto filters industry.

Given the uncertainty inherent in litigation and investigations (including the specific matters referenced above), we do not believe it is possible to develop estimates of reasonably possible loss in excess of current accruals for these matters. 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

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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.

## 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 June 30, 2010, and the related consolidated statement of operations for each of the three-month and six-month periods ended June 30, 2010 and 2009 and the consolidated statement of cash flows for the six-month periods ended June 30, 2010 and 2009. These interim financial statements are the responsibility of the Company's management.

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2009, and the related consolidated statements of operations, of shareowners' equity, and of cash flows for the year then ended (not presented herein), and in our report dated February 11, 2010, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2009, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP  
Florham Park, New Jersey  
July 22, 2010

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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.

## ITEM 2.

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

The following MD&A is intended to help the reader understand the results of operations and financial condition of Honeywell International Inc. ("Honeywell") for the three and six months ended June 30, 2010. The financial information as of June 30, 2010 should be read in conjunction with the financial statements for the year ended December 31, 2009 contained in our Form 10-K filed on February 12, 2010.

**A. Results of Operations – three and six months ended June 30, 2010 compared with the three and six months ended June 30, 2009**

**Net Sales**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net sales	\$ 8,161	\$ 7,566	\$ 15,937	\$ 15,136
% change compared with prior period	8%		5%	

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

	Three Months	Year to Date
Volume	6%	3%
Price	2%	1%
Foreign Exchange	0%	1%
Acquisitions/Divestitures	0%	0%
	8%	5%

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

**Cost of Products and Services Sold**

	Three Months Ended June, 30		Six Months Ended June, 30	
	2010	2009	2010	2009
Cost of products and services sold	\$ 6,268	\$ 5,682	\$ 12,250	\$ 11,438
% change compared with prior period	10%		7%	
Gross Margin percentage	23.2%	24.9%	23.1%	24.4%

Cost of products and services sold increased by \$586 million or 10 percent in the quarter ended June 30, 2010 compared with the quarter ended June 30, 2009 principally due to i) an estimated increase in direct material costs of approximately \$300 million driven substantially by the 8 percent increase in sales as a result of the factors discussed above and in the Review of Business Segments section of this MD&A, ii) a \$135 million increase in non-cash pension expense and iii) an \$83 million increase in other postretirement benefits expense, partially offset by the positive impact of cost savings initiatives across each of our Business Segments, including benefits from prior repositioning actions.

Cost of products and services sold increased by \$812 million or 7 percent in the six months ended June 30, 2010 compared with the six months ended June 30, 2009 principally due to i) an estimated increase in direct material costs of approximately \$500 million driven substantially by the 5 percent increase in sales as a result of the factors discussed above and in the Review of Business Segments section of this MD&A and ii) a \$276 million increase in non-cash pension expense, partially offset by the positive impact of cost savings initiatives across each of our Business Segments, including benefits from prior repositioning actions.



Gross margin percentage decreased by 1.7 percentage points in the quarter ended June 30, 2010 compared with the quarter ended June 30, 2009 primarily due to higher pension expense (approximate 1.7 percentage points impact), higher other postretirement benefits expense (approximate 1.1 percentage points impact, primarily related to a curtailment gain in the second quarter of 2009), partially offset by 1.0 percentage point impact from increased segment margins (driven by increases in our Transportation Systems, Specialty Materials and Automation and Control Solutions segments). The increase in our segments' gross margins was most significantly impacted by reduced labor costs primarily reflecting the benefits of prior repositioning actions.

Gross margin percentage decreased by 1.3 percentage points in the six months ended June 30, 2010 compared with the six months ended June 30, 2009 primarily due to higher pension expense (approximate 1.8 percentage points impact) and partially offset by 0.9 percentage point impact from increased segment margins (driven by increases in our Transportation Systems, Specialty Materials and Automation and Control Solutions segments, partially offset by lower margins in our Aerospace segment). The increase in our segments' gross margins was most significantly impacted by reduced labor costs primarily reflecting the benefits of prior repositioning actions.

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

### Selling, General and Administrative Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Selling, general and administrative expense	\$ 1,162	\$ 1,084	\$ 2,298	\$ 2,236
Percent of sales	14.2%	14.3%	14.4%	14.8%

Selling, general and administrative expenses as a percentage of sales decreased by 0.1 percentage points in the quarter ended June 30, 2010 compared to the quarter ended June 30, 2009 and by 0.4 percentage points in the six months ended June 30, 2010 compared with the six months ended June 30, 2009. These decreases are primarily due to the positive impact of cost savings initiatives in each of our Business Segments and lower repositioning charges, partially offset by higher pension expense and increases resulting from the 8 percent and 5 percent increases in sales for the three and six months ended June 30, 2010, respectively.

### Other (Income) Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Equity (income)/loss of affiliated companies	\$ (9)	\$ (9)	\$ (13)	\$ (15)
Interest income	(7)	(6)	(16)	(18)
Foreign exchange	(3)	5	8	27
Other, net	10	61	10	59
	\$ (9)	\$ 51	\$ (11)	\$ 53

Other income of (\$9) and (\$11) million for the three and six months ended June 30, 2010 compared with Other expense of \$51 and \$53 million for the three and six months ended June 30, 2009 are due to an other-than-temporary impairment charge of \$62 million in the second quarter of 2009 and lower foreign exchange losses.

## Interest and Other Financial Charges

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Interest and other financial charges	\$ 92	\$ 123	\$ 199	\$ 240

Interest and other financial charges decreased by \$31 million in the quarter ended June 30, 2010 compared with the quarter ended June 30, 2009 and by \$41 million in the six months ended 2010 compared with the six months ended June 30, 2009 primarily due to lower debt balances and lower borrowing costs.

## Tax Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Tax expense	\$ 172	\$ 166	\$ 332	\$ 310
Effective tax rate	26.5%	26.5%	27.6%	26.5%

The effective tax rate was unchanged in the quarter ended June 30, 2010 compared with the quarter ended June 30, 2009 primarily due to the absence of a reduction in the valuation allowance for tax losses in the prior year offset by the benefit from the settlement of tax audits.

The effective tax rate increased by 1.1 percent in the six months ended June 30, 2010 compared with the six months ended June 30, 2009 primarily due to the impact of an enacted change in the tax treatment of the Medicare Part D program in the first quarter of 2010 (see Note 14 of Notes to Financial Statements).

The effective tax rate in both periods was lower than the statutory rate of 35 percent primarily due to foreign earnings taxed at lower tax rates.

## Net Income Attributable to Honeywell

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income attributable to Honeywell	\$ 468	\$ 450	\$ 854	\$ 847
Earnings per share of common stock – assuming dilution	\$ 0.60	\$ 0.60	\$ 1.10	\$ 1.14

Earnings per share of common stock – assuming dilution was unchanged in the quarter ended June 30, 2010 compared with the quarter ended June 30, 2009 primarily due to increased segment profit in our Transportation Systems, Specialty Materials and Automation and Control Solutions segments and increased Other (Income) Expense, as discussed above, offset by higher pension expense.

Earnings per share of common stock – assuming dilution decreased by \$0.04 per share in the six months ended June 30, 2010 compared with the six months ended June 30, 2009, primarily due to higher pension expense, lower segment profit in our Aerospace segment and an increase in the number of shares outstanding, partially offset by increased segment profit in our Transportation Systems, Automation and Control Solutions and Specialty Materials segments and increased Other (Income) Expense, as discussed above.

## Review of Business Segments

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Net Sales</b>				
Aerospace	\$ 2,647	\$ 2,719	\$ 5,153	\$ 5,478
Automation and Control Solutions	3,237	3,013	6,361	6,014
Specialty Materials	1,259	1,048	2,398	2,102
Transportation Systems	1,018	786	2,025	1,542
Corporate	—	—	—	—
	<u>\$ 8,161</u>	<u>\$ 7,566</u>	<u>\$ 15,937</u>	<u>\$ 15,136</u>
<b>Segment Profit</b>				
Aerospace	\$ 443	\$ 454	\$ 856	\$ 942
Automation and Control Solutions	401	346	787	657
Specialty Materials	214	150	384	275
Transportation Systems	115	25	211	22
Corporate	(66)	(45)	(95)	(90)
	<u>1,107</u>	<u>930</u>	<u>2,143</u>	<u>1,806</u>
Other income/ (expense) <sup>(a)</sup>	—	(60)	(2)	(68)
Interest and other financial charges	(92)	(123)	(199)	(240)
Stock compensation expense <sup>(b)</sup>	(36)	(35)	(86)	(77)
Pension (expense) <sup>(b)</sup>	(191)	(30)	(391)	(56)
Other postretirement income/(expense) <sup>(b)</sup>	(12)	88	6	59
Repositioning and other charges <sup>(b)</sup>	(128)	(144)	(270)	(255)
	<u>\$ 648</u>	<u>\$ 626</u>	<u>\$ 1,201</u>	<u>\$ 1,169</u>

(a) Equity income/(loss) of affiliated companies is included in Segment Profit.

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

## Aerospace

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net sales	\$ 2,647	\$ 2,719	\$ 5,153	\$ 5,478
% change compared with prior period	(3)%		(6)%	
Segment profit	\$ 443	\$ 454	\$ 856	\$ 942
% change compared with prior period	(2)%		(9)%	

### 2010 vs. 2009

Factors Contributing to Year-Over-Year Change	Three Months Ended June, 30		Six Months Ended June, 30	
	Sales	Segment Profit	Sales	Segment Profit
Organic growth/ Operational segment profit	(2)%	5%	(5)%	(5)%
Other	(1)%	(7)%	(1)%	(4)%
Total % Change	(3)%	(2)%	(6)%	(9)%

Aerospace sales by major customer end-markets were as follows:

Customer End-Markets	Three Months Ended June 30,			Six Months Ended June 30,		
	% of Aerospace Sales		% Change	% of Aerospace Sales		% Change
2010	2009	2010		2009		
Commercial:						
Air transport and regional						
Original equipment	14%	12%	8%	13%	13%	(5)%
Aftermarket	22%	23%	(4)%	23%	22%	(4)%
Business and general aviation						
Original equipment	5%	7%	(36)%	5%	9%	(49)%
Aftermarket	9%	8%	8%	9%	8%	4%
Defense and Space	50%	50%	(1)%	50%	48%	(1)%
Total	100%	100%	(3)%	100%	100%	(6)%

Aerospace sales decreased by 3 percent in the quarter ended June 30, 2010 compared with the quarter ended June 30, 2009 due to a 2 percent decrease in organic growth and a 1 percent reduction of revenue related to amounts recognized for payments to business and general aviation original equipment manufacturers (OEM Payments) to partially offset their pre-production costs associated with new aircraft platforms.

Aerospace sales decreased by 6 percent for the six months ended June 30, 2010 compared with the six months ended June 30, 2009 due principally to a 5 percent decrease in organic growth and a 1 percent reduction in revenue as a result of the OEM Payments, discussed above.

Details regarding the changes in sales by customer end-markets are as follows:

- Air transport and regional original equipment (OE) sales increased by 8 percent in the quarter ended June 30, 2010 primarily due to higher sales to our OE customers driven by sales of avionics upgrades, partially offset by platform mix. Sales for the six months ended June 30, 2010 decreased 5 percent primarily driven by lower sales to our air transport OE customers which is expected to continue in the second half of 2010.

- Air transport and regional aftermarket sales decreased by 4 percent for both the quarter and six months ended June 30, 2010 primarily as a result of flat and decreased sales of spare parts in the second quarter and first six months of 2010, respectively, driven by the impact of higher parked aircraft and customer deferral of maintenance events, partially offset by the impact of increased flying hours of approximately 6 percent in the second quarter and 5 percent in the first six months. We anticipate an increase in maintenance activity and sales of spare parts in the second half of 2010.
- Business and general aviation OE sales decreased by 36 percent in the quarter ended June 30, 2010 and 49 percent in the six months ended June 30, 2010 due to the reduction of revenue as a result of the OEM Payments, discussed above, and the expected decreases in new business jet deliveries reflecting rescheduling and cancellation of deliveries by OE customers. We expected business and general aviation OE sales to increase in the second half of 2010 compared to 2009.
- Business and general aviation aftermarket sales increased by 8 percent in the quarter ended June 30, 2010 and 4 percent in the six months ended June 30, 2010 primarily due to increased sales of spare parts due to higher engine utilization, partially offset by lower revenue associated with maintenance service agreements.
- Defense and space sales decreased by 1 percent in both the three and six months ended June 30, 2010 primarily due to program wind-downs and completions and lower sales related to commercial helicopters, partially offset by higher sales of logistics services. Delays in defense and space programs could impact the timing of sales in this end-market over the course of 2010.

Aerospace segment profit decreased by 2 percent in the quarter ended June 30, 2010 compared with quarter ended June 30, 2009 primarily due to a negative 7 percent impact from the OEM Payments discussed above, partially offset by a 5 percent increase in operational segment profit. The increase in operational segment profit is primarily due to an approximate \$60 million decrease in cost of goods sold, reflecting volume related direct material cost decreases and reduced labor costs (primarily consisting of reduced census and benefits of prior repositioning actions).

Aerospace segment profit decreased by 9 percent for the six months ended June 30, 2010 compared with the six months ended June 30, 2009 primarily due to a 5 percent decrease in operational segment profit and a negative 4 percent impact from the OEM Payments discussed above. The decrease in operational segment profit is due principally to lower sales as a result of the factors discussed above, partially offset by an approximate \$200 million decrease in cost of goods sold, reflecting volume related direct material cost decreases and reduced labor costs (primarily consisting of reduced census and benefits of prior repositioning actions).

#### Automation and Control Solutions

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net sales	\$ 3,237	\$ 3,013	\$ 6,361	\$ 6,014
% change compared with prior period	7%		6%	
Segment profit	\$ 401	\$ 346	\$ 787	\$ 657
% change compared with prior period	16%		20%	

Factors Contributing to Year-Over-Year Change	Three Months Ended June, 30		Six Months Ended June, 30	
	Sales	Segment Profit	Sales	Segment Profit
	Organic growth/ Operational segment profit	7%	16%	3%
Foreign exchange	0%	(2)%	2%	2%
Acquisitions and divestitures, net	0%	2%	1%	2%
<b>Total % Change</b>	<b>7%</b>	<b>16%</b>	<b>6%</b>	<b>20%</b>

Automation and Control Solutions (“ACS”) sales increased by 7 percent in the quarter ended June 30, 2010 compared with the quarter ended June 30, 2009, primarily due to a 7 percent increase in organic revenue driven by increased sales volume.

ACS sales increased by 6 percent in the six months ended June 30, 2010 compared with the six months ended June 30, 2009, primarily due to a 3 percent increase in organic revenue driven by increased sales volume, a favorable impact of foreign exchange of 2 percent and 1 percent growth from acquisitions.

- Sales in our Products businesses increased by 9 percent in the quarter ended June 30, 2010 and 7 percent in the six months ended June 30, 2010, primarily reflecting higher sales volumes in our businesses tied to industrial production (environmental and combustion controls, sensing and control, gas detection, personal protective equipment and scanning and mobility products), new product introductions and the positive impact of foreign exchange (in the first six months).
- Sales in our Solutions businesses increased by 6 percent in the quarter ended June 30, 2010 and 4 percent in the six months ended June 30, 2010 primarily due to the positive impact of foreign exchange, growth in energy efficiency projects and acquisitions, most significantly the RMG Group, partially offset by volume decreases largely due to continued soft demand for process solutions projects, most significantly refining. Orders and backlog increased in the second quarter and first six months compared to the corresponding periods in 2009 primarily driven by energy efficiency projects, industrial field solutions, natural gas infrastructure projects and growth in emerging regions.

ACS segment profit increased by 16 percent in the quarter ended June 30, 2010 compared with the quarter ended June 30, 2009 primarily due to a 16 percent increase in operational segment profit and a 2 percent positive impact of acquisitions and divestitures, partially offset by a 2 percent negative impact of foreign exchange. The increase in segment profit is primarily a result of higher sales discussed above partially offset by an approximate \$130 million increase in cost of goods sold (reflecting volume related direct material cost increases and the absence of prior year labor cost actions, partially offset by productivity, including benefits from prior repositioning actions).

ACS segment profit increased by 20 percent in the six months ended June 30, 2010 compared with the six months ended June 30, 2009 primarily due to a 16 percent increase in operational segment profit, a 2 percent positive impact of foreign exchange and a 2 percent positive impact of acquisitions and divestitures. The increase in segment profit is primarily a result of higher sales discussed above partially offset by an approximate \$170 million increase in cost of goods sold (reflecting volume related direct material cost increases and the absence of prior year labor cost actions, partially offset by productivity, including benefits from prior repositioning actions).

## Specialty Materials

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net sales	\$ 1,259	\$ 1,048	\$ 2,398	\$ 2,102
% change compared with prior period	20%		14%	
Segment profit	\$ 214	\$ 150	\$ 384	\$ 275
% change compared with prior period	43%		40%	

### 2010 vs. 2009

Factors Contributing to Year-Over-Year Change	Three Months Ended June, 30		Six Months Ended June, 30	
	Sales	Segment Profit	Sales	Segment Profit
Organic growth/ Operational segment profit	21%	45%	14%	40%
Foreign exchange	(1)%	(2)%	0%	0%
<b>Total % Change</b>	<b>20%</b>	<b>43%</b>	<b>14%</b>	<b>40%</b>

Specialty Materials sales increased by 20 percent in the quarter ended June 30, 2010 compared with the quarter ended June 30, 2009 due to a 21 percent increase in organic growth, partially offset by a 1 percent negative impact of foreign exchange. Specialty Materials sales increased by 14 percent for the six months ended June 30, 2010 compared with the six months ended June 30, 2009 due to a 14 percent increase in organic growth. These increases in organic growth are driven by (i) a 32 percent second quarter and 26 percent first six months increase in Specialty Products sales most significantly due to increased sales to our semiconductor customers, (ii) a 27 percent second quarter and 31 percent first six months increase in Resins and Chemicals sales due to price increases (most significantly the result of formula pricing arrangements), (iii) a 26 percent second quarter and 23 percent first six months increase in our Fluorine Products business due to higher sales volumes of refrigerants and insulating materials, and (iv) a 6 percent second quarter increase in UOP sales due to increased equipment and catalyst sales. UOP sales for the first six months declined 6 percent due to lower catalyst sales and timing of project activity in the refining and petrochemical industries in the first quarter.

Specialty Materials segment profit increased by 43 percent in the quarter ended June 30, 2010 compared with the quarter ended June 30, 2009 primarily due to a 45 percent increase in operational segment profit, partially offset by a 2 percent negative impact of foreign exchange. Segment profit for the six months ended June 30, 2010 increased 40 percent compared with the six months ended June 30, 2009 due to increased operational segment profit. These increases in segment profit are driven by higher sales as a result of the factors discussed above, partially offset by increased cost of goods sold of approximately \$140 million and \$190 million for the quarter and six months ended June 30, 2009, respectively, reflecting volume and formula price related direct material cost increases.

## Transportation Systems

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net sales	\$ 1,018	\$ 786	\$ 2,025	\$ 1,542
% change compared with prior period	30%		31%	
Segment profit	\$ 115	\$ 25	\$ 211	\$ 22
% change compared with prior period	360%		859%	

Factors Contributing to Year-Over-Year Change	Three Months Ended June, 30		Six Months Ended June, 30	
	Sales	Segment Profit	Sales	Segment Profit
	Organic growth/ Operational segment profit	32%	368%	29%
Foreign exchange	(2)%	(8)%	2%	14%
<b>Total % Change</b>	<b>30%</b>	<b>360%</b>	<b>31%</b>	<b>859%</b>

Transportation Systems sales increased by 30 percent in the quarter ended June 30, 2010 compared with the quarter ended June 30, 2009 primarily due to a 32 percent increase in organic revenue driven by increased sales volume, partially offset by an unfavorable impact of foreign exchange of 2 percent.

Transportation Systems sales increased by 31 percent in the six months ended June 30, 2010 compared with the six months ended June 30, 2009 primarily due to a 29 percent increase in organic revenue driven by increased sales volumes and a 2 percent favorable impact of foreign exchange.

- Turbo Technologies, including Friction Materials, sales increased 41 percent in the second quarter and 43 percent in the first six months, primarily due to increased turbocharger sales to both commercial and light vehicle engine manufacturers partially offset by the negative impacts of foreign exchange in the second quarter. We expect increased volume to continue as we benefit from new platform launches and increased diesel penetration rates in Western Europe.
- Consumer Products Group ("CPG") sales increased 2 percent in the second quarter and 4 percent in the first six months, primarily due to higher prices (primarily pass through of ethylene glycol cost increases) and the positive impacts of foreign exchange.

Transportation Systems segment profit increased by 360 percent in the quarter ended June 30, 2010 compared with the quarter ended June 30, 2009 primarily due to a 368 percent increase in operational segment profit partially offset by an 8 percent unfavorable impact of foreign exchange. The increase in segment profit is primarily a result of higher sales volumes as a result of the factors discussed above, partially offset by an approximate \$150 million increase to cost of goods sold (reflecting volume related direct material cost increases, partially offset by increased productivity driven by benefits from prior repositioning actions).

Transportation Systems segment profit increased by 859 percent in the six months ended June 30, 2010 compared with the six months ended June 30, 2009 primarily due to an 845 percent increase in operational segment profit and a 14 percent favorable impact of foreign exchange. The increase in segment profit is primarily a result of higher sales volumes as a result of the factors discussed above partially offset by an approximate \$300 million increase to cost of goods sold (reflecting volume related direct material cost increases, partially offset by increased productivity driven by benefits from prior repositioning actions).

### Repositioning and Other Charges

See Note 4 of Notes to Financial Statements for a discussion of repositioning and other charges incurred in the three and six months ended June 30, 2010 and 2009. Our repositioning actions are expected to generate incremental pretax savings of approximately \$300 million in 2010 compared with 2009 principally from planned workforce reductions. Cash expenditures for severance and other exit costs necessary to execute these actions were \$93 million in the six months ended June 30, 2010 and were funded through operating cash flows. Cash expenditures for severance and other costs necessary to execute the remaining actions will approximate a total of \$225 million in 2010 and will be funded through operating cash flows.



## B. Liquidity and capital resources

### Cash flow summary

Our cash flows from operating, investing and financing activities, as reflected in the Consolidated Statement of Cash Flows for the six months ended June 30, 2010 and 2009, are summarized as follows:

	2010	2009
Cash provided by (used for):		
Operating activities	\$ 1,833	\$ 1,467
Investing activities	(1,492)	(284)
Financing activities	(544)	(674)
Effect of exchange rate changes on cash	(147)	32
Net increase in cash and cash equivalents	\$ (350)	\$ 541

Cash provided by operating activities increased by \$366 million during the six months ended June 30, 2010 compared with the six months ended June 30, 2009 primarily due to accrued expenses impact of \$465 million (primarily increased customer advances and lower benefit and other employee related payments) and higher cash earnings (net income plus non-cash expenses) of approximately \$250 million, partially offset by i) a \$178 million increase in cash used by working capital (increased inventory purchases and accounts receivable partially offset by higher accounts payable, each consistent with increased sales volume and demand), ii) the absence of \$138 million sale of long-term receivables in 2009 and iii) higher cash taxes of \$108 million.

Cash used for investing activities increased by \$1,208 million during the six months ended June 30, 2010 compared with the six months ended June 30, 2009 primarily due to the transfer of \$859 million into an escrow account to fund the anticipated acquisition of Sperian Protection (see below), and a \$311 million increase in investments in short-term marketable securities.

Cash used for financing activities decreased by \$130 million during the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to a decrease in the net repayment of debt (including commercial paper) of \$92 million and an increase in the proceeds from the issuance of common stock, primarily related to stock option exercises of \$46 million.

### Liquidity

The Company continues to manage its businesses to maximize operating cash flows as the primary source of liquidity. In addition to our available cash and operating cash flows, additional sources of liquidity include committed credit lines, short-term debt from the commercial paper market, long-term borrowings, access to the public debt and equity markets as well as the ability to sell trade accounts receivables. We continue to balance our cash and financing uses through investment in our existing core businesses, debt reduction, acquisition activity, share repurchases and dividends.

We continuously assess the relative strength of each business in our portfolio as to strategic fit, market position, profit and cash flow contribution in order to upgrade our combined portfolio and identify business units that will most benefit from increased investment. We identify acquisition candidates that will further our strategic plan and strengthen our existing core businesses. We also identify business units that do not fit into our long-term strategic plan based on their market position, relative profitability or growth potential. These business units are considered for potential divestiture, restructuring or other repositioning actions subject to regulatory constraints.

In the first quarter of 2010, the Company repaid \$1,000 million of its 7.50% notes. The repayment was funded with the issuance of commercial paper and cash provided by operating activities.

In May 2010, we announced our intention to acquire all of the issued and outstanding shares of Sperian Protection (Sperian) through an all-cash tender offer (the "Offer") and a stock purchase agreement with two shareholders holding, directly and indirectly, and aggregate of 28.2% of Sperian's share capital (the "SPA"). The aggregate value of the Offer is approximately \$1,400 million, including the assumption of approximately \$315 million of outstanding debt, net of cash. The Sperian board has unanimously recommended the Offer. Completion of this acquisition is subject to regulatory approval. Completion of the Offer is also subject to shares representing at least 57% of Sperian's outstanding ordinary shares on a fully diluted basis (including the shares to be acquired pursuant to the SPA) being validly tendered into the Offer. We expect to complete the acquisition of Sperian in the third quarter of 2010 and to fund the acquisition with existing cash resources. During the second quarter of 2010, \$859 million in cash was held in escrow and is classified as Investments and Other Current Assets on our Consolidated Balance Sheet. We expect to fund the purchase price using these escrow funds and available cash.

We plan to make voluntary contributions of Honeywell common stock to our U.S. pension plans in 2010 totaling approximately \$400 million to improve the funded status of our plans, of which \$200 million has been contributed in the first six months. In addition, in light of year to date asset returns and current interest rates, the Company is evaluating additional voluntary contributions of Honeywell common stock and/or cash to our U.S. pension plans late in 2010 or early in 2011 to improve the funded status of these plans. The timing and amount of contributions may be impacted by a number of factors, including the rate of return on plan assets, discount rates and ERISA limitations on plan assets. We also expect to make contributions to our non-U.S. plans of approximately \$150 million in 2010, including \$100 million of marketable securities that were contributed in April 2010.

Current global economic conditions or the current tightening of credit could adversely affect our customers' or suppliers' ability to obtain financing, particularly in our long-cycle businesses and airline and automotive end markets. Customer or supplier bankruptcies, delays in their ability to obtain financing, or the unavailability of financing could adversely affect our cash flow or results of operations. To date we have not experienced material impacts from customer or supplier bankruptcy or liquidity issues. We continue to monitor and take measures to limit our exposure.

### **C. Other Matters**

#### Litigation

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

#### Critical Accounting Policies

The financial information as of June 30, 2010 should be read in conjunction with the financial statements for the year ended December 31, 2009 contained in our Form 10-K filed on February 12, 2010.

For a discussion of the Company's critical accounting policies, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Form 10-K filed on February 12, 2010.

#### 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 Risks**

See our 2009 Annual Report on Form 10-K (Item 7A). As of June 30, 2010, there has been no material change in this information.

#### **Item 4. Control 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 to ensure information required to be disclosed in the reports that Honeywell files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and that it is accumulated and communicated to our management, including our CEO, our CFO, and our Controller, as appropriate, to allow timely decisions regarding required disclosure. There have been no changes that have materially affected, or are reasonably likely to materially affect, Honeywell's internal control over financial reporting that have occurred during the period covered by this Quarterly Report on Form 10-Q.

### **Part II. Other Information**

#### **Item 1. Legal Proceedings**

##### General Legal Matters

We are subject to a number of lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of our business. See 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

Although the outcome of the matters discussed below cannot be predicted with certainty, we do not believe that any of them, individually or in the aggregate, will have a material adverse effect on our consolidated financial position, consolidated results of operations or operating cash flows.

The United States Environmental Protection Agency and the United States Department of Justice ("federal authorities") are investigating whether the storage of certain sludges generated during uranium hexafluoride production at our Metropolis, Illinois facility has been in compliance with the requirements of the Resource Conservation and Recovery Act. The federal authorities have convened a grand jury in this matter. This storage issue was previously voluntarily disclosed to the Illinois Environmental Protection Agency, with whom Honeywell has been working to resolve the matter. The Company has met with the federal authorities and is cooperating fully with the investigation. 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 negotiating with the New York State Department of Environmental Conservation to settle allegations that Honeywell failed to properly close out waste storage areas associated with the legacy operations in Syracuse, New York, which areas are known as the Solvay Settling Basins.

The United States Environmental Protection Agency and the United States Department of Justice are investigating whether the Company's manufacturing facility in Hopewell, Virginia is in compliance with the requirements of the Clean Air Act and the facility's air operating permit. Based on these investigations, the federal authorities have issued notices of violation with respect to the facility's benzene waste operations, leak detection and repair program, emissions of nitrogen oxides and emissions of particulate matter. The Company has entered into negotiations with federal authorities to resolve the alleged violations.

#### **Item 6. EXHIBITS**

- (a) Exhibits. See the Exhibit Index on page 45 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.

Date: July 23, 2010

Honeywell International Inc.

By: /s/ Kathleen A. Winters

Kathleen A. Winters  
Vice President and Controller  
(on behalf of the Registrant  
and as the Registrant's  
Principal Accounting Officer)

## EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
10.1	Tender Offer Agreement dated May 19, 2010 by and among Sperian Protection S.A., Honeywell International Inc. and Honeywell Holding France SAS (filed herewith)
10.2*	2006 Stock Incentive Plan of Honeywell International Inc. and its Affiliates – Form of Restricted Unit Agreement, Form 2 (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)
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

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

(1) Data required is provided in Note 6 to the consolidated financial statements in this report.

**TENDER OFFER AGREEMENT**

**BETWEEN**

**SPERIAN PROTECTION S.A.**

**AND**

**HONEYWELL INTERNATIONAL INC.**

**HONEYWELL HOLDING FRANCE SAS**

**DATED 19 May, 2010**

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## TENDER OFFER AGREEMENT

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THIS TENDER OFFER AGREEMENT (the “**Agreement**”) is made on 19 May 2010,

**BETWEEN:**

1. **SPERIAN PROTECTION S.A.**, a French *société anonyme* with a share capital of EUR 15,315,246 divided into 7,657,623 shares with a nominal value of EUR 2 each, having its registered office at Paris Nord II, 33, rue des Vanesses, 93420 Villepinte (France), represented by Mr Brice de La Morandière, duly authorised for the purpose hereof,

hereinafter, the “**Company**”

2. **HONEYWELL INTERNATIONAL INC.**, a company incorporated under the laws of Delaware, whose registered office is at 2711 Centerville Road, Suite 400 – City of Wilmington, 19808 County of New Castle (Delaware - United States of America), represented by Mr. Brian S. Cook, duly authorised for the purpose hereof,

hereinafter “**Parent**”

**AND**

3. **HONEYWELL HOLDING FRANCE SAS**, a *société par actions simplifiée* incorporated under the laws of France, whose registered office is at 2 rue de l’Avenir – 88150 Thaon-les-Vosges (France), registered with the *Registre du Commerce et des Sociétés* (Companies Registry) of Epinal under number 425 137 833, represented by Mr Brian S. Cook, duly authorised for the purpose hereof, a wholly-owned subsidiary of Parent,

hereinafter “**Purchaser**”

Parent and Purchaser are acting jointly and severally under this Agreement (“*solidairement*”).

### WITNESSETH

**WHEREAS:**

- (A) Purchaser, a wholly owned subsidiary of Parent, is seeking to acquire for cash all outstanding ordinary shares, nominal value EUR2, of the Company (the “**Company Shares**”), including all Company Shares issuable upon exercise of share options or free award plans, through a tender offer (the “**Offer**”) and through the purchase of blocks of Company Shares;
- (B) Pursuant to the terms of the Offer, Purchaser will offer for each Company Share validly tendered to the Offer an amount equal to EUR 117 in cash, without interest, or should the Company pay any dividend or make any distribution between the date of the Agreement and the settlement and delivery of the Offer, an amount equal to EUR 117 in cash reduced by the amount per Company Share of such dividend or of such distribution (the “**Offer Price**”), on the terms and subject to the conditions set forth in this Agreement;

- (C) The respective Boards of Directors of Parent and the Company have approved the terms and conditions of this Agreement; and
- (D) Parent, Purchaser and the Company desire to make certain agreements in connection with the Offer.

**NOW, THEREFORE**, in consideration of the foregoing, the parties hereto agree as follows:

## **1. THE OFFER**

### **1.1 Announcement**

Promptly following the execution of this Agreement, the Company and Parent shall issue an agreed upon press release announcing the Offer (the “**Public Announcement**”), including among other items a decision of the Company Board stating expressly its intention to recommend the Offer subject to the receipt of a Favorable Report (as such term is defined below).

### **1.2 Independent Expert - Board Recommendation**

- (a) If not already appointed prior to the date hereof, not later than the day of the Public Announcement, the Company shall appoint an independent expert (the “**Independent Expert**”), to prepare a report pursuant to Article 261-1 et seq. of the General Regulations of the *Autorité des marchés financiers* (the “**AMF**”) including a fairness opinion stating whether the Offer Price is fair to the Company’s shareholders from a financial point of view (the “**Independent Expert Report**”).
- (b) Upon receipt of the Independent Expert Report that includes the opinion of the Independent Expert that the Offer Price is fair to the Company’s shareholders from a financial point of view (a “**Favorable Report**”), the Company Board shall confirm as soon as possible and in any event within three Business Days from the date of the Independent Expert Report that the Offer is in the interest of the Company, its shareholders and its employees and recommend that all holders of Company Shares tender such shares into the Offer (the “**Company Board Recommendation**”).
- (c) In the event the Company is informed by the Independent Expert that it will issue an Independent Expert Report which is not a Favorable Report, the Company shall immediately inform Parent, and the Company and Parent shall negotiate in good faith with a view towards making such commercially reasonable amendments to the terms of the Offer as would permit a Favorable Report to be issued, subject to approval of the Board of Directors of Parent and the Board of Directors of the Company and provided that in no case shall Purchaser and Parent be obligated to increase the Offer Price. If such negotiations are unsuccessful after five Business Days and the Company Board Recommendation is not issued, then Purchaser shall have the right to terminate this Agreement.

### **1.3 The Offer**

- (a) On or prior to the filing of the Offer, Parent shall file an application with the French Ministry of Economy requesting prior authorization of foreign investment in connection with the Offer (the “**French Ministry of Economy Authorization**”).
- (b) The Offer shall be subject to the rules and regulations of the AMF in France. Subject to Section 1.4 below, Parent undertakes irrevocably to cause Deutsche Bank and Lazard, which are serving as presenting banks of the Offer (with only Deutsche Bank guaranteeing the irrevocable content of the Offer), to file the Offer with the AMF prior to the opening of the stock exchange in Paris on the second Business Day after the date of this Agreement, together with the draft tender offer prospectus (*projet de note d’information*) substantially in



the form attached as Exhibit A; provided however that Purchaser will take into consideration any reasonable comments on such draft tender offer prospectus from the Company to the extent reasonably practicable and promptly provided..

- (c) The Company shall file the draft target prospectus (*projet de note d'information en réponse*) including the Independent Expert Report on the second Business Day following the Company Board Recommendation.
- (d) In addition, Purchaser shall have the right to amend the terms of the draft tender offer prospectus after it is filed with the AMF, (i) to the extent required to reflect comments from the AMF, subject to prior notice to the Company, and (ii) in other cases, in the event such amendments relate to sections 1.2 and 2.1, 2.6 and 2.7 of the draft tender offer prospectus, they shall not make the Offer materially less favorable to the Company, its employees and its shareholders and subject to prior consultation with the Company. Reciprocally, the Company will provide a draft of its initial draft target prospectus at least three Business Days before filing it with the AMF and will take into consideration any reasonable comments from Purchaser to the extent reasonably practicable and promptly provided. In addition, the Company shall have the right to amend the draft target prospectus after it is filed with the AMF (i) to the extent required to reflect comments from the AMF, subject to prior notice to Purchaser, and (ii) in other cases, subject to prior consultation with Purchaser.

#### 1.4 Offer Conditions

- (a) Notwithstanding any other term of the Offer or of this Agreement, Purchaser shall not be required to file the Offer if:
  - (i) the Company Board shall have made an Adverse Recommendation (as defined below); or
  - (ii) this Agreement shall have been terminated in accordance with its terms.
- (b) The opening of the Offer is subject to clearance by the AMF and receipt of the approval from the French Ministry of Economy in connection with foreign investment in France.
- (c) The closing of the Offer is subject to (i) the number of Company Shares validly tendered into the Offer (or that Purchaser may irrevocably acquire) represent at least 57% of the Company Shares on a Fully Diluted Basis, and (ii) the receipt of the “**Phase I Antitrust Clearance**” (i.e., the expiration or termination of the waiting period under the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976 without the issuance of a second request and the clearance of the transaction by the European Commission under Article 6.(1)(b) of the Council Regulation n°139/2004). The term **Fully Diluted Basis** means on a fully diluted basis, after giving effect to the exercise of all outstanding options and the issuance of Company Shares pursuant to free award plans.

The foregoing conditions are for the sole benefit of Purchaser and may, subject to applicable Law, be waived by Purchaser in whole or in part at any time, in its sole discretion.

#### 1.5 Withdrawal of the Offer

Pursuant to article 232-11 of the AMF General Regulations, Parent and Purchaser shall be entitled to withdraw the Offer: (a) within five Business Days following the date of the publication by the AMF of the timetable for a competing offer or for an improved offer by a competing bidder, or (b) with the prior approval of the AMF if, prior to the publication by the AMF of the definitive results of the Offer, the Company adopts measures that modify the Company's substance (*modifiant sa consistance*) or if the Offer becomes irrelevant (*sans objet*) under French law.

## **1.6 Cooperation**

In connection with the Offer, Purchaser and the Company shall cooperate with each other to fulfill all applicable requirements of the AMF and the French Ministry of Economy and to respond to comments from the AMF and the French Ministry of Economy. Purchaser and Parent undertake to accept any reasonable undertakings required by the relevant Governmental Entities in connection with the authorization of the French Minister of Economy. Should it become necessary, Parent and Purchaser undertake to maintain the contracts with the French government and to maintain the manufacturing of the specific products subject to these contracts in France.

The Company shall use its reasonable best efforts to assist and cooperate with Purchaser and Parent and provide all necessary information in order for Purchaser and Parent to make all necessary registrations, declarations and filings (including filings with Governmental Entities, including the European Commission, the US Department of Justice or the US Federal Trade Commission (as the case may be) and any other local antitrust authority required under applicable merger control regulations (the “**Competition Authorities**”)) and to make any such filings required to be made by the Company as soon as reasonably practicable. Purchaser and Parent agree to make any filings required with Competition Authorities as soon as reasonably practicable, subject to the Company providing the information reasonably necessary to make such filings.

Purchaser shall reasonably consider and promptly propose remedies to any competition concerns identified by the Competition Authorities within any relevant time limit in order to obtain the Phase I Antitrust Clearance.

Purchaser and Parent shall inform the Company prior to making any proposal for or agreeing to any divestments of assets or activities of the Company and its Subsidiaries or make any other kind of commitment in respect of the Company or its Subsidiaries in order to obtain the Phase I Antitrust Clearance.

## **1.7 Board of Directors**

Promptly after the closing of the Offer, Purchaser shall be entitled to designate a number of directors on the Company Board equal to the product of : (i) the total number of directors on the Company Board multiplied by (ii) the percentage of (A) the number of voting rights attached to the Company Shares owned by Purchaser or any other subsidiary of Parent over (B) the number of outstanding voting rights on a Fully Diluted Basis as at such date, and the Company shall, at such time, cause Purchaser’s designees to be so elected or appointed to the Company Board and shall take all action requested by Parent necessary to effect any such election or appointment. In connection with the foregoing, the Company shall (i) use its best efforts to promptly obtain the resignation of such number of its current directors and/or (ii) increase the size of the Company Board, as is necessary to enable Purchaser’s designees to be elected or appointed to the Company Board as provided above. The Company shall consult with Parent regarding any board resignations.

## **2. COVENANTS**

### **2.1 Conduct of business**

From the date hereof until the earlier of (i) the restructuring of the Company Board in accordance with Section 1.7 above and (ii) the termination of this Agreement, the Company shall operate its business in the ordinary course consistent with past practice and use reasonable efforts to preserve the business.

In addition, during such period, the Company shall not and shall cause its Subsidiaries not to:

- a. declare or issue any dividends or distribution in respect of any of its capital stock or other equity or voting interests (except for ordinary course cash dividends in respect of Company Shares and notably, except for the payment of the dividend submitted to the Company's general shareholders' meeting of May 19, 2010 or distribution of dividends by wholly-owned Subsidiaries in ordinary course), (B) split, combine or reclassify any of its capital stock or other equity or voting interests, or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of its capital stock or other equity or voting interests, (C) purchase, redeem or otherwise acquire any shares of capital stock or any other securities of the Company or any of its Subsidiaries or any options, warrants, calls or rights to acquire any such shares or other securities (except pursuant to the forfeiture of Equity Awards in accordance with their terms as in effect on the date of this Agreement) or (D) take any action that would result in any amendment, modification or change of any term of any indebtedness of the Company or any of its Subsidiaries;
- b. issue, grant, deliver, sell, pledge or otherwise encumber any shares of its capital stock, any other equity or voting interests or any securities convertible into, or exchangeable for, or any options, warrants, calls or rights to acquire, any such stock, interests or securities or any stock appreciation rights, restricted stock units, stock-based performance units, "phantom" stock awards or other rights that are linked to the value of Company Shares or the value of the Company or any part thereof; provided, however, that the Company may issue Company Shares pursuant to the exercise of Company Stock Options outstanding on the date of this Agreement and only in accordance with their terms as in effect on the date of this Agreement;
- c. amend the Company By-laws or other comparable charter organizational documents of any of the Company's Subsidiaries;
- d. acquire or agree to acquire (i) by merging or consolidating with, or by purchasing all or a substantial portion of the assets of, or by purchasing all or a substantial equity or voting interest in, or by any other manner, any person or business or division thereof or (ii) any other assets other than raw materials or supplies and other assets that are not material and are acquired in the ordinary course of business consistent with past practice;
- e. sell, lease, license, lease back or otherwise subject to any lien or otherwise dispose of or abandon any of its business lines, divisions, activities, Subsidiaries provided that the foregoing provisions shall not prevent the sale of assets or activities of the Company or its Subsidiaries which have generated an aggregate turn-over of less than €15,000,000 during the financial year closed on 31 December 2009;
- f. adopt or amend any benefit plan or enter into, adopt, extend, renew or amend any collective bargaining agreement or other contract with any labor organization, works council, union or association, except as required by applicable law;
- g. grant any director, officer or employee any increase in compensation or benefits, except in the ordinary course of business and consistent with past practice or as may be required under existing agreements;
- h. adopt any measure with unconditional effect that modifies the Company's substance (*modifiant sa consistence*) and that may allow Purchaser to withdraw the Offer under Article 232-11 of the AMF General Regulation ;
- i. incur fees and expenses in connection with this Agreement, the Offer and any discussion with third parties, including Cinven, regarding proposals to acquire Company Shares or assets of the Company or its Subsidiaries (including break-up fees to Cinven and break-up costs in connection with

financing arrangements of the Company or its Subsidiaries) in excess of EUR17 million in the aggregate (inclusive of any with such fees and expenses incurred prior to the date of this Agreement); or

- j. take or agree to take any action likely to frustrate the Offer.

## 2.2 Change of control

The Company undertakes to, as soon as reasonably practicable, and in any event from the date of the filing of the Offer until the settlement and delivery of the Offer, use its commercially reasonable efforts (not including the payment of additional consideration without Parent's prior consent) to obtain, prior to announcement of the results of the Offer by the AMF, consents by third parties under change of control clauses in the contracts entered into by the Company or under applicable permits or authorizations where it is necessary to avoid disruption or prejudice to the business of the Company as a result of the change of control of the Company in connection with the Offer.

Parent and Purchaser acknowledge that the financing agreements between the Company and various financial institutions contain provisions which would allow these institutions to require the Company to immediately reimburse any outstanding financing upon a change of control of the Company. Upon successful consummation of the Offer, Parent and Purchaser undertake to make available or cause to be made available to the Company any funds necessary to make such repayment.

## 2.3 No shop

- (a) During the term of this Agreement, the Company shall not, nor shall it authorize or permit any Company Subsidiary to, or authorize or permit any director, officer or employee of the Company or any Company Subsidiary or any investment banker, advisor, agent or representative (collectively, the "**Representatives**") of the Company or any Company Subsidiary to, directly or indirectly, (i) solicit, encourage or knowingly facilitate the submission of any Takeover Proposal, (ii) participate in any discussions regarding or take any action to facilitate the making of any proposal that constitutes, or may reasonably be expected to lead to, any Takeover Proposal or (iii) make or authorize any statement, recommendation or solicitation in respect of any Takeover Proposal (except as provided in Section 2.3(b)).

The Company undertakes, and shall cause each of the Company Subsidiaries and each Representative of the Company or any Company Subsidiary, to immediately cease all discussions with any person conducted heretofore with respect to any proposal that constitutes or could reasonably be expected to lead to a Takeover Proposal.

Notwithstanding the foregoing, the Company may, if the Company has received a Takeover Proposal that is or is reasonably likely to lead to a Superior Proposal, and that was not solicited by or on behalf of the Company, furnish information, substantially similar in scope and timing to what has been provided to Parent and Purchaser prior to the date hereof, with respect to the Company to the Person making the Takeover Proposal and participate in discussions and negotiations with the Person making the Takeover Proposal regarding the Takeover Proposal.

- (b) Neither the Company nor the Company Board shall (i) (x) following the Company Board Recommendation withdraw or modify the approval or recommendation by the Company Board of this Agreement or the Offer or (y) approve or recommend any Takeover Proposal (either (x) or (y) being an "**Adverse Recommendation**") or (ii) approve, cause or permit the Company or any Company Subsidiary to enter into

any letter of intent, acquisition agreement or similar agreement (each, an “**Acquisition Agreement**”) relating to any Takeover Proposal.

Notwithstanding the foregoing, the Company may, in response to a Superior Proposal that was not solicited by or on behalf of the Company or any Company Subsidiary and did not otherwise result from a breach of Section 2.3(a): (i) make an Adverse Recommendation and (ii) terminate this Agreement pursuant to Section 4.1(b); *provided, however*, unless such Superior Proposal is in the form of a formal offer filed and cleared with the AMF, that (x) such determination shall not be made until after the third Business Day following the receipt by Parent of written notice (a “**Notice of Superior Proposal**”) from the Company advising Parent that the Company Board is prepared to make an Adverse Recommendation or accept a Superior Proposal, specifying the terms and conditions of such Superior Proposal and identifying the person making such Superior Proposal, (it being understood and agreed that any amendment to the price or any other material term of such Superior Proposal shall require a new Notice of Superior Proposal and a new three Business Day period) and (y) Parent does not make, within three Business Days after receipt of the Notice of Superior Proposal, a proposal that would, in the good faith judgment of the Company Board, cause the events, facts or circumstances forming the basis or an Adverse Recommendation to no longer form such basis or cause the offer previously constituting a Superior Proposal to no longer constitute a Superior Proposal, as the case may be.

(c) The Company shall promptly (and in any event no later than 24 hours following receipt or knowledge thereof) advise Parent of any Takeover Proposal or any inquiry that could reasonably be expected to lead to any Takeover Proposal (including any change to the terms of any such Takeover Proposal) and the identity of the person making any such Takeover Proposal. The Company shall (i) keep Parent fully informed of the status of any such Takeover Proposal and (ii) promptly advise Parent of any amendments to the terms of any such Takeover Proposal. The Company shall not take any actions whether contractually or otherwise to limit its ability to comply with its obligations hereunder and shall, as may be necessary, take any action necessary to ensure compliance including by terminating any confidentiality agreements entered into prior to the date hereof and entering into new confidentiality agreements expressly allowing the Company to comply with its obligations hereunder.

(d) For purposes of this Agreement:

**Takeover Proposal** means any inquiry, proposal or offer relating to, or that is reasonably likely to lead to, directly or indirectly: (i) a merger, consolidation, tender offer, exchange offer, joint venture, dissolution, recapitalization, business combination or other similar transaction involving the Company or any Company Subsidiary, (ii) the acquisition by any person of a number of shares of the Company or any Company Subsidiary equal to or greater than 10% of the number of such shares outstanding before such acquisition, including by means of tender offer, exchange offer or otherwise, or (iii) the acquisition by any person in any manner, directly or indirectly, of assets that constitute 10% or more of the net revenues, net income, EBITDA or assets of the Company and the Company Subsidiaries taken as a whole, in each case other than the Offer.

**Superior Proposal** means any bona fide binding written fully financed offer not solicited by or on behalf of the Company or any Company Subsidiary made by a third party that if consummated would result in such third party acquiring, directly or indirectly, more than 50% of the Company Shares (by merger, consolidation, tender offer, exchange offer or otherwise) or all or substantially all the assets of the Company and the Company Subsidiaries taken as a whole, (A) for consideration that the Company Board determines in its good faith judgment to be superior from a financial point of view to the holders of Company Shares to the Offer, taking into account all the terms and conditions of such proposal, this Agreement and any proposal by Parent to amend the terms of this Agreement, and (B) that, in the good faith judgment of the

Company Board, is otherwise reasonably likely to be consummated, taking into account all legal, financial, regulatory and other aspects of the proposal and the person making the proposal.

### 3. ADDITIONAL AGREEMENTS

#### 3.1 Company Stock Options and Other Incentive Awards / Management

The Company has granted options to subscribe for, acquire or receive Company Shares under the stock option plans, (the “**Company Stock Options**”) and Company free shares awards (the “**Company Free Share Awards**”). The Company Stock Options and the Company Free Share Awards are altogether defined as the “**Equity Awards**”.

The Company undertakes not to amend the Equity Awards plans that will continue to vest in accordance with their existing applicable terms without the prior written approval of Parent.

If the Offer is successful, Purchaser and Parent undertake (i) to implement (a) certain modifications to the Equity Awards, (b) a retention bonus mechanism and (c) an incentive scheme, and (ii) to propose to the Equity Awards holders a liquidity agreement the main terms and conditions of which are described in Exhibit B to this Agreement.

#### 3.2 Treasury Shares

The Company shall not and shall cause its subsidiaries not to tender any Company Shares held by it in the Offer.

#### 3.3 Fees and Expenses

- (a) Except as provided below, all fees and expenses incurred in connection with this Agreement and the Offer shall be paid by the party incurring such fees or expenses, whether or not the Offer is consummated.
- (b) In the event that (i) the Company Board Recommendation has not been issued on the earlier of (x) the fifth Business Day after the issuance of the Independent Expert Report in accordance with Section 1.2(b) of this Agreement and (y) June 30, 2010, except in the case where the Independent Expert Report issues an Independent Expert Report which is not a Favorable Report, (ii) a Takeover Proposal shall have been made to the Company or its shareholders or any person has publicly announced an intention to make, or an interest in making, a Takeover Proposal (whether or not conditional and whether or not withdrawn) and the Company Board either shall have made an Adverse Recommendation or the Company Board shall have approved, caused or permitted the Company or any Company Subsidiary to enter into, or the Company or any Company Subsidiary shall have entered into an Acquisition Agreement (including for the avoidance of doubt in the events provided for in Section 1.5(a) of this Agreement), or (iii) Purchaser is permitted to withdraw the Offer in accordance with Section 1.5 (b), then the Company shall, within five Business Days of the date on which the event having triggered it occurred, pay Purchaser a fee equal (i) to EUR3 million in the event, Purchaser has entered into share purchase agreements prior to the Public Announcement, to purchase at least 50,1% of the Company Shares on a Fully Diluted Basis or (ii) in all other cases, EUR10 million (the “**Termination Fee**”) by wire transfer of same day funds (to an account designated by Purchaser).
- (c) The Company acknowledges that the agreements contained in this Section 3.3 are an integral part of the Offer, and that, without these agreements, Purchaser would not enter into this Agreement.

The payment of any amounts due pursuant to this Section 3.3 shall not constitute the exclusive remedy of Purchaser under this Agreement. Without limiting the generality of the foregoing, in the event of a breach or

deemed breach by the Company of Section 2.3, Purchaser may seek any and all other remedies available to which Purchaser is entitled.

The Termination Fee shall not be payable in the event the withdrawal or change of the recommendation of the Offer by the Company Board is made in connection with the amendment by the Purchaser of the terms of the Offer or of its intentions (as described in the tender offer prospectus filed with the AMF) in a manner that materially detrimentally affects the Company or its Subsidiaries taken as a whole, its shareholders or its employees or with a breach of this Agreement by the Purchaser or Parent which has not been cured, after 5-days prior written notice, prior to the occurrence of any of the events described in Section 3.3(b) giving rise to the Termination Fee.

#### **3.4 Public Announcements**

Purchaser and the Company shall to the extent reasonably practicable consult with each other before issuing, and provide each other a reasonable opportunity to review and comment upon, any press release or other public statements with respect to the Offer and shall not issue any such press release or make any such public statement prior to such consultation, except as may be required by applicable Law, by court process or by obligations pursuant to any listing agreement with or market rules of any national securities exchange on which such party's shares are traded.

#### **3.5 Representations**

Each of the Company, Parent and Purchaser represents that it has the legal right and full power and authority to enter into and perform this Agreement, and any other documents to be executed by it pursuant to or in connection with this Agreement. Those documents will, when executed, constitute valid and binding obligations on each of the Company, Parent and Purchaser as applicable in accordance with their respective terms.

#### **3.6 Shareholder Composition**

The Company hereby represents and warrants to Parent and Purchaser that, to its knowledge, as of the date hereof, U.S. holders (as such term is defined in Rule 14d-1 under the US Securities Exchange Act of 1934) hold less than 40% of the Company Shares, and shall provide Parent and Purchaser with such information as they reasonably require to demonstrate such level of U.S. ownership.

### **4. TERMINATION, AMENDMENT AND WAIVER**

#### **4.1 Termination**

This Agreement may only be terminated as follows:

- (a) by mutual written consent of Purchaser and the Company;
- (b) by either Purchaser or the Company, if:
  - (i) the conditions set forth in Section 1.4(b) of this Agreement to filing or opening of the Offer are not satisfied prior to September 15, 2010;
  - (ii) the Company Board shall have made an Adverse Recommendation or the Company Board shall have approved, caused or permitted the Company or any Company Subsidiary to enter, or the

Company or any Company Subsidiary shall have entered into an Acquisition Agreement, after the date of this Agreement in accordance with Section 2.3(b);

- (iii) the Offer lapses or is declared non-compliant (*non conforme*) by the AMF or is not successful due to the failure to satisfy any of the conditions set forth in Section 1.4(c) of this Agreement;
  - (iv) a Governmental Entity of competent jurisdiction enacts, issues, promulgates, enforces or adopts any applicable law or regulation which (i) makes the sale and purchase of the Company Shares, pursuant to the Offer, illegal or otherwise prohibits or prevents consummation of the sale and purchase of the Company Shares pursuant to the Offer, and (ii) is final, binding, and non-appealable; or
  - (v) the Purchaser has actually withdrawn the Offer in accordance with Section 1.5
- (c) by Purchaser if the Company Board Recommendation has not been issued on the earlier of (i) the fifth Business Day after the issuance of a Favorable Report in accordance with Section 1.2(b) or (ii) June 30, 2010, or in accordance with Section 1.2(c) ; or
- (d) by the Company, if the Offer is not filed within the timeframe by the Purchaser in accordance with Section 1.3(b) or if the Purchaser amends the terms of the Offer or of its intentions (as described in the tender offer document filed with the AMF) in a way that materially detrimentally affects the Company or its Subsidiaries, its shareholders or its employees.

#### **4.2 Effect of Termination**

In the event of termination of this Agreement by either the Company or Purchaser as provided in Section 4.1, this Agreement shall forthwith become void and have no effect, without any liability or obligation on the part of Purchaser or the Company, other than Section 3.3, this Section 4.2 and Article 5; *provided, however*, that no such termination shall relieve any party hereto from any liability or damages resulting from a breach by such party of any of its agreements set forth in this Agreement, and all existing rights and remedies of such non-breaching party under this Agreement in the case of any such breach shall be preserved. The Confidentiality Agreement shall survive any termination of this Agreement and shall apply to all information and material delivered by any party hereunder, in each case in accordance with its terms.

#### **4.3 Amendment**

This Agreement may be amended by the parties hereto at any time by an agreement in writing duly executed and delivered by or on behalf of each of the parties hereto.

### **5. GENERAL PROVISIONS**

#### **5.1 Notices**

All notices, requests, claims, demands and other communications under this Agreement shall be in writing and shall be deemed given upon receipt (or upon the next succeeding Business Day if received after 5 p.m. local time on a Business Day or if received on a Saturday, Sunday or holiday) by the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

- (a) if to Parent or Purchaser, to:

Honeywell International Inc.  
101 Columbia Road



P.O. Box 4000  
Morristown, New Jersey 07962  
United States  
Fax: +1 (973) 455-6840  
Attention: Katherine L. Adams, Senior Vice President and General Counsel

with copies to:

Allen & Overy  
Edouard VII  
26, boulevard des Capucines -75009 Paris - France  
Fax: + 33 (0)1 40 06 54 54  
Attention: Jean-Claude Rivalland

Bredin Prat  
130, rue du Faubourg Saint Honoré - 75008 Paris  
Fax: +33 1 42 89 10 73  
Attention: Olivier Assant

(b) if to the Company, to:

Sperian Protection  
Paris Nord II, 33, rue des Vanesses, 93420 Villepinte (France)  
Fax: +33 1 49 90 79 78

Attention: Henri-Dominique Petit, Chairman of the Board of Directors and Brice de La Morandière, CEO

## 5.2 Definitions

For purposes of this Agreement:

- (a) an **Affiliate** of any person means another person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such first person;
- (b) **Business Day** means any day on which securities exchanges in France are open for trading, which shall not be a Saturday, a Sunday, a legal holiday or other day on which banking institutions are authorized or obligated by Law to close in France;
- (c) **Governmental Entity** means any state, local or foreign government or any court of competent jurisdiction, administrative commission or other governmental authority;
- (d) **Law** means a statute, law, ordinance, rule, legislation or regulation;
- (e) **Person** means an individual, corporation, partnership, joint venture, association, limited liability company, Governmental Entity, unincorporated organization or other entity;
- (f) a **Subsidiary** of any person means another person of which 50% or more of any voting securities, other voting ownership (or, if there are no such voting interests, 50% or more of the equity interests) are owned or controlled, directly or indirectly, by such first person.

### **5.3 Severability**

If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule or law, or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic and legal substance of the Offer is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner to the end that the Offer is fulfilled to the extent possible.

### **5.4 Entire Agreement; Third-Party Beneficiaries**

This Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the Offer other than the Confidentiality Agreement between Parent and the Company. Provisions set forth in Section 3.1 and Exhibit B shall be deemed to confer to those persons who are expressly named in such Exhibit, as third-parties beneficiaries, the rights herein described.

### **5.5 Governing Law**

This Agreement is subject to French law, without regard to its conflict of laws provisions to the extent they would require application of the laws of another jurisdiction. Any dispute relating to its validity, interpretation or execution shall be submitted to the exclusive jurisdiction of the Tribunal de Commerce de Paris.

### **5.6 Assignment**

Neither this Agreement nor any of the rights, interests or obligations under this Agreement shall be assigned, in whole or in part, by operation of Law or otherwise by any of the parties without the prior written consent of the other parties, except that Purchaser and/or Parent may assign, in its sole discretion, any of or all its rights, interests and obligations under this Agreement to any direct or indirect wholly-owned subsidiary of Parent (including designating any such entity to act as Purchaser hereunder).

**ON MAY 19, 2010  
IN PARIS**

**SPERIAN PROTECTION S.A.**

By: /s/ Brice de La Morandière  
\_\_\_\_\_

Name: Brice de La Morandière

**HONEYWELL INTERNATIONAL INC.**

By: /s/ Brian S. Cook  
\_\_\_\_\_

Name: Brian S. Cook

**HONEYWELL HOLDING FRANCE**

By: /s/ Brian S. Cook  
\_\_\_\_\_

Name: Brian S. Cook

EXHIBITS

Exhibit A: Draft Tender Offer Prospectus (Offre Publique D'Achat)  
Exhibit B: Management Package

Exhibits to be supplementally furnished to the Commission upon request.

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**2006 Stock Incentive Plan  
of Honeywell International Inc. and its Affiliates**

**RESTRICTED UNIT AGREEMENT, FORM 2**

This **RESTRICTED UNIT AGREEMENT** made in Morris Township, New Jersey, United States of America, as of the [DAY] day of [MONTH, YEAR] ("Date of Grant") between Honeywell International Inc. (which together with its subsidiaries and affiliates, when the context so indicates, is hereinafter referred to as the "Company") and [EMPLOYEE NAME] (the "Employee").

1. Grant of Award. The Company has granted to you [NUMBER] Restricted Units, subject to the terms of this Agreement and the terms of the 2006 Stock Incentive Plan of Honeywell International Inc. and Its Affiliates (the "Plan"). Each Restricted Unit [and Dividend Share (as described in Section 4)] represents one (1) Share of Common Stock. The Company will hold the Restricted Units [and Dividend Shares] in a bookkeeping account on your behalf until they become payable or are forfeited or cancelled.
  2. Definitions. For purposes of this Agreement, the following definitions apply:
    - (a) "Actual Award" means the product of (i) the Plan Payout Percentage (as determined under Section 3), and (ii) your Target Award.
    - (b) "Compensation Peer Group" means [INSERT COMPANY NAMES]. If there is any change in the corporate capitalization of a company in the Compensation Peer Group during a Measurement Period (such as a stock split, corporate transaction or any partial or complete liquidation), the Committee, in its sole discretion, may take such change into account in determining the Total Shareholder Return of that company. If any company included in the Compensation Peer Group ceases to exist or to be publicly traded during the Measurement Period, or undergoes any other similar change, the Committee shall determine the consequences of such event for purposes of this Agreement, including without limitation, the replacement of such company in the Compensation Peer Group.
    - (c) "Measurement Period" means [DESCRIBE MEASUREMENT PERIOD].
    - (d) "Performance Cycle" means the period beginning on [DATE] and ending on [DATE].
    - (e) "Target Award" means the number of Restricted Units awarded to you for the Performance Cycle under Section 1 of this Agreement.
    - (f) "Total Shareholder Return" means the ratio of (A) a company's share price as of the last trading day of a Measurement Period (determined using the average closing share price over the 30 preceding trading days) plus earned dividends per share during the Measurement Period, over (B) the company's share price as of the first trading day of a Measurement Period (determined
-

using the average closing share price over the 30 preceding trading days). Dividends are assumed earned and reinvested on the ex-dividend date.

(g) [INSERT ADDITIONAL BUSINESS-RELATED DEFINITIONS AS APPLICABLE]

3. Performance Measures. For each Measurement Period, the Company's Total Shareholder Return shall be compared to the Total Shareholder Return of each company in the Compensation Peer Group, and the Total Shareholder Return of the Compensation Peer Group and the Company shall be ranked. [DESCRIBE OTHER BUSINESS-RELATED PERFORMANCE MEASURES, AS APPLICABLE]

The Plan Payout Percentage shall be determined based on the following for the Performance Cycle: [DESCRIBE HOW PLAN PAYOUT PERCENTAGE IS DETERMINED].

4. [FOLLOWING INCLUDED AT COMMITTEE'S DISCRETION: Dividend Shares. Until the vesting date specified in Section 5, your bookkeeping account shall be credited with dividend Shares in the form of additional restricted units ("Dividend Shares") based on your Target Award equal to the value of any cash or stock dividends paid by the Company upon one Share of Common Stock for each unvested Restricted Unit or Dividend Share credited to your bookkeeping account on a dividend record date. At the vesting date specified in Section 5, such Dividend Shares shall be adjusted up or down, as necessary, based on your Actual Award. In the case of cash dividends, the Company shall credit your bookkeeping account, on each dividend payment date, with additional Dividend Shares equal to (a) divided by (b), where (a) equals the total number of unvested Restricted Units and Dividend Shares, if any, subject to this Agreement on such date multiplied by the dollar amount of the cash dividend paid per Share of Common Stock on such date, and (b) equals the Fair Market Value of a Share on such date. If a dividend is paid to holders of Common Stock in Shares, the Company shall credit to your bookkeeping account, on each dividend payment date, additional Dividend Shares equal to the total number of unvested Restricted Units and Dividend Shares subject to this Agreement on such date multiplied by the Share dividend paid per Share of Common Stock on such date. Dividend Shares are subject to the same restrictions, including but not limited to vesting, transferability and payment restrictions, that apply to the Restricted Units to which they relate, with any fractional Shares rounded up to the nearest whole Share. You shall continue to earn Dividend Shares on unpaid Restricted Units and Dividend Shares after the end of the Performance Cycle. Dividend Shares shall be paid in accordance with Section 5, 6, 7 or 8, as applicable.]

5. Timing and Form of Payments. Except as otherwise provided in this Agreement, the payment of Restricted Units [and related Dividend Shares] is contingent upon you remaining actively employed by the Company on the applicable vesting date(s) specified below: [DESCRIBE VESTING DATE(S)]

[Subject to the terms of a deferral election made in accordance with Section 10,] payment shall be made as soon as practicable following the vesting date specified above, but in no event later than 2-1/2 months after the end of the calendar year in which the vesting date occurs.

The Actual Award [and related Dividend Shares] shall be paid solely in Shares.

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6. Death or Disability. If your Termination of Employment occurs because of your death or you incur a Disability before the last day of the Performance Cycle, you or your estate shall receive your Target Award as your Actual Award for the Performance Cycle. [No Dividend Shares shall be paid in this case. OR Dividend Shares shall be calculated as provided in Section 4.]

If your Termination of Employment occurs because of your death or you incur a Disability after the last day of the Performance Cycle but before the Actual Award is fully paid, you or your estate shall receive the remainder of your Actual Award for the Performance Cycle. [No Dividend Shares shall be paid in this case. OR Dividend Shares shall be calculated as provided in Section 4.]

[Subject to the terms of a deferral election made in accordance with Section 10,] payment under this Section 6 shall be made as soon as practicable following your death or Disability, but in no event later than 2-1/2 months after the end of the calendar year in which the event occurs. The Actual Award [and Dividend Shares] shall be paid solely in Shares.

7. Full Retirement. [If your Termination of Employment occurs solely because of your Full Retirement before the last day of the Performance Cycle, you shall receive a pro-rata payment of your Target Award as your Actual Award equal to the product of (a) times (b), minus (c), where (a) equals the total number of Restricted Units set forth in Section 1 above [plus the total number of Dividend Shares credited to you as of your Termination of Employment], (b) equals the ratio of your complete years of service as an employee of the Company or its Affiliates between the Date of Grant and your Termination of Employment, and the number of complete years of service required under this Agreement to be fully vested in all Restricted Units [and Dividend Shares], and (c) equals the number of Restricted Units [and Dividend Shares] that vested before your Termination of Employment.

OR

If your Termination of Employment occurs solely because of your Full Retirement before the last day of the Performance Cycle, you shall receive your Target Award as your Actual Award [plus the total number of Dividend Shares credited to you as of your Termination of Employment].

OR

If your Termination of Employment occurs solely because of your Full Retirement before the last day of the Performance Cycle, all Restricted Units [and Dividend Shares] shall be forfeited and your rights with respect to any award under this Agreement shall terminate.]

If your Termination of Employment occurs solely because of your Full Retirement after the last day of the Performance Cycle but before the Actual Award is fully paid, you or your estate shall receive the remainder of your Actual Award for the Performance Cycle. [No Dividend Shares shall be paid in this case. OR Dividend Shares shall be calculated as provided in Section 4.]

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Subject to the requirements of Internal Revenue Code section 409A [and the terms of a deferral election made in accordance with Section 10], payment under this Section 7 (to the extent required) shall be made as soon as practicable following your Termination of Employment solely because of your Full Retirement, but in no event later than 2-1/2 months after the end of the calendar year in which the event occurs. The Actual Award [and Dividend Shares] shall be paid solely in Shares.

8. Termination of Employment. Except as otherwise provided in Sections 6 and 7, if your Termination of Employment occurs for any reason before the vesting date(s) specified in Section 5, any unpaid Restricted Units [and Dividend Shares] shall be forfeited and your rights with respect to any award under this Agreement shall terminate unless the Committee, or its designee, determines otherwise in its sole and absolute discretion.

9. Change in Control. If a Change in Control of the Company occurs before the last day of the Performance Cycle, you shall be deemed to have earned your Target Award [and Dividend Shares] as your Actual Award. If a Change in Control of the Company occurs after the last day of the Performance Cycle but before the Actual Award is fully paid, you shall receive the remainder of your Actual Award [and Dividend Shares] for the Performance Cycle.

[Subject to the terms of a deferral election made in accordance with Section 10,] you shall receive the award due in a single sum payment no later than the earlier of 90 days after the date of the Change in Control or two and one-half months after the end of the calendar year in which the Change in Control occurs. Such single sum payment shall be in cash or Shares, as determined by the Committee.

10. [FOLLOWING INCLUDED AT COMMITTEE'S DISCRETION: No Deferral. You cannot defer payment of the Restricted Units [or Dividend Shares].

OR

Deferral of Payment. If you would like to defer payment of the Actual Award, you may make a request to the Committee in writing in the form and at the time designated by the Committee. You must submit a suggested payment schedule with the request for deferral. The Committee may, in its sole discretion, determine whether to permit deferral of payment in the manner requested. If the Committee does not accept your proposed payment schedule, then payment shall be made as otherwise provided in this Agreement.]

11. Change in Status. If your role within the Company changes during the Performance Cycle such that you would no longer be eligible to receive the Restricted Units, this Agreement shall remain in full force and effect as if no such change had occurred.

12. Transfer of Awards. You may not transfer any interest in your Restricted Units, Actual Award [or Dividend Shares] except by will or the laws of descent and distribution [FOLLOWING INCLUDED AT COMMITTEE'S DISCRETION: or except as permitted by the Committee and as specified in the Plan]. Any other attempt to dispose of all or any portion of your interest under this Agreement shall be null and void.

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13. Withholdings. The Company or your local employer shall have the power and the right to deduct or withhold, or require you to remit to the Company or to your local employer, prior to any issuance or delivery of Shares, an amount sufficient to satisfy taxes imposed under the laws of any country, state, province, city or other jurisdiction, including but not limited to income taxes, capital gain taxes, transfer taxes, social security contributions, and National Insurance Contributions, that are required by law to be withheld as determined by the Company or your local employer.

14. Forfeiture of Awards.

- (a) By accepting the Award, you expressly agree and acknowledge that the forfeiture provisions of subparagraph (b) shall apply if, from the Date of Grant of these Restricted Units [and Dividend Shares] until the date that is twenty-four (24) months after your Termination of Employment, for any reason, you enter into an employment or consultation agreement or arrangement (including any arrangement for service as an agent, partner, stockholder, consultant, officer or director) with any entity or person engaged in a business in which the Company or any Affiliate is engaged if the business is competitive (in the sole judgment of the Committee) with the Company or an Affiliate and the Committee has not approved the agreement or arrangement in writing.
- (b) If the Committee determines, in its sole judgment, that you have engaged in an act that violates subparagraph (a) prior to the 24-month anniversary of your Termination of Employment, your outstanding Restricted Units [and Dividend Shares] shall immediately be rescinded, and you shall forfeit any rights you have with respect to these Restricted Units [and Dividend Shares] as of the date of the Committee's determination. In addition, you hereby agree and promise immediately to deliver to the Company, Shares equal in value to the Shares you received for any Restricted Units [and Dividend Shares] during the period beginning six (6) months prior to your Termination of Employment and ending on the date of the Committee's determination.

15. Restrictions on Payment of Shares. Payment of Shares for your Restricted Units [and Dividend Shares] is subject to the conditions that, to the extent required at the time of exercise, (a) the Shares underlying the Restricted Units [and Dividend Shares] shall be duly listed, upon official notice of redemption, on the New York Stock Exchange, and (b) a Registration Statement under the Securities Act of 1933 with respect to the Shares shall be effective. The Company shall not be required to deliver any Common Stock until all applicable federal and state laws and regulations have been complied with and all legal matters in connection with the issuance and delivery of the Shares have been approved by counsel for the Company.

16. Adjustments. Any adjustments to the Restricted Units [and Dividend Shares] shall be governed by Section 5.3 of the Plan.

17. Disposition of Securities. By accepting the Award, you acknowledge that you have read and understand (a) the Company's policy, and are aware of and understand your obligations under applicable securities laws in respect of trading in the Company's securities and (b) the Company's stock ownership guidelines as they apply to this Award. The Company shall have the right to recover, or receive reimbursement for, any

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compensation or profit you realize on the disposition of Shares received for Restricted Units [and Dividend Shares] to the extent that the Company has a right of recovery or reimbursement under applicable securities laws.

18. Plan Terms Govern. The vesting and redemption of Restricted Units [and Dividend Shares], the disposition of any Shares received, the treatment of gain on the disposition of these Shares, and the treatment of Dividend Shares are subject to the provisions of the Plan and any rules that the Committee may prescribe. The Plan document, as may be amended from time to time, is incorporated into this Agreement. Capitalized terms used in this Agreement have the meaning set forth in the Plan, unless otherwise stated in this Agreement. In the event of any conflict between the terms of the Plan and the terms of this Agreement, the Plan shall control. By accepting the Award, you acknowledge that the Plan and the Plan prospectus, as in effect on the date of this Agreement, have been made available to you for your review.

19. Personal Data.

- (a) By entering into this Agreement, and as a condition of the grant of the Restricted Units, you expressly consent to the collection, use, and transfer of personal data as described in this Section to the full extent permitted by and in full compliance with applicable law.
  - (b) You understand that your local employer holds, by means of an automated data file, certain personal information about you, including, but not limited to, name, home address and telephone number, date of birth, social insurance number, salary, nationality, job title, any shares or directorships held in the Company, details of all restricted units or other entitlement to shares awarded, canceled, exercised, vested, unvested, or outstanding in your favor, for the purpose of managing and administering the Plan ("Data").
  - (c) You further understand that part or all of your Data may be also held by the Company or its Affiliates, pursuant to a transfer made in the past with your consent, in respect of any previous grant of restricted units or awards, which was made for the same purposes of managing and administering of previous award/incentive plans, or for other purposes.
  - (d) You further understand that your local employer shall transfer Data to the Company or its Affiliates among themselves as necessary for the purposes of implementation, administration, and management of the your participation in the Plan, and that the Company or its Affiliates may transfer data among themselves, and/or each, in turn, further transfer Data to any third parties assisting the Company in the implementation, administration, and management of the Plan ("Data Recipients").
  - (e) You understand that the Company or its Affiliates, as well as the Data Recipients, are or may be located in your country of residence or elsewhere, such as the United States. You authorize the Company or its Affiliates, as well as the Data Recipients, to receive, possess, use, retain, and transfer Data in electronic or other form, for the purposes of implementing, administering, and managing your participation in the Plan, including any transfer of such Data, as may be required for the administration of the Plan
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and/or the subsequent holding of Shares on your behalf, to a broker or third party with whom the Shares may be deposited.

- (f) You understand that you may show your opposition to the processing and transfer of your Data, and, may at any time, review the Data, request that any necessary amendments be made to it, or withdraw your consent herein in writing by contacting the Company. You further understand that withdrawing consent may affect your ability to participate in the Plan.

20. Discretionary Nature and Acceptance of Award. By accepting this Award, you agree to be bound by the terms of this Agreement and acknowledge that:

- (a) The Company (and not your local employer) is granting your Restricted Units [and Dividend Shares]. Furthermore, this Agreement is not derived from any preexisting labor relationship between you and the Company, but rather from a mercantile relationship.
  - (b) The Company may administer the Plan from outside your country of residence and United States law shall govern all Restricted Units [and Dividend Shares] granted under the Plan.
  - (c) Benefits and rights provided under the Plan are wholly discretionary and, although provided by the Company, do not constitute regular or periodic payments.
  - (d) The benefits and rights provided under the Plan are not to be considered part of your salary or compensation under your employment with your local employer for purposes of calculating any severance, resignation, redundancy or other end of service payments, vacation, bonuses, long-term service awards, indemnification, pension or retirement benefits, or any other payments, benefits or rights of any kind. You waive any and all rights to compensation or damages as a result of the termination of employment with your local employer for any reason whatsoever insofar as those rights result, or may result, from the loss or diminution in value of such rights under the Plan or your ceasing to have any rights under, or ceasing to be entitled to any rights under, the Plan as a result of such termination.
  - (e) The grant of Restricted Units [and Dividend Shares] hereunder, and any future grant of Restricted Units [and Dividend Shares] under the Plan, is entirely voluntary, and at the complete discretion of the Company. Neither the grant of the Restricted Units [, Dividend Shares] nor any future grant by the Company shall be deemed to create any obligation to make any future grants, whether or not such a reservation is explicitly stated at the time of such a grant. The Company has the right, at any time and/or on an annual basis, to amend, suspend or terminate the Plan; provided, however, that no such amendment, suspension, or termination shall adversely affect your rights hereunder.
  - (f) The Plan shall not be deemed to constitute, and shall not be construed by you to constitute, part of the terms and conditions of employment. Neither the Company nor your local employer shall incur any liability of any kind to you as
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a result of any change or amendment, or any cancellation, of the Plan at any time.

- (g) Participation in the Plan shall not be deemed to constitute, and shall not be deemed by you to constitute, an employment or labor relationship of any kind with the Company.

21. Limitations. Nothing in this Agreement or the Plan gives you any right to continue in the employ of the Company or any of its Affiliates or to interfere in any way with the right of the Company or any Affiliate to terminate your employment at any time. Payment of your Restricted Units [and Dividend Shares] is not secured by a trust, insurance contract or other funding medium, and you do not have any interest in any fund or specific asset of the Company by reason of this Award or the account established on your behalf. You have no rights as a shareowner of the Company pursuant to the Restricted Units [and Dividend Shares] until Shares are actually delivered to you.

22. Incorporation of Other Agreements. This Agreement and the Plan constitute the entire understanding between you and the Company regarding the Restricted Units [and Dividend Shares]. This Agreement supersedes any prior agreements, commitments or negotiations concerning the Restricted Units [and Dividend Shares].

23. Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of the other provisions of the Agreement, which shall remain in full force and effect. Moreover, if any provision is found to be excessively broad in duration, scope or covered activity, the provision shall be construed so as to be enforceable to the maximum extent compatible with applicable law.

24. Agreement Changes. The Company reserves the right to change the terms of this Agreement and the Plan without your consent to the extent necessary or desirable to comply with the requirements of Code section 409A, the Treasury regulations and other guidance thereunder.

By accepting this Agreement, you agree to the following: (i) you have carefully read, fully understand and agree to all of the terms and conditions described in this Agreement, the Plan, the Plan's prospectus and all accompanying documentation; and (ii) you understand and agree that this Agreement and the Plan constitute the entire understanding between you and the Company regarding the Restricted Units [and Dividend Shares], and that any prior agreements, commitments or negotiations concerning the Restricted Units [and Dividend Shares] are replaced and superseded. You shall be deemed to consent to the application of the terms and conditions set forth in this Agreement and the Plan unless you contact Honeywell International Inc., Executive Compensation/AB-1D, 101 Columbia Road, Morristown, NJ 07962 in writing within thirty (30) days of the date this Agreement.

**I Accept:**

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Signature Date

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**HONEYWELL INTERNATIONAL INC.**  
**STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**  
**Six Months Ended**  
**June 30, 2010**  
**(Dollars in millions)**

<b>Determination of Earnings:</b>	
Income before taxes	\$ 1,201
Add (Deduct):	
Amortization of capitalized interest	11
Fixed charges	240
Equity income, net of distributions	(13)
	<hr/>
<b>Total earnings, as defined</b>	<b>\$ 1,439</b>
	<hr/>
<b>Fixed Charges:</b>	
Rents <sup>(a)</sup>	\$ 41
Interest and other financial charges	199
	<hr/>
Capitalized interest	240
	<hr/>
<b>Total fixed charges</b>	<b>\$ 250</b>
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<b>Ratio of Earnings to Fixed Charges</b>	<b>5.76</b>

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

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July 23, 2010

Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549

Commissioners:

We are aware that our report dated July 22, 2010 on our review of interim financial information of Honeywell International Inc. (the "Company") for the three and six month periods ended June 30, 2010 and 2009 and included in the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2010 is incorporated by reference in its Registration Statements on Form S-3 (No. 033-55425, 333-22355, 333-101455 and 333-165036), Form S-8 (No. 033-51455, 033-58347, 333-57515, 333-57517, 333-57519, 333-83511, 333-49280, 333-57868, 333-105065, 333-108461, 333-136083, 333-136086, 333-146932 and 333-148995) and on Form S-4 (No. 333-82049).

Very truly yours,

/s/ PricewaterhouseCoopers LLP

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**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
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: July 23, 2010

By: /s/ David M. Cote

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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
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: July 23, 2010

By: /s/ David J. Anderson

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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 June 30, 2010 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

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David M. Cote  
Chief Executive Officer  
July 23, 2010

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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 June 30, 2010 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

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David J. Anderson  
Chief Financial Officer  
July 23, 2010

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