HONEYWELL INTERNATIONAL INC (HON)

10-K

Annual report pursuant to section 13 and 15(d)
Filed on 03/01/2006
Filed Period 12/31/2005

THOMSON REUTERS ACCELUS™

THOMSON REUTERS

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2005

OR

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

For the transition period from to

Commission file number 1-8974

Honeywell International Inc.

(Exact name of registrant as specified in its charter)

DELAWARE	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)

Registrant's telephone number, including area code (973)455-2000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $1 per share*	New York Stock Exchange Chicago Stock Exchange Pacific Exchange
Zero Coupon Serial Bonds due 2009	New York Stock Exchange
9½% Debentures due June 1, 2016	New York Stock Exchange

* The common stock is also listed for trading on the London Stock Exchange.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes X No _

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes _ No X

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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

The aggregate market value of the voting stock held by nonaffiliates of the Registrant was approximately $31.3 billion at June 30, 2005.

There were 830,611,498 shares of Common Stock outstanding at January 31, 2006.

Documents Incorporated by Reference

Part III: Proxy Statement for Annual Meeting of Shareowners to be held April 24, 2006.

TABLE OF CONTENTS

	Item		Page
Part I.	1.	Business	1
	1A.	Risk Factors	9
	1B.	Unresolved Staff Comments	14
	2.	Properties	14
	3.	Legal Proceedings	15
	4.	Submission of Matters to a Vote of Security Holders	15
		Executive Officers of the Registrant	16
Part II.	5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	17
	6.	Selected Financial Data	18
	7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	18
	7A.	Quantitative and Qualitative Disclosures About Market Risk	43
	8.	Financial Statements and Supplementary Data	43
	9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	95
	9A.	Controls and Procedures	95
	9B.	Other Information	96
Part III.	10.	Directors and Executive Officers of the Registrant	96
	11.	Executive Compensation	96
	12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	96
	13.	Certain Relationships and Related Transactions	96
	14.	Principal Accounting Fees and Services	96
Part IV.	15.	Exhibits and Financial Statement Schedules	97
Signatures			98

PART I.

Item 1. Business

Honeywell International Inc. (Honeywell) is a diversified technology and manufacturing company, serving customers worldwide with aerospace products and services, control, sensing and security technologies for buildings, homes and industry, turbochargers, automotive products, specialty chemicals, electronic and advanced materials, and process technology for refining and petrochemicals. Honeywell was incorporated in Delaware in 1985.

We maintain an internet website at http://www.honeywell.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports, are available free of charge on our website under the heading "Investor Relations" (see "SEC Filings & Reports") immediately after they are filed with, or furnished to, the Securities and Exchange Commission (SEC). Honeywell's Code of Business Conduct, Corporate Governance Guidelines and Charters of the Committees of the Board of Directors are also available, free of charge, on our website under the heading "Investor Relations" (see "Corporate Governance"), or by writing to Honeywell, 101 Columbia Road, Morris Township, New Jersey 07962, c/o Vice President and Corporate Secretary. Honeywell's Code of Business Conduct applies to all Honeywell directors, officers (including the Chief Executive Officer, Chief Financial Officer and Controller) and employees.

The certifications of our Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 about the disclosure contained in this Annual Report on Form 10-K are included as Exhibits 31.1 and 31.2 to this Annual Report and are available free of charge on our website under the heading "Investor Relations" (see "SEC Filings & Reports"). Our Chief Executive Officer certified to the New York Stock Exchange (NYSE) on May 20, 2005, pursuant to Section 303A.12 of the NYSE's listing standards, that he was not aware of any violation by Honeywell of the NYSE's corporate governance listing standards as of that date.

Major Businesses

We globally manage our business operations through four reportable segments: Aerospace, Automation and Control Solutions, Specialty Materials and Transportation Systems. Financial information related to our reportable segments is included in Note 23 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data."

The principal products/services, customers/uses and key competitors of each of our reportable segments follows:

Product/Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Aerospace			
Turbine propulsion engines	TFE731 turbofan	Business, regional, general aviation and military trainer aircraft	United Technologies
	TPE331 turboprop		Rolls Royce/Allison
	TFE1042 turbofan	Commercial and military helicopters	Turbomeca
	ATF3 turbofan	Military vehicles	Williams
	F124 turbofan		
	LF502 turbofan		
	LF507 turbofan		
	CFE738 turbofan		
	HTF 7000 turbofan		
	T53, T55 turboshaft		
	LTS101 turboshaft		
	T800 turboshaft		
	AGT1500 turboshaft		
	Repair, overhaul and spare parts		

Auxiliary power units (APUs)	Airborne auxiliary power units Jet fuel starters Secondary power systems Ground power units Repair, overhaul and spare parts	Commercial, regional, business and military aircraft Ground power	United Technologies

Product/ Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Environmental control systems	Air management systems: Air conditioning Bleed air Cabin pressure control Air purification and treatment Repair, overhaul and spare parts	Commercial, regional and general aviation aircraft Military aircraft Ground vehicles Spacecraft	Auxilec Barber Colman Dukes Eaton-Vickers Goodrich Liebherr Pacific Scientific Parker Hannifin Smiths TAT United Technologies
Electric power systems	Generators Power distribution & control Power conditioning Repair, overhaul and spare parts	Commercial, regional, business and military aircraft	Goodrich Safran Smiths United Technologies
Engine systems and accessories	Electronic and hydromechanical fuel controls Engine start systems Electronic engine controls Sensors Valves Electric and pneumatic power generation systems Thrust reverser actuation, pneumatic and electric	Commercial, regional and general aviation aircraft Military aircraft	BAE Controls Goodrich Parker Hannifin United Technologies
Aircraft hardware distribution	Fasteners, including nuts, bolts, rivets, clamps and pins Bearings, including ball, roller, spherical, needle and ceramic Electrical hardware, including connectors, components, lighting products, terminals, and wire and wiring accessories Seals, including seals, o-rings, gaskets and packings Value-added services, repair and overhaul kitting and point-of-use replenishment	Commercial, regional, business and military aviation aircraft	Anixter Arrow Pemco Avnet BE Aerospace (M&M Aerospace) Fairchild Direct Satair Wencor Wesco Aircraft

Avionics systems	Flight safety systems:	Commercial, business and general aviation aircraft	BAE
	Enhanced Ground Proximity Warning Systems (EGPWS)		Boeing/Jeppesen
	Traffic Alert and Collision Avoidance Systems (TCAS)	Government aviation	Garmin
	Windshear detection systems		Goodrich
	Flight data and cockpit voice recorders		Kaiser
	Weather radar		L3
	Communication, navigation and surveillance systems: Navigation & communication radios Air-to-ground telephones		Lockheed Martin
	Global positioning systems		Northrop Grumman
	Automatic flight control systems		Rockwell Collins
	Satellite systems		Smiths
	Integrated systems		Thales
	Flight management systems		Trimble/Terra
	Cockpit display systems		Universal Avionics
			Universal Weather

Product/ Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
	Data management and aircraft performance monitoring systems Aircraft information systems Network file servers Wireless network transceivers Weather information network Navigation database information Cabin management systems Vibration detection and monitoring Mission management systems Tactical data management systems		
Aircraft, Obstruction and Airport lighting	Inset lights Control and monitoring systems Regulators Tower and obstruction lights Interior and exterior aircraft lighting Visual docking guidance systems	Airports Commercial, regional, business, helicopter and military aviation aircraft (operators, OEMs, parts distributors and MRO service providers) General contractors (building and tower manufacturers), cell phone companies	Bruce Hella/Goodrich LSI Luminator Safegate Siemens Thorn Whelen
Inertial sensor	Inertial sensor systems for guidance, stabilization, navigation and control Gyroscopes, accelerometers, inertial measurement units and thermal switches	Military and commercial vehicles Commercial spacecraft and launch vehicles Commercial, regional, business and military aircraft Transportation Missiles Munitions	Astronautics-Kearfott BAE Ball GEC L3 Com KVH Northrop Grumman Rockwell Smiths
Automatic test equipment	EW ATE Avionics ATE Vehicle health Management	Boeing USAF Foreign air forces	Northrop Grumman Lockheed

Control products	Radar altimeters Pressure products Air data products Thermal switches Magnetic sensors	Military aircraft Missiles, UAVs Commercial applications	Ball Brothers BAE Druck Goodrich NavCom Northrop Grumman Rosemount Solarton
Space products and subsystems	Guidance subsystems Control subsystems Processing subsystems Radiation hardened electronics and integrated circuits GPS-based range safety systems	Commercial and military-spacecraft DoD FAA NASA	BAE Ithaco L3 Northrop Grumman Raytheon
Management and technical services	Maintenance/operation and provision of space systems, services and facilities Systems engineering and integration Information technology services Logistics and sustainment	U.S. government space (NASA) DoD (logistics and information services) DoE Local governments Commercial space ground segment systems and services	Bechtel Boeing Computer Sciences Dyncorp ITT Lockheed Martin Raytheon SAIC The Washington Group United Space Alliance

Product/ Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Landing systems	Wheels and brakes Wheel and brake repair and overhaul services	Commercial airline, regional, business and military aircraft High performance commercial vehicles USAF, DoD, DoE Boeing, Airbus, Lockheed Martin	Dunlop Standard Aerospace Goodrich K&F Industries Messier-Bugatti NASCO
Automation and Control Solutions			
Environmental combustion controls; sensing controls	Heating, ventilating and air conditioning controls and components for homes and buildings Indoor air quality products including zoning, air cleaners, humidification, heat and energy recovery ventilators Controls plus integrated electronic systems for burners, boilers and furnaces Consumer household products including humidifiers and thermostats Electrical devices and switches Water controls Sensors, measurement, control and industrial components	Original equipment manufacturers (OEMs) Distributors Contractors Retailers System integrators Commercial customers and homeowners served by the distributor, wholesaler, contractor, retail and utility channels Package and materials handling operations Appliance manufacturers Automotive companies Aviation companies Food and beverage processors Medical equipment Heat treat processors Computer and business equipment manufacturers	Bosch Cherry Danfoss Eaton Emerson Endress & Hauser Holmes Invensys Johnson Controls Motorola Schneider Siemens United Technologies Yamatake
Security and life safety products and services	Security products and systems Fire products and systems Access controls and closed circuit television Home health monitoring and nurse call systems Gas detection products and systems Emergency lighting	OEMs Retailers Distributors Commercial customers and homeowners served by the distributor, wholesaler, contractor, retail and utility channels Health care organizations Security monitoring service providers	Bosch Draeger GE Mine Safety Appliances Pelco Phillips Riken Keiki Siemens SPX Tyco United Technologies

Process automation products and solutions	Advanced control software and industrial automation systems for control and monitoring of continuous, batch and hybrid operations Production management software Communications systems for Industrial Control equipment and systems Consulting, networking engineering and installation Process control instrumentation Field instrumentation Analytical instrumentation Recorders Controllers Critical environment control solutions and services Aftermarket maintenance, repair and upgrade	Refining and petrochemical companies Chemical manufacturers Oil and gas producers Food and beverage processors Pharmaceutical companies Utilities Film and coated producers Pulp and paper industry Continuous web producers in the paper, plastics, metals, rubber, non-wovens and printing industries Mining and mineral industries	ABB AspenTech Emerson Invensys Siemens Yokogawa

Product/Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Building solutions and services	HVAC and building control solutions and services Energy management solutions and services Security and asset management solutions and services Enterprise building integration solutions Building information services	Building managers and owners Contractors, architects and developers Consulting engineers Security directors Plant managers Utilities Large global corporations Public school systems Universities Local governments Public housing agencies	Ameresco GroupMac Ingersoll Rand Invensys Johnson Controls Local contractors and utilities Schneider Siemens Trane United Technologies
Specialty Materials			
Resins & Chemicals	Nylon polymer Caprolactam Ammonium sulfate Cyclohexanol Cyclohexanone Sulfuric acid Ammonia	Nylon for fibers, engineered resins and film Fertilizer ingredients Specialty chemicals	BASF DSM Enichem Hoechst Monsanto Rhodia Solutia
Fluorocarbons	Genetron®refrigerants, aerosol and insulation foam blowing agents Genesolv®solvents Oxyfume sterilant gases Ennovate 3000 blowing agent for refrigeration insulation	Refrigeration Air conditioning Polyurethane foam Precision cleaning Optical Metalworking Hospitals Medical equipment manufacturers	Arkema Dupont Solvay-Solexis
Hydrofluoric acid (HF)	Anhydrous and aqueous hydrofluoric acid	Fluorocarbons Steel Oil refining Chemical intermediates	Ashland Atofina E. Merck Hashimoto Norfluor Quimica Fluor

Fluorine specialties	Sulfur hexafluoride (SF_6) Iodine pentafluoride (IF_5) Antimony pentafluoride (SbF_5)	Electric utilities Magnesium gear manufacturers	Air Products Asahi Glass Atofina Solvay-Solexis
Nuclear services	UF_6conversion services	Nuclear fuel Electric utilities	British Nuclear Fuels Cameco Cogema
Research and life sciences	Active pharmaceutical ingredients Pharmaceutical intermediates Pharmaceutical formulations Oxime-based fine chemicals Fluoroaromatics Bromoaromatics High-purity solvents	Agrichemicals Pharmaceuticals Biotech	Avecia Degussa DSM E. Merck Fisher Scientific Lonza Sigma-Aldrich
Performance chemicals Imaging chemicals Chemical processing Display chemicals Surface treatment Catalysts Sealants	HF derivatives Fluoroaromatics Phosphors Catalysts Oxime-silanes Hydroxylamine	Diverse by product type	Atotech BASF
Advanced Fibers & Composites	High modulus polyethylene fiber and shield composites Aramid shield composites	Bullet resistant vests, helmets and other armor applications Cut-resistant gloves Rope & cordage	DuPont DSM Teijin

Product/Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Specialty Films	Cast nylon film	Food and pharmaceutical packaging	American Biaxis
	Bi-axially oriented nylon film		CFP
	Fluoropolymer film		Daikin
			Kolon
			Unitika
Specialty additives	Polyethylene waxes	Coatings and inks	BASF
	Paraffin waxes and blends	PVC pipe, siding & profiles	Clariant
	PVC lubricant systems	Plastics	Eastman
	Processing aids	Reflective coatings	
	Luminescent pigments	Safety & security applications	
Electronic chemicals	Ultra high-purity HF	Semiconductors	Air Products
	Inorganic acids		Arch
	Hi-purity solvents		E. Merck
Semiconductor materials and services	Interconnect-dielectrics	Semiconductors	Dow Corning
	Interconnect-metals	Microelectronics	Japan Energy
	Semiconductor packaging materials	Telecommunications	Brewer
	Advanced polymers		Engelhard
	Sapphire substrates		Foxconn
	Anti-reflective coatings		Shinko
	Thermo-couplings		Kyocera
Catalysts and adsorbents (UOP)	Catalysts	Petroleum, refining, petrochemical, gas processing and manufacturing industries	ABB Lummus
	Molecular sieves		Axens
	Adsorbents		Exxon-Mobil
	Design of process, plants and equipment		Shell/Criterion
	Customer catalyst manufacturing		Stone & Webster
			Linde
			Sud Chemie

Transportation Systems

Charge-air systems	Turbochargers Remanufactured components	Passenger car, truck and off-highway OEMs Engine manufacturers Aftermarket distributors and dealers	ABB Borg-Warner Hitachi Holset IHI MHI Tianyan
Thermal systems	Exhaust gas coolers Charge-air coolers Aluminum radiators Aluminum cooling modules	Passenger car, truck and off-highway OEMs Engine manufacturers Aftermarket distributors and dealers	Behr/McCord Modine Valeo
Aftermarket filters, spark plugs, electronic components and car care products	Oil, air, fuel, transmission and coolant filters PCV valves Spark plugs Wire and cable Antifreeze/coolant Ice-fighter products Windshield washer fluids Waxes, washes and specialty cleaners	Automotive and heavy vehicle aftermarket channels, OEMs and OES Auto supply retailers Specialty installers Mass merchandisers	AC Delco Bosch Champion Champ Labs Havoline/Texaco Mann & Hummel NGK Peak/Old World Industries Pennzoil-Quaker State Purolator/Arvin Industries STP/ArmorAll/ Clorox Turtle Wax Various Private Labels Wix/Dana Zerex/Valvoline

Brake hard parts and other friction materials	Disc brake pads and shoes Drum brake linings Brake blocks Disc and drum brake components Brake hydraulic components Brake fluid Aircraft brake linings Railway linings	Automotive and heavy vehicle OEMs, OES, brake manufacturers and aftermarket channels Mass merchandisers Installers Railway and commercial/ military aircraft OEMs and brake manufacturers	Akebono Dana Delphi Federal-Mogul ITT Galfer JBI Nisshinbo TMD Roulunds

Aerospace Sales

Our sales to aerospace customers were 38 percent of our total sales in each of 2005, 2004 and 2003. Our sales to commercial aerospace original equipment manufacturers were 9, 8 and 7 percent of our total sales in 2005, 2004 and 2003, respectively. In addition, our sales to commercial aftermarket customers of aerospace products and services were 15, 16 and 15 percent of our total sales in 2005, 2004 and 2003, respectively. Our Aerospace results of operations can be impacted by various industry and economic conditions. See “Item 1A. Risk Factors.”

U.S. Government Sales

Sales to the U.S. Government (principally by our Aerospace segment), acting through its various departments and agencies and through prime contractors, amounted to $3,719, $3,464 and $3,111 million in 2005, 2004 and 2003, respectively, which included sales to the U.S. Department of Defense, as a prime contractor and subcontractor, of $2,939, $2,808 and $2,564 million in 2005, 2004 and 2003, respectively. U.S. defense spending increased in 2005 and is also expected to increase in 2006. We do not expect to be significantly affected by any proposed changes in 2006 federal spending due principally to the varied mix of the government programs which impact us (OEM production, engineering development programs, aftermarket spares and repairs and overhaul programs). Our contracts with the U.S. Government are subject to audits, investigations, and termination by the government. See “Item 1A. Risk Factors.”

Backlog

Our total backlog at December 31, 2005 and 2004 was $9,327 and $8,229 million, respectively. We anticipate that approximately $7,594 million of the 2005 backlog will be filled in 2006. We believe that backlog is not necessarily a reliable indicator of our future sales because a substantial portion of the orders constituting this backlog may be canceled at the customer's option.

Competition

We are subject to active competition in substantially all product and service areas. Competition is expected to continue in all geographic regions. Competitive conditions vary widely among the thousands of products and services provided by us, and vary country by country. Depending on the particular customer or market involved, our businesses compete on a variety of factors, such as price, quality, reliability, delivery, customer service, performance, applied technology, product innovation and product recognition. Brand identity, service to customers and quality are generally important competitive factors for our products and services, and there is considerable price competition. Other competitive factors for certain products include breadth of product line, research and development efforts and technical and managerial capability. While our competitive position varies among our products and services, we believe we are a significant competitor in each of our major product and service classes. However, a number of our products and services are sold in competition with those of a large number of other companies, some of which have substantial financial resources and significant technological capabilities. In addition, some of our products compete with the captive component divisions of original equipment manufacturers.

International Operations

We are engaged in manufacturing, sales, service and research and development mainly in the United States, Europe, Canada, Asia and Latin America. U.S. exports and foreign manufactured products are significant to our operations. U.S. exports comprised 10 and 9 percent of our total net sales in 2005 and 2004, respectively. Foreign manufactured products and services, mainly in Europe, were 35 percent of our total net sales in both 2005 and 2004.

Approximately 20 percent of total 2005 net sales of Aerospace-related products and services were exports of U.S. manufactured products and systems and performance of services such as aircraft repair and overhaul. Exports were principally made to Europe, Asia and Canada. Foreign manufactured products and systems and performance of services comprised 14 percent of total 2005 Aerospace net sales.

Approximately 2 percent of total 2005 net sales of Automation and Control Solutions products were exports of U.S. manufactured products. Foreign manufactured products and performance of services accounted for 53 percent of total 2005 net sales of Automation and Control Solutions. The principal manufacturing facilities outside the U.S. are in Europe and Mexico, with less significant operations in Asia and Canada.

Approximately 13 percent of total 2005 net sales of Specialty Materials products were exports of U.S. manufactured products. Exports were principally made to Asia, Europe, Latin America and Canada. Foreign manufactured products comprised 18 percent of total 2005 net sales of Specialty Materials. The principal manufacturing facilities outside the U.S. are in Europe, with less significant operations in Asia and Canada.

Exports of U.S. manufactured products comprised 1 percent of total 2005 net sales of Transportation Systems products. Foreign manufactured products accounted for 60 percent of total 2005 net sales of Transportation Systems. The principal manufacturing facilities outside the U.S. are in Europe, with less significant operations in Asia, Latin America and Canada.

Financial information related to geographic areas is included in Note 24 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data”. Information regarding the economic, political, regulatory and other risks associated with international operations is included in “Item 1A. Risk Factors.”

Raw Materials

The principal raw materials used in our operations are generally readily available. We experienced no significant or unusual problems in the purchase of key raw materials and commodities in 2005. Except related to phenol, a raw material used in our Specialty Materials segment, we are not dependent on any one supplier for a material amount of our raw materials. We purchase phenol under a supply agreement with one supplier. We have no reason to believe there is any material risk to this supply.

We are highly dependent on our suppliers and subcontractors in order to meet commitments to our customers. In addition, many major components and product equipment items are procured or subcontracted on a sole-source basis with a number of domestic and foreign companies. We maintain a qualification and performance surveillance process to control risk associated with such reliance on third parties. While we believe that sources of supply for raw materials and components are generally adequate, it is difficult to predict what effects shortages or price increases may have in the future.

The costs of certain key raw materials, including natural gas and benzene, in our Specialty Materials' business were at historically high levels in 2005 and are expected to remain at those levels in 2006. We will continue to attempt to offset raw material cost increases with formula price agreements and price increases where feasible. At present, we have no reason to believe a shortage of raw materials will cause any material adverse impact during 2006. See “Item 1A. Risk Factors” for further discussion.

Patents, Trademarks, Licenses and Distribution Rights

Our businesses are not dependent upon any single patent or related group of patents, or any licenses or distribution rights. We own, or are licensed under, a large number of patents, patent applications and trademarks acquired over a period of many years, which relate to many of our products or improvements to those products and which are of importance to our business. From time to time, new patents and trademarks are obtained, and patent and trademark licenses and rights are acquired from others. We also have distribution rights of varying terms for a number of products and services produced by other companies. In our judgment, those rights are adequate for the conduct of our business. We believe that, in the aggregate, the rights under our patents, trademarks and licenses are generally important to our operations, but we do not consider any patent, trademark or related group of patents, or any licensing or distribution rights related to a specific process or product, to be of material importance in relation to our total business. See “Item 1A. Risk Factors” for further discussion.

We have registered trademarks for a number of our products, including such consumer brands as Honeywell, Prestone, FRAM, Autolite, Bendix, Jurid, Holts and Garrett.

Research and Development

Our research activities are directed toward the discovery and development of new products and processes and the development of new uses for existing products.

Research and development expense totaled $1,072, $917 and $751 million in 2005, 2004 and 2003, respectively. The increase in research and development expense in 2004 compared with 2003 resulted primarily from design and developments costs associated with new aircraft platforms in Aerospace and new product development costs in Automation and Control Solutions. Customer-sponsored (principally the U.S. Government) research and development activities amounted to an additional $694, $593 and $608 million in 2005, 2004 and 2003, respectively.

Environment

We are subject to various federal, state, local and foreign government requirements regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. It is our policy to comply with these requirements, and we believe that, as a general matter, our policies, practices and procedures are properly designed to prevent unreasonable risk of environmental damage, and of resulting financial liability, in connection with our business. Some risk of environmental damage is, however, inherent in some of our operations and products, as it is with other companies engaged in similar businesses.

We are and have been engaged in the handling, manufacture, use and disposal of many substances classified as hazardous or toxic by one or more regulatory agencies. 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 these substances are in accord with environmental and safety laws and regulations. It is possible, however, that future knowledge or other developments, such as improved capability to detect substances in the environment or increasingly strict environmental laws and standards and enforcement policies, could bring into question our current or past handling, manufacture, use or disposal of these substances.

Among other environmental requirements, we are subject to the federal superfund and similar state and foreign laws and regulations, under which we have been designated as a potentially responsible party that may be liable for cleanup costs associated with various hazardous waste sites, some of which are on the U.S. Environmental Protection Agency's superfund priority list. Although, under some court interpretations of these laws, there is a possibility that a responsible party might have to bear more than its proportional share of the cleanup costs if it is unable to obtain appropriate contribution from other responsible parties, we have not had to bear significantly more than our proportional share in multi-party situations taken as a whole.

Further information regarding environmental matters is included in “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations,” in Note 21 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data” and in “Item 1A. Risk Factors.”

Employees

We have approximately 116,000 employees at December 31, 2005, of which approximately 58,000 were located in the United States.

Item 1A. Risk Factors

Cautionary Statement about Forward-Looking Statements

We have described many of the trends and other factors that drive our business and future results in “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations”, including under the headings “Economic and Other Factors”, “Areas of Focus” and “Review of Business Segments”. These sections and other parts of this report (including this Item 1A) contain

“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 management intends, expects, projects, believes or anticipates will or may occur in the future. They are based on management's assumptions and assessments in light of past experience and trends, current conditions, expected future developments and other relevant factors. They are not guarantees of future performance, and actual results, developments and business decisions may differ significantly from those envisaged by our forward-looking statements. We do not undertake to update or revise any of our forward-looking statements. Our forward-looking statements are also subject to risks and uncertainties that can affect our performance in both the near-and long-term. These forward-looking statements should be considered in light of the information included in this Form 10-K, including, in particular, the factors discussed below.

Risk Factors

Our business, operating results, cash flows and financial condition are subject to various risks and uncertainties, including, without limitation, those set forth below, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results.

Industry and economic conditions may adversely affect the market and operating conditions of our customers, which in turn can affect demand for our products and services and our results of operations.

The operating results of our segments are impacted by general industry and economic conditions that can cause changes in spending and capital investment patterns, demand for our products and services and the level of our manufacturing costs. The operating results of our Aerospace segment, which generated 38 percent of our consolidated revenues in 2005, are directly tied to cyclical industry and economic conditions, including global demand for air travel as reflected in new aircraft production and/or the retirement of older aircraft, global flying hours, and business and general aviation aircraft utilization rates, as well as the level and mix of U.S. Government appropriations for defense and space programs (as further discussed below). The challenging operating environment faced by the commercial airline industry is expected to continue and may be influenced by a wide variety of factors, including aircraft fuel prices, labor issues, airline insolvencies, terrorism and safety concerns, and changes in regulations. Future terrorist actions or pandemic health issues could dramatically reduce both the demand for air travel and our Aerospace aftermarket sales and margins. The operating results of our Automation and Control Solutions (ACS) segment, which generated 34 percent of our consolidated revenues in 2005, are impacted by the level of global residential and commercial construction (including retrofits and upgrades), capital spending on building and process automation, industrial plant capacity utilization and expansion, and material price inflation. Specialty Materials' operating results are impacted by global gross domestic product and capacity utilization for chemical, industrial, refining and petrochemical plants. Transportation Systems' operating results are impacted by global production and demand for automobiles and trucks equipped with turbochargers, and consumer spending for automotive aftermarket and car care products. Because approximately 28 percent of our sales are in Europe, the relative strength of the European economy and exchange rate fluctuations impact our sales and margins.

Raw material price fluctuations and the ability of key suppliers to meet quality and delivery requirements can increase the cost of our products and services and impact our ability to meet commitments to customers.

The cost of raw materials is a key element in the cost of our products, particularly in our Specialty Materials (benzene and natural gas) and Transportation Systems (steel and other metals) segments. Our inability to offset material price inflation with pricing or productivity actions could adversely affect our results of operations.

Our manufacturing operations are also highly dependent upon the delivery of materials by outside suppliers and their assembly of major components and subsystems used in our products in a timely manner and in full compliance with purchase order terms and conditions, quality standards, and

applicable laws and regulations. We also depend in limited instances on sole source suppliers. Our suppliers may fail to perform according to specifications as and when required and we may be unable to identify alternate suppliers or to mitigate the consequences of their non-performance. The supply chains for our businesses could also be disrupted by external events such as natural disasters, pandemic health issues, terrorist actions, labor disputes or governmental actions. Our inability to fill our supply needs would jeopardize our ability to fulfill obligations under commercial and government contracts, which could, in turn, result in reduced sales and profits, contract penalties or terminations, and damage to customer relationships.

Our future growth is largely dependent upon our ability to develop new technologies that achieve market acceptance with acceptable margins.

Our businesses operate in global markets that are characterized by rapidly changing technologies and evolving industry standards. Accordingly, our future growth rate depends upon a number of factors, including our ability to (i) identify emerging technological trends in our target end-markets, (ii) develop and maintain competitive products, (iii) enhance our products by adding innovative features that differentiate our products from those of our competitors, and (iv) develop, manufacture and bring products to market quickly and cost-effectively.

Our ability to develop new products based on technological innovation can affect our competitive position and requires the investment of significant resources. These development efforts divert resources from other potential investments in our businesses, and they may not lead to the development of new technologies or products on a timely basis or that meet the needs of our customers as fully as competitive offerings. In addition, the markets for our products may not develop or grow as we currently anticipate. The failure of our technologies or products to gain market acceptance or their obsolescence due to more attractive offerings by our competitors could significantly reduce our revenues and adversely affect our competitive standing and prospects.

Protecting our intellectual property is critical to our innovation efforts. We own or are licensed under a large number of U.S. and foreign patents and patent applications, trademarks and copyrights. Our intellectual property rights may be challenged, invalidated or infringed upon by third parties or we may be unable to maintain, renew or enter into new licenses of third party proprietary intellectual property on commercially reasonable terms. In some non-U.S. countries, laws affecting intellectual property are uncertain in their application, which can affect the scope or enforceability of our patents and other intellectual property rights. Any of these events or factors could diminish or cause us to lose the competitive advantages associated with our intellectual property, subject us to judgments, penalties and significant litigation costs, and/or temporarily or permanently disrupt our sales and marketing of the affected products or services.

An increasing percentage of our sales and operations is in non-U.S. jurisdictions and is subject to the economic, political, regulatory and other risks of international operations.

Our international operations, including U.S. exports, comprise a growing proportion of our operating results and our strategy calls for increasing sales to and operations in overseas markets, including developing markets such as China, India and the Middle East. As this trend continues, our exposure to the risks attendant to international operations also increases. These risks include fluctuations in currency value, exchange control regulations, wage and price controls, employment regulations, foreign investment laws, import and trade restrictions (including embargoes), and government instability. The cost of compliance with increasingly complex and often conflicting regulations worldwide can also impair our flexibility in modifying product, marketing, pricing or other strategies for growing our businesses, as well as our ability to improve productivity and maintain acceptable operating margins.

We may be required to recognize impairment charges for our long-lived assets.

At December 31, 2005, the net carrying value of long-lived assets (property, plant and equipment, goodwill and other intangible assets) totaled approximately $14.3 billion. In accordance with generally accepted accounting principles, we periodically assess our long-lived assets to determine if they are

impaired. Significant negative industry or economic trends, disruptions to our business, unexpected significant changes or planned changes in use of the assets, divestitures and market capitalization declines may result in charges to goodwill and other asset impairments. Future impairment charges could significantly affect our results of operations in the periods recognized. Impairment charges would also reduce our consolidated net worth and our shareowners' equity and increase our debt-to-total-capitalization ratio, which could negatively impact our access to the public debt and equity markets.

A change in the level of U.S. Government defense and space funding or the mix of programs to which such funding is allocated could adversely impact sales of Aerospace's defense and space-related product and services.

Sales of our defense and space-related products and services are largely dependent upon government budgets, particularly the U.S. defense budget. Sales as a prime contractor and subcontractor to the U. S. Department of Defense comprised approximately 28 and 11 percent of Aerospace and total sales, respectively, for the year ended December 31, 2005. Although U.S. defense spending increased in 2005 and is expected to increase again in 2006, we cannot predict the extent to which funding for individual programs will be included, increased or reduced as part of the 2007 and subsequent budgets ultimately approved by Congress, or be included in the scope of separate supplemental appropriations. We also cannot predict the impact of potential changes in priorities due to military transformation and planning and/or the nature of war-related activity on existing, follow-on or replacement programs. A shift in defense spending to programs in which we do not participate and/or reductions in funding for or termination of existing programs could adversely impact our results of operations.

As a supplier of military and other equipment to the U. S. Government, we are subject to unusual risks, such as the right of the U.S. Government to terminate contracts for convenience and to conduct audits and investigations of our operations and performance.

In addition to normal business risks, companies like Honeywell that supply military and other equipment to the U.S. Government are subject to unusual risks, including dependence on Congressional appropriations and administrative allotment of funds, changes in governmental procurement legislations and regulations and other policies that reflect military and political developments, significant changes in contract scheduling, complexity of designs and the rapidity with which they become obsolete, necessity for constant design improvements, intense competition for U.S. Government business necessitating increases in time and investment for design and development, difficulty of forecasting costs and schedules when bidding on developmental and highly sophisticated technical work, and other factors characteristic of the industry. Changes are customary over the life of U.S. Government contracts, particularly development contracts, and generally result in adjustments of contract prices.

Our contracts with the U.S. Government are subject to audits. Like many other government contractors, we have received audit reports that recommend downward price adjustments to certain contracts to comply with various government regulations. We have made adjustments and paid voluntary refunds in appropriate cases and may do so in the future.

U.S. Government contracts are subject to termination by the government, either for the convenience of the government or for our failure to perform under the applicable contract. In the case of a termination for convenience, we are typically entitled to reimbursement for our allowable costs incurred, plus termination costs and a reasonable profit. If a contract is terminated by the government for our failure to perform we could be liable for additional costs incurred by the government in acquiring undelivered goods or services from any other source and any other damages suffered by the government.

We are also subject to government investigations of business practices and compliance with government procurement regulations. If Honeywell or one of its businesses were charged with wrongdoing as a result of any such investigation or other government investigations (including violations of certain environmental or export laws), it could be suspended from bidding on or receiving awards of new government contracts pending the completion of legal proceedings. The U.S.

Government also reserves the right to debar a contractor from receiving new government contracts for fraudulent, criminal or other egregious misconduct. Debarment generally does not exceed three years.

Changes in legislation or government regulations or policies can have a significant impact on our results of operations.

The sales and margins of each of our segments are directly impacted by government regulations. Safety and performance regulations (including mandates of the Federal Aviation Administration and other similar international regulatory bodies requiring the installation of equipment on aircraft), product certification requirements and government procurement practices can impact Aerospace sales, research and development expenditures, operating costs and profitability. The demand for and cost of providing Automation and Control Solutions products, services and solutions can be impacted by fire, security, safety, health care and energy efficiency standards and regulations. Specialty Materials' results of operations can be affected by environmental (e.g., government regulation of refrigerants), safety and energy efficiency standards and regulations, while emissions and energy efficiency standards and regulations can impact the demand for turbochargers in our Transportation Systems segment.

Completed acquisitions may not perform as anticipated or be integrated as planned.

We regularly review our portfolio of businesses and pursue growth through acquisitions and seek to divest non-core businesses. We may not be able to complete transactions on favorable terms, on a timely basis or at all. In addition, our results of operations and cash flows may be adversely impacted by (i) the failure of acquired businesses to meet or exceed expected returns, (ii) the failure to integrate acquired businesses into Honeywell on schedule and/or to achieve synergies within the plan and timeframe, and/or (iii) the inability to dispose of non-core assets and businesses on satisfactory terms and conditions and within the expected time frame.

We cannot predict the outcome of litigation matters, government proceedings and other contingencies with certainty.

We are subject to a number of 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 benefits plans, and environmental, health and safety matters. Resolution of these matters can be prolonged and costly, and the ultimate results or judgments are uncertain. Moreover, our potential liabilities are subject to change over time due to new developments, changes in settlement strategy or the impact of evidentiary requirements, and we may be required to pay damage awards or settlements, or become subject to damage awards or settlements, that could have a material adverse effect on our results of operations, cash flows and financial condition. While we maintain insurance for certain risks, the amount of our insurance coverage may not be adequate to cover the total amount of all insured claims and liabilities. It also is not possible to obtain insurance to protect against all operational risks and liabilities. The incurrence of significant liabilities for which there is no or insufficient insurance coverage could adversely affect our results of operations, cash flows, liquidity and financial condition.

Our operations and the prior operations of predecessor companies expose us to the risk of material environmental liabilities.

Mainly because of past operations and operations of predecessor companies, we are subject to potentially material liabilities related to the remediation of environmental hazards and to personal injuries or property damages that may be caused by hazardous substance releases and exposures. We have incurred remedial response and voluntary clean-up costs for site contamination and are a party to lawsuits and claims associated with environmental and safety matters, including past production of products containing toxic substances. Additional lawsuits, claims and costs involving environmental matters are likely to continue to arise in the future. We are subject to various federal, state, local and foreign government requirements regulating the discharge of materials into the environment or otherwise relating to the protection of the environment. These laws and regulations can

impose substantial fines and criminal sanctions for violations, and require installation of costly equipment or operational changes to limit emissions and/or decrease the likelihood of accidental hazardous substance releases. We incur, and expect to continue to incur capital and operating costs to comply with these laws and regulations. In addition, changes in laws, regulations and enforcement of policies, the discovery of previously unknown contamination or new technology or information related to individual sites, or the imposition of new clean-up requirements or remedial techniques could require us to incur costs in the future that would have a negative effect on our financial condition or results of operations.

Item 1B. Unresolved Staff Comments

Not Applicable

Item 2. Properties

We have approximately 1,200 locations consisting of plants, research laboratories, sales offices and other facilities. Our headquarters and administrative complex is located at Morris Township, New Jersey. Our plants are generally located to serve large marketing areas and to provide accessibility to raw materials and labor pools. Our properties are generally maintained in good operating condition. Utilization of these plants may vary with sales to customers and other business conditions; however, no major operating facility is significantly idle. We own or lease warehouses, railroad cars, barges, automobiles, trucks, airplanes and materials handling and data processing equipment. We also lease space for administrative and sales staffs. Our properties and equipment are in good operating condition and are adequate for our present needs. We do not anticipate difficulty in renewing existing leases as they expire or in finding alternative facilities.

Our principal plants, which are owned in fee unless otherwise indicated, are as follows:

	Aerospace	
Glendale, AZ (partially leased)	South Bend, IN	Albuquerque, NM
Phoenix, AZ	Olathe, KS	Urbana, OH
Tempe, AZ	Minneapolis, MN	Redmond, WA (leased)
Tucson, AZ	Plymouth, MN	Toronto, Canada
Torrance, CA (partially leased)	Rocky Mount, NC	Raunheim, Germany
Clearwater, FL (leased)	Teterboro, NJ	
	Automation and Control Solutions	
Phoenix, AZ	Golden Valley, MN	Chihuahua, Mexico
San Diego, CA	Murfreesboro, TN (leased)	Juarez, Mexico (partially leased)
Northford, CT	Pleasant Prairie, WI (leased)	Tijuana, Mexico (leased)
Freeport, IL	Neuss, Germany	Emmen, Netherlands
		Newhouse, Scotland
	Specialty Materials	
Mobile, AL	Geismar, LA	Hopewell, VA
Baton Rouge, LA	Pottsville, PA	Seelze, Germany
	Chesterfield, VA	
	Transportation Systems	
Mexicali, Mexico	Thaon-Les-Vosges, France	Atessa, Italy
	Glinde, Germany	

Item 3. Legal Proceedings

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 21 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data.”

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

As previously reported, three incidents occurred during 2003 at Honeywell's Baton Rouge, Louisiana chemical plant, including a release of chlorine, a release of antimony pentachloride which resulted in an employee fatality, and an employee exposure to hydrofluoric acid. Honeywell has been served with several civil lawsuits regarding these incidents, for which we believe we have adequate insurance coverage. In addition, the United States Environmental Protection Agency (USEPA) and the United States Department of Justice (USDOJ) are conducting investigations of these incidents, including a federal grand jury convened to investigate the employee fatality. Honeywell has been informed by the USDOJ that it is a potential target of the grand jury investigation. If we are ultimately charged with wrongdoing, the Baton Rouge facility could be deemed ineligible to supply products or services under government contracts pending the completion of legal proceedings. Although the outcome of this matter cannot be predicted with certainty, we do not believe that it will have a material adverse effect on our consolidated financial position, consolidated results of operations or operating cash flows.

Honeywell is a defendant in a lawsuit filed by the Arizona Attorney General's Office on behalf of the Arizona Department of Environmental Quality (ADEQ). The complaint alleges various environmental violations and failure to make required disclosures. Honeywell believes that the allegations in this matter are without merit and intends to vigorously defend against this lawsuit. In September 2004, the Court partially dismissed several of the ADEQ's significant allegations. In November 2005, the Court dismissed the most significant remaining claims in ADEQ's amended complaint. We do not believe that this matter could have a material adverse effect on our consolidated financial position, consolidated results of operations or operating cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable.

Executive Officers of the Registrant

The executive officers of Honeywell, listed as follows, are elected annually by the Board of Directors. There are no family relationships among them.

Name, Age, Date First Elected an Executive Officer	Business Experience
David M. Cote (a), 53 2002	Chairman of the Board and Chief Executive Officer since July 2002. President and Chief Executive Officer from February 2002 to June 2002. Chairman of the Board, President and Chief Executive Officer of TRW (manufacturer of aerospace and automotive products) from August 2001 to February 2002. President and Chief Executive Officer of TRW from February 2001 to July 2001. President and Chief Operating Officer of TRW from November 1999 to January 2001.
Adriane M. Brown, 47 2005	President and Chief Executive Officer Transportation Systems since January 2005. Vice President and General Manager of Engine Systems & Accessories from September 2001 to December 2004. Vice President and General Manager of Aircraft Landing Systems from October 1999 to August 2001.
Dr. Nance K. Dicciani, 58 2001	President and Chief Executive Officer Specialty Materials since November 2001. Senior Vice President and Business Group Executive of Chemical Specialties and Director, European Region of Rohm and Haas (chemical company) from June 1998 to October 2001.
Roger Fradin, 52 2004	President and Chief Executive Officer Automation and Control Solutions since January 2004. President of Automation and Control Products from June 2002 to December 2003. President and Chief Executive Officer of Security and Fire Solutions from February 2000 to May 2002. President of The Security Group of The Pittway Corporation from September 1995 to April 2002.
Robert J. Gillette, 45 2001	President and Chief Executive Officer Aerospace since January 2005. President and Chief Executive Officer Transportation Systems from July 2001 to December 2004. President of Honeywell Turbo Technologies from July 2000 to June 2001.
David J. Anderson, 56 2003	Senior Vice President and Chief Financial Officer since June 2003. Senior Vice President and Chief Financial Officer of ITT Industries (global manufacturing company) from December 1999 to June 2003.
Larry E. Kittelberger, 57 2001	Senior Vice President Administration and Chief Information Officer since August 2001. Senior Vice President and Chief Information Officer of Lucent Technologies Inc. from November 1999 to August 2001.
Peter M. Kreindler, 60 1992	Senior Vice President and General Counsel since March 1992.
Thomas W. Weidenkopf, 47 2002	Senior Vice President Human Resources and Communications since April 2002. Vice President of Human Resources, Aerospace, from March 1999 to March 2002.

(a) Also a Director.

Part II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market and dividend information for Honeywell's common stock is included in Note 26 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data."

The number of record holders of our common stock at December 31, 2005 was 79,434.

The following table summarizes Honeywell's purchases of its common stock, par value $1 per share, for the quarter ending December 31, 2005:

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under Plans or Programs
October 2005	2,830,000	$ 33.79	2,830,000	(A)
November 2005	8,870,000	$ 35.98	8,870,000	(A)
December 2005	3,800,000	$ 36.67	3,800,000	(A)(B)

(A) Honeywell repurchased outstanding shares of its common stock to offset the dilutive impact of employee stock based compensation plans, including future options exercises, restricted unit vesting and matching contributions under our savings plans, including, in response to market conditions, some or all of anticipated 2006 dilution. Honeywell purchased a total of 30,553,300 shares of common stock in 2005.

(B) In November 2005, Honeywell announced that its Board of Directors had authorized the repurchase of shares of Honeywell common stock having a dollar value of up to $3 billion. As of December 31, 2005, approximately $2.6 billion of additional shares may yet be purchased under this program. The amount and timing of repurchases may vary depending on market conditions and the level of other investing activities.

Item 6. Selected Financial Data

	Years Ended December 31,				
	2005	2004	2003	2002	2001
	(Dollars in millions, except per share amounts)				
Results of Operations					
Net sales	$27,653	$25,601	$23,103	$22,274	$23,652
Income (loss) from continuing operations(1)	1,581	1,281	1,344	(220)	(99)
Per Common Share					
Earnings (loss) from continuing operations:					
Basic	1.87	1.49	1.56	(0.27)	(0.12)
Assuming dilution	1.86	1.49	1.56	(0.27)	(0.12)
Dividends	0.825	0.75	0.75	0.75	0.75
Financial Position at Year-End					
Property, plant and equipment—net	4,658	4,331	4,295	4,055	4,933
Total assets	32,294	31,062	29,314	27,565	24,226
Short-term debt	2,024	1,204	199	370	539
Long-term debt	3,082	4,069	4,961	4,719	4,731
Total debt	5,106	5,273	5,160	5,089	5,270
Shareowners' equity	11,254	11,252	10,729	8,925	9,170

Note: Commencing January 1, 2002, we ceased amortization of goodwill and indefinite-lived intangible assets.

(1) In 2005, includes net repositioning, environmental, litigation, business impairment and other charges, gains on sales of non-strategic businesses and a tax provision for the repatriation of foreign earnings resulting in a net after-tax charge of $391 million, or $0.46 per share. In 2004, includes net repositioning, environmental, litigation, business impairment and other charges, gains on sales of non-strategic businesses and a gain related to the settlement of a patent infringement lawsuit resulting in a net after-tax charge of $315 million, or $0.36 per share. In 2003, includes net repositioning, environmental and other charges, gains on sales of non-strategic businesses and a gain related to the settlement of a patent infringement lawsuit resulting in a net after-tax charge of $22 million, or $0.03 per share. In 2002, includes net repositioning, litigation, business impairment and other charges and gains on sales of non-strategic businesses resulting in a net after-tax charge of $1,864 million, or $2.27 per share. In 2001, includes net repositioning, litigation, business impairment and other charges resulting in an after-tax charge of $1,771 million, or $2.18 per share.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

BUSINESS OVERVIEW

This Business Overview provides a summary of Honeywell's four reportable operating segments (Aerospace, Automation and Control Solutions, Specialty Materials and Transportation Systems), including how they generate income, the relevant economic and other factors impacting their results, and business challenges and areas of focus in both the short- and long-term. Each of these segments is comprised of various product and service classes that serve multiple end markets. See Note 23 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data” for further information on our reportable segments and our definition of segment profit.

Aerospace

	2005	2004	2003
		(Dollars in millions)	
Net sales	$ 10,497	$ 9,748	$ 8,813
Segment profit	$ 1,703	$ 1,479	$ 1,221
Segment profit %	16.2%	15.2%	13.9%

Aerospace is a leading global supplier of aircraft engines, avionics, and related products and services for aircraft manufacturers, airlines, aircraft operators, military services, and defense and space contractors. Our Aerospace products and services include auxiliary power units, propulsion engines, environmental control systems, engine controls, repair and overhaul services, flight safety, communications, navigation, radar and surveillance systems, aircraft and airport lighting, management and technical services, advanced systems and instruments and aircraft wheels and brakes. Aerospace sells its products to original equipment (OE) manufacturers in the commercial air transport and business and regional aircraft segments, and provides spare parts and repair and maintenance services for the aftermarket (principally to aircraft operators). The United States Government is also a major customer for our defense and space products.

Economic and Other Factors—Aerospace's operating results are principally driven by the global demand for air travel as reflected in new aircraft production, as well as the demand for spare parts and maintenance and repair services for aircraft currently in use. Aircraft production by commercial air transport OE manufacturers, business and regional jet deliveries, as well as global flying hours and airline profitability, are the principal factors that drive our commercial aerospace operating results. The level and mix of U.S. Government appropriations for defense and space programs and military activity are critical factors impacting our defense and space operating results.

Areas of Focus—Aerospace's primary areas of focus include:

- Continuing to grow the sales and profitability of the commercial aerospace aftermarket as the worldwide airline industry struggles to regain and maintain profitable operations.
- Securing Honeywell product content on new aircraft platforms.
- Making our product development process faster and less costly to meet increasing customer requirements while continuing to reduce manufacturing costs.
- Continuing to design equipment that enhances the safety, performance and durability of aircraft, while reducing weight and operating costs.
- Reducing the cost of product manufacturing and maintenance.
- Improving business operations through investments in systems and processes improvements.

Automation and Control Solutions (ACS)

	2005	2004	2003
		(Dollars in millions)	
Net sales	$ 9,416	$ 8,031	$ 7,464
Segment profit	$ 1,065	$ 894	$ 843
Segment profit %	11.3%	11.1%	11.3%

ACS provides innovative solutions that make homes, buildings, industrial sites and airport facilities more efficient, safe and comfortable. Our ACS products and services include controls for heating, cooling, indoor air quality, ventilation, humidification and home automation; advanced software applications for home/building control and optimization; sensors, switches, control systems and instruments for measuring pressure, air flow, temperature and electrical current; security, fire and gas detection; access control; video surveillance; and remote patient monitoring systems; installation, maintenance and upgrades of systems that keep buildings safe, comfortable and productive; and automation and control solutions for industrial plants, including advanced software and automation systems that integrate, control and monitor complex processes in many types of industrial settings.

Economic and Other Factors—ACS' operating results are principally driven by global residential and commercial construction (including retrofits and upgrades), industrial production, capital spending on process and building automation, European economic conditions, material price inflation, and fire, security, health care and safety concerns and regulations.

Areas of Focus—ACS' primary areas of focus include:

- Extending technology leadership: lowest total installed cost, integrated solutions within our security, fire and sensors product portfolios.
- Defending and extending our installed base through customer productivity and globalization.
- Sustaining strong brand recognition.
- Continuing to invest in sales and marketing resources and new product development capabilities to drive profitable growth.
- Continuing to grow through implementation of disciplined acquisition and rigorous integration processes.
- Improving business operations through investments in systems and processes improvements.

Specialty Materials

	2005	2004	2003
		(Dollars in millions)	
Net sales	$ 3,234	$ 3,497	$ 3,169
Segment profit	$ 257	$ 184	$ 136
Segment profit %	7.9%	5.3%	4.3%

Specialty Materials develops and manufactures high-purity, high-quality and high-performance chemicals and materials for applications in the automotive, healthcare, agricultural, packaging, fibers, refrigeration, semiconductor, wax and adhesives segments. Specialty Materials also provides technology and services for the petroleum refining and petrochemical industries. Specialty Materials' product portfolio includes fluorocarbons, specialty films, advanced fibers, customized research chemicals and intermediates, electronic materials and chemicals, and catalysts and adsorbents.

Economic and Other Factors—Specialty Materials' operating results are principally driven by global gross domestic product, the level of investment in refining and petrochemical capacity, plant capacity utilization, the costs of raw materials including benzene and natural gas, and the impact of environmental, safety and energy efficiency regulations.

Areas of Focus—Specialty Materials' primary areas of focus include:

- Completing integration of UOP acquisition.
- Achieving growth through sales and marketing excellence, global expansion and innovation, including the successful launch of new products.
- Continuing to drive improvements in manufacturing productivity.
- Continuing to offset raw material cost increases with formula price agreements and price increases, where feasible.

Transportation Systems

	2005	2004	2003
		(Dollars in millions)	
Net sales	$ 4,505	$ 4,323	$ 3,650
Segment profit	$ 557	$ 575	$ 461
Segment profit %	12.4%	13.3%	12.6%

Transportation Systems provides automotive products that improve the performance, efficiency, and appearance of cars, trucks, and other vehicles through state-of-the-art technologies, world class brands and global solutions to our customers needs. Our Transportation Systems' products include Garrett® turbochargers and charge-air and thermal systems; car care products including anti-freeze

(Prestone®), filters (Fram®), spark plugs (Autolite®), and cleaners, waxes and additives (Holts®); and brake hard parts and other friction materials (Bendix® and Jurid®). Transportation Systems sells its products to OE automotive and truck manufacturers (e.g., BMW, Caterpillar, Daimler-Chrysler, Ford, Volkswagen), wholesalers and distributors and through the retail aftermarket.

Economic and Other Factors—Transportation Systems' operating results are principally driven by worldwide automobile and truck production, demand for automotive aftermarket and car care products and the global demand for automobiles and trucks equipped with turbochargers.

Areas of Focus—Transportation Systems' primary areas of focus include:

- Sustaining superior turbocharger technology.
- Increasing global market penetration and share of diesel and gasoline turbocharger OEM demand.
- Expanding and strengthening established strong product brands in our Consumer Products Group business, including expansion into new geographic and demographic segments.

CRITICAL ACCOUNTING POLICIES

The preparation of our consolidated financial statements in accordance with generally accepted accounting principles is based on the selection and application of accounting policies that require us to make significant estimates and assumptions about the effects of matters that are inherently uncertain. We consider the accounting policies discussed below to be critical to the understanding of our financial statements. Actual results could differ from our estimates and assumptions, and any such differences could be material to our consolidated financial statements.

We have discussed the selection, application and disclosure of these critical accounting policies with the Audit Committee of our Board of Directors and our Independent Registered Public Accountants. There were no new accounting standards effective in 2005 which had a material impact on our consolidated financial statements other than those described in the Recent Accounting Pronouncements section in Note 1 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data”.

Contingent Liabilities—We are subject to a number of lawsuits, investigations and claims (some of which involve substantial dollar amounts) that arise out of the conduct of our global business operations or those of previously owned entities. These contingencies relate to product liabilities, including asbestos, commercial transactions, government contracts and environmental 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 any adverse judgments or outcomes to our contingencies, as well as potential amounts or ranges of probable losses, and recognize a liability, if any, for these contingencies based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts. Such analysis includes making judgments concerning matters such as the costs associated with environmental matters, the outcome of negotiations, the number and cost of pending and future (where estimable) asbestos claims, and the impact of evidentiary requirements. Because most contingencies are resolved over long periods of time, liabilities may change in the future due to new developments or changes in our settlement strategy. For a discussion of our contingencies related to environmental, asbestos and other matters, including management's judgment applied in the recognition and measurement of specific liabilities, see Notes 1 and 21 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data”.

Insurance for Asbestos Related Liabilities—In connection with recognition of liabilities for asbestos related matters, we record asbestos related insurance recoveries that are deemed probable. In assessing the probability of insurance recovery, we make judgments concerning insurance coverage that we believe are reasonable and consistent with our historical experience with our insurers, our knowledge of any pertinent solvency issues surrounding insurers, various judicial determinations relevant to our insurance programs and our consideration of the impacts of any settlements with our insurers. We have approximately $1.2 billion in insurance coverage remaining that can be specifically allocated to North American Refractories Company (NARCO) related asbestos liabilities. We also have

$1.9 billion in coverage remaining for Bendix related asbestos liabilities although there are gaps in our coverage due to insurance company insolvencies, certain uninsured periods and insurance settlements, resulting in approximately 50 percent of these claims on a cumulative historical basis being reimbursable by insurance. Our insurance is with both the domestic insurance market and the London excess market. 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. Projecting future events is subject to various uncertainties that could cause the insurance recovery on asbestos related liabilities to be higher or lower than that projected and recorded. Given the inherent uncertainty in making future projections, we reevaluate our projections concerning our probable insurance recoveries in light of any changes to the projected liability, our recovery experience or other relevant factors that may impact future insurance recoveries. See Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for a discussion of management's judgments applied in the recognition and measurement of insurance recoveries for asbestos related liabilities.

Defined Benefit Pension Plans—We maintain defined benefit pension plans covering a majority of our employees and retirees. For financial reporting purposes, net periodic pension expense is calculated based upon a number of actuarial assumptions including a discount rate for plan obligations and an expected rate of return on plan assets. We consider current market conditions, including changes in investment returns and interest rates, in making these assumptions. We determine the expected long-term rate of return on plan assets utilizing historic plan asset returns over varying long-term periods combined with current market conditions and broad asset mix considerations (see Note 22 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for actual and targeted asset allocation percentages for our pension plans). The expected rate of return on plan assets is a long-term assumption and generally does not change annually. The discount rate reflects the market rate on our annual measurement date (December 31) for high-quality fixed-income investments with maturities corresponding to our benefit obligations and is subject to change each year. The expected rate of return on pension assets and discount rate were determined in accordance with consistent methodologies. Further information on all our major actuarial assumption is included in Note 22 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data".

The key assumptions used in developing our 2005, 2004 and 2003 net periodic pension expense for our U.S. plans included the following:

	2005	2004	2003
Discount rate	5.875%	6.00%	6.75%
Assets:			
Expected rate of return	9%	9%	9%
Actual rate of return	8%	13%	23%
Actual 10 year average annual compounded rate of return	10%	11%	10%

The reduction in the discount rate in both 2005 and 2004 reflects the lower market interest rate environment for high-quality fixed income debt instruments. The discount rate is also volatile because it is determined based upon the prevailing rate as of the measurement date. Due to continuing declines in interest rates, we will use a 5.75 percent discount rate in 2006. We plan to continue to use an expected rate of return on plan assets of 9 percent for 2006. The unrecognized net losses for our U.S. pension plans were $2.6 billion at both December 31, 2005 and 2004 as a decrease in unrecognized net losses due to loss amortization in 2005 was offset by additional unrecognized net losses due to the lower discount rate and the adoption of the RP2000 Mortality Table as of December 31, 2005. The unrecognized net losses at December 31, 2005 principally result from the decline each year since 2001 in the discount rate and from actual plan asset returns below expected rates of return during 2000, 2001, 2002 and 2005. Such unrecognized net losses are being systematically recognized in future net periodic pension expense in accordance with Statement of Financial Accounting Standards No. 87, "Employers Accounting for Pensions" (SFAS No. 87). Under SFAS No. 87, we use the market-related value of plan assets reflecting changes in the fair value of plan assets over a three-year period. Further, unrecognized net losses in excess of 10 percent of the greater of the market-related value of plan assets or the plans projected benefit obligation are recognized over a six-year period.

Changes in net periodic pension expense may occur in the future due to changes in our expected rate of return on plan assets and discount rate resulting from economic events. The following table highlights the sensitivity of our U.S. pension obligations and expense to changes in these assumptions, assuming all other assumptions remain constant:

Change in Assumption	Impact on Annual Pension Expense	Impact on PBO
0.25 percentage point decrease in discount rate	Increase $50 million	Increase $325 million
0.25 percentage point increase in discount rate	Decrease $50 million	Decrease $325 million
0.25 percentage point decrease in expected rate of return on assets	Increase $30 million	—
0.25 percentage point increase in expected rate of return on assets	Decrease $30 million	—

Net periodic pension expense for our pension plans is expected to be approximately $320 million in 2006, a $84 million decrease from 2005 due principally to a decrease in the amortization of unrecognized net losses. The decline in the amortization of unrecognized net losses results principally from actual plan asset returns higher than the expected rate of return in 2003 and 2004.

In 2005, 2004 and 2003 we were not required to make a contribution to satisfy minimum statutory funding requirements in our U.S. pension plans. We made voluntary contributions of $40 and $670 million to our U.S. pension plans in 2004 and 2003, respectively. The 2003 voluntary contribution was made to improve the funded status of the plans which had been impacted by the poor performance of the equity markets during the three-year period ended December 31, 2002, as well as the declining interest rate environment. Future plan contributions are dependent upon actual plan asset returns and interest rates. Assuming that actual plan returns are consistent with our expected plan return of 9 percent in 2006 and beyond, and that interest rates remain constant, we would not be required to make any contributions to our U.S. pension plans to satisfy minimum statutory funding requirements for the foreseeable future. However, we expect to make voluntary contributions of approximately $45 million in cash in 2006 to certain of our U.S. pension plans for government contracting purposes. We also expect to contribute approximately $150 million in cash in 2006 to our non-U.S. defined benefit pension plans primarily related to funding requirements of recently acquired companies.

Long-Lived Assets (including Tangible and Definite-Lived Intangible Assets)—To conduct our global business operations and execute our business strategy, we acquire tangible and intangible assets, including property, plant and equipment and definite-lived intangible assets. At December 31, 2005, the net carrying amount of these long-lived assets totaled $6,527 million. The determination of useful lives (for depreciation/amortization purposes) and whether or not these assets are impaired involves the use of accounting estimates and assumptions which bear the risk of change which could materially impact our financial condition or operating performance if actual results differ from such estimates and assumptions. We periodically evaluate the recoverability of the carrying amount of our long-lived assets whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset group may not be fully recoverable. The principal factors we consider in deciding when to perform an impairment review are as follows:

- significant under-performance (i.e., declines in sales, earnings or cash flows) of a business or product line in relation to expectations;
- annual operating plans or five-year strategic plans that indicate an unfavorable trend in operating performance of a business or product line;
- significant negative industry or economic trends; and
- significant changes or planned changes in our use of the assets.

Once it is determined that an impairment review is necessary, recoverability of assets is measured by comparing the carrying amount of the asset grouping to the estimated future undiscounted cash flows. If the carrying amount exceeds the estimated future undiscounted cash flows, the asset grouping is considered to be impaired. The impairment is then measured as the difference between the carrying amount of the asset grouping and its fair value. We use the best information available to determine fair value, which are usually either market prices (if available) or an estimate of the future discounted cash

flow. The key estimates in our discounted cash flow analysis include expected industry growth rates, our assumptions as to volume, selling prices and costs, and the discount rate selected. As described in more detail in the repositioning and other charges section of our MD&A, we have recorded impairment charges related to long-lived assets of $23 and $42 million in 2005 and 2004, respectively, principally related to our Performance Fibers, Research and Life Sciences and Resins and Chemicals businesses in our Specialty Materials reportable segment. These businesses were significantly under-performing or were in industries with negative economic trends and subsequently these businesses were sold or significantly restructured.

Income Taxes—As of December 31, 2005, we recognized a net deferred tax asset of $1,706 million, less a valuation allowance of $477 million. Net deferred tax assets are primarily comprised of net deductible temporary differences, net operating loss carryforwards and tax credit carryforwards that are available to reduce taxable income in future periods. The determination of the amount of valuation allowance to be provided on recorded deferred tax assets involves estimates regarding (1) the timing and amount of the reversal of taxable temporary differences, (2) future taxable income, and (3) the impact of tax planning strategies. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. In assessing the need for a valuation allowance, we consider all available positive and negative evidence, including past operating results, projections of future taxable income and the feasibility of ongoing tax planning strategies. The projections of future taxable income include a number of estimates and assumptions regarding our volume, pricing and costs. Additionally, valuation allowances related to deferred tax assets can be impacted by changes to tax laws.

Our net deferred tax asset of $1,706 million is comprised of $1,102 million related to U.S. operations and $604 million related to non-U.S. operations. The U.S. net deferred tax asset of $1,102 million is comprised of net deductible temporary differences, tax credit carryforwards and state tax net operating losses which we believe will more likely than not be realized through the generation of future taxable income in the U.S. and tax planning strategies. We maintain a valuation allowance of $39 million against such asset related to state tax net operating losses. The non-U.S. net deferred tax asset of $604 million is comprised principally of net operating and capital loss carryforwards, mainly in Germany, France and the United Kingdom. We maintain a valuation allowance of $438 million against such net asset reflecting our historical experience and lower expectations of taxable income over the applicable carryforward periods. As more fully described in Note 7 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data”, our valuation allowance increased by $139, $39 and $108 million in 2005, 2004 and 2003, respectively. In the event we determine that we will not be able to realize our net deferred tax assets in the future, we will reduce such amounts through a charge to income in the period such determination is made. Conversely, if we determine that we will be able to realize net deferred tax assets in excess of the carrying amounts, we will decrease the recorded valuation allowance through a credit to income or a credit to goodwill in the period that such determination is made. If a valuation allowance is recognized for the net deferred tax asset for an acquired entity's deductible temporary differences, operating loss, capital loss, or tax credit carryforwards at the acquisition date, the tax benefits for those items recognized after the acquisition date shall be applied first to reduce to zero goodwill related to the acquisition, second to reduce to zero other non-current intangible assets related to the acquisition, and third to reduce income tax expense.

Sales Recognition on Long-Term Contracts—In 2005, we recognized approximately 10 percent of our total net sales using the percentage-of-completion method for long-term contracts in our Automation and Control Solutions and Aerospace reportable segments. These long-term contracts are measured on the cost-to-cost basis for engineering-type contracts and the units-of-delivery basis for production-type contracts. Accounting for these contracts involves management judgment in estimating total contract revenue and cost. Contract revenues are largely determined by negotiated contract prices and quantities, modified by our assumptions regarding contract options, change orders, incentive and award provisions associated with technical performance and price adjustment clauses (such as inflation or index-based clauses). Contract costs are incurred over a period of time, which can be several years, and the estimation of these costs requires management judgment. Cost estimates are largely based on negotiated or estimated purchase contract terms, historical performance trends and other economic projections. Significant factors that influence these estimates include inflationary

trends, technical and schedule risk, internal and subcontractor performance trends, business volume assumptions, asset utilization, and anticipated labor agreements. Revenue and cost estimates are regularly monitored and revised based on changes in circumstances. Anticipated losses on long-term contracts are recognized when such losses become evident. We maintain financial controls over the customer qualification, contract pricing and estimation processes to reduce the risk of contract losses.

Aerospace Sales Incentives—Consistent with other suppliers to commercial aircraft manufacturers and airlines, we provide sales incentives to commercial aircraft manufacturers and airlines in connection with their selection of our aircraft wheel and braking system hardware and auxiliary power units for installation on commercial aircraft. These incentives consist of free or deeply discounted products, product credits and upfront cash payments. The cost of these incentives are capitalized (in the case of auxiliary power units only when we are the sole source supplier) at the time we deliver the products to our customers or, in the case of product credits, at the time the credit is issued, or in the case of upfront cash payments, at the time the payment is made. In the case of free or deeply discounted product, the cost to manufacture less any amount recovered from the airframe manufacturer or airline is capitalized. Product credits and upfront cash payments are capitalized at exchanged value. Research, design, development and qualification costs related to these products are expensed as incurred, unless contractually guaranteed of reimbursement. The cost of the sales incentives described above is capitalized because the selection of our aircraft wheel and braking system hardware and auxiliary power units for installation on commercial aircraft results in the creation of future revenues and cash flows through aftermarket sales to fulfill long-term product maintenance requirements mandated by the Federal Aviation Administration (FAA) and other similar international organizations over the useful life of the aircraft. Once our products are certified and selected on an aircraft, the recovery of our investment is virtually guaranteed over the useful life of the aircraft. The likelihood of displacement by an alternative supplier is remote due to contractual sole-sourcing, the high cost to alternative suppliers and aircraft operators of product retrofits, and/or rigorous regulatory specifications, qualification and testing requirements. Amounts capitalized at December 31, 2005, 2004 and 2003 were $803, $776 and $719 million, respectively, and are being amortized over their useful lives on a straight-line basis, up to 25 years, representing the estimated minimum service life of the aircraft. This useful life is the period over which we are virtually assured to earn revenues from the aftermarket sales of certified products necessary to fulfill the maintenance required by the FAA and other similar international organizations. We classify the amortization expense associated with free and discounted products as cost of goods sold and the amortization expense associated with product credits and upfront cash payments as a reduction of sales. We regularly evaluate the recoverability of capitalized amounts whenever events or changes in circumstances indicate that the carrying amount of the incentives may not be fully recoverable. There were no impairment charges related to these capitalized incentives recognized during 2005, 2004 and 2003. For additional information see Notes 1 and 13 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data.”

RESULTS OF OPERATIONS

Net Sales

	2005	2004	2003
		(Dollars in millions)	
Net sales	$ 27,653	$ 25,601	$ 23,103
% change compared with prior year	8%	11%	4%

The change in net sales in 2005 and 2004 is attributable to the following:

	2005 Versus 2004	2004 Versus 2003
Acquisitions	5%	1%
Divestitures	(2)	(1)
Price	1	—
Volume	4	8
Foreign Exchange	—	3
	8%	11%

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

Cost of Products and Services Sold

	2005	2004	2003
		(Dollars in millions)	
Cost of products and services sold	$ 21,465	$ 20,585	$ 18,235
Gross margin%	22.4%	19.6%	21.1%

Gross margin increased in 2005 by 2.8 percentage points compared with 2004. The increase resulted from an increase of 1.1 percentage points in gross margin for our reportable segments (see Review of Business Segments for a discussion of our segment results). The increase also resulted from lower repositioning and other charges of 1.2 percentage points and lower pension and other postretirement benefits expense of 0.5 percentage points. Gross margin decreased in 2004 by 1.5 percentage points compared with 2003. The decrease resulted primarily from an increase in repositioning and other charges of 1.2 percentage points and higher pension and other postretirement benefits expense of 0.9 percentage points partially offset by an increase of 0.6 percentage points in gross margin for our reportable segments (see Review of Business Segments for a discussion of our segment results).

Selling, General and Administrative Expenses

	2005	2004	2003
		(Dollars in millions)	
Selling, general and administrative expenses	$ 3,707	$ 3,316	$ 2,950
Percent of sales	13.4%	13.0%	12.8%

Selling, general and administrative expenses as a percentage of sales increased by 0.4 percentage points in 2005 compared with 2004 due primarily to the impact of the acquisition of Novar and higher spending for information technology systems (primarily ERP system in Aerospace) of 0.3 percentage points and higher repositioning and other charges of 0.1 percentage points. Selling, general and administrative expenses as a percentage of sales increased by 0.2 percentage points in 2004 compared with 2003 due to increases in pension and other postretirement benefits expense and net repositioning and other charges of 0.2 and 0.1 percentage points, respectively, partially offset by a decrease of 0.1 percentage points due primarily to higher sales.

	2005	2004	2003
	(Dollars in millions)		
Pension expense	$404	$412	$136
Other postretirement benefits expense	157	216	189
Total pension and other postretirement benefits expense included in costs of products and services sold and selling, general and administrative expenses	$561	$628	$325

Pension expense decreased by $8 million in 2005 compared with 2004 due principally to a decrease in the amortization of unrecognized net losses partially offset by pension expense for Novar, which was acquired in 2005. Pension expense increased by $276 million in 2004 compared with 2003 due primarily to an increase in the amortization of unrecognized net losses resulting mainly from actual plan asset returns below the expected rate of return during the period 2000 to 2002 and a decrease in the discount rate for each year since 2001.

Other postretirement benefits expense decreased by $59 million in 2005 compared with 2004 due primarily to the effect of the Medicare Prescription Drug, Improvement and Modernization Act of 2003. See Note 22 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for further discussion.

(Gain) Loss on Sale of Non-Strategic Businesses

	2005	2004	2003
	(Dollars in millions)		
(Gain) loss on sale of non-strategic businesses	$ (36)	$ (255)	$ (38)

Gain on sale of non-strategic businesses of $36 million in 2005 represents pretax gains totaling $66 million consisting of post-closing adjustments of $43 million related principally to the sales of our Performance Fibers and Security Monitoring businesses in the prior year and a pretax gain of $23 million related to the sale of our North American Nylon Carpet Fiber business, partially offset by a pretax loss of $30 million related to the sale of our Industrial Wax business. The dispositions of these businesses did not materially impact net sales and segment profit in 2005 compared with 2004. Gain on sale of non-strategic businesses of $255 million in 2004 represented the pretax gains on the sales of our Security Monitoring and VCSEL Optical Products businesses of $215 and $36 million, respectively and post-closing adjustments of $19 million related to businesses sold in prior periods. The total pretax gain of $270 million was partially offset by the pretax loss of $15 million on the sale of our Performance Fibers business. The dispositions of these businesses did not materially impact net sales and segment profit in 2004 compared with 2003.

Asbestos Related Litigation Charges, Net of Insurance

	2005	2004	2003
	(Dollars in millions)		
Asbestos related litigation charges, net of insurance	$ 10	$ 76	$ —

See Asbestos Matters in Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for a discussion of asbestos related litigation charges, net of insurance.

Business Impairment Charges

	2005	2004	2003
	(Dollars in millions)		
Business impairment charges	$ 23	$ 42	$ —

See Note 3 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for a discussion of business impairment charges.

Equity in (Income) Loss of Affiliated Companies

	2005	2004	2003
	(Dollars in millions)		
Equity in (income) loss of affiliated companies	$ (134)	$ (82)	$ (38)

Equity income increased by $52 million in 2005 compared with 2004 due primarily to higher earnings of $36 million from our UOP process technology joint venture (UOP) due to strength in the refining and petrochemical industries and a gain of $15 million on the sale of an equity investment. Effective November 30, 2005, we purchased the remaining 50 percent interest in UOP and

consolidated their results of operations as of that date. Equity income increased by $44 million in 2004 compared with 2003 due primarily to an improvement in earnings from UOP.

Other (Income) Expense

	2005	2004	2003
		(Dollars in millions)	
Other (income) expense	$ (61)	$ (92)	$ 19

Other income decreased by $31 million in 2005 compared with 2004 as the prior year included a gain of $27 million related to the settlement of a patent infringement lawsuit and the current year included a charge of $10 million for the modification of a lease agreement related to the Corporate headquarters facility. Other income increased by $111 million in 2004 compared with 2003 due principally to a decrease in foreign exchange losses of $93 million due to a reduction in foreign exchange exposures resulting in losses in 2003 due to a weak U.S. dollar, a gain of $27 million related to the settlement of a patent infringement lawsuit and an increase in interest income of $13 million from higher cash balances, partially offset by the inclusion of a gain of $20 million in the prior year related to the settlement of a patent infringement lawsuit.

Interest and Other Financial Charges

	2005	2004	2003
		(Dollars in millions)	
Interest and other financial charges	$ 356	$ 331	$ 335
% change compared with prior year	8%	(1)%	(3)%

Interest and other financial charges increased by 8 percent in 2005 compared with 2004 due principally to both higher average short-term debt outstanding and higher interest rates in the current year. Interest and other financial charges decreased by 1 percent in 2004 compared with 2003 due principally to lower average short-term debt outstanding in 2004.

Tax Expense

	2005	2004	2003
		(Dollars in millions)	
Tax expense	$ 742	$ 399	$ 296
Effective tax rate	31.9%	23.8%	18.0%

The effective tax rate increased by 8.1 percentage points in 2005 compared with 2004 due principally to the tax impact of our decision to repatriate approximately $2.7 billion of foreign earnings, of which $2.2 billion receives the benefit under the American Jobs Creation Act of 2004. Excluding this item and the impact of gains and losses on sales of non-strategic businesses in both years, our effective tax rate increased by 6.5 percentage points in 2005 compared with 2004. This increase is due principally to a higher effective tax benefit rate on environmental, litigation, net repositioning and other charges in the prior year. The effective tax rate increased by 5.8 percentage points in 2004 compared with 2003 principally due to the fact that the effective tax rate in 2003 included tax benefits expected to be realized as a result of the redesignation of our Friction Materials business from held for sale to held and used resulting from the termination of disposition discussions with Federal-Mogul Corp.

Excluding the impact of cash repatriation, gains and losses on sales of non-strategic businesses, tax benefits associated with the redesignation of our Friction Materials business, and environmental, litigation, net repositioning and other charges, the effective tax rate in 2005, 2004 and 2003 was 26.5 percent. This rate was lower than the statutory rate in those years due in part to benefits from export sales, foreign taxes and favorable audit settlements. See Note 7 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data” for further information on taxes including a detailed effective tax rate reconciliation.

Income From Continuing Operations

	2005	2004	2003
	(Dollars in millions, except per share amounts)		
Income from continuing operations	$ 1,581	$ 1,281	$ 1,344
Earnings per share of common stock—assuming dilution	$ 1.86	$ 1.49	$ 1.56

The increase of $0.37 per share in 2005 compared with 2004 relates primarily to an increase in segment profit for our reportable segments. See Review of Business Segments for a discussion of our segment results. The decrease of $0.07 per share in 2004 compared with 2003 relates primarily to increased charges for environmental matters primarily attributable to the denial of our appeal in the matter entitled *Interfaith Community Organization et. al. v. Honeywell International Inc. et. al.* (See Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data") and higher pension and other postretirement benefits expense, partially offset by an increase in segment profit.

Income From Discontinued Operations

Income from discontinued operations of $95 million, or $0.11 per share, in 2005 relates to the operating results of the Indalex and Security Printing businesses which have been classified as discontinued operations. In December 2005, the Security Printing business was sold to M&F Worldwide Corp. In February 2006, the Indalex business was sold to Sun Capital Partners, Inc. See Note 2 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data for further discussion of these sales.

Review of Business Segments

	2005	2004	2003
	(Dollars in millions)		
Net Sales			
Aerospace	$ 10,497	$ 9,748	$ 8,813
Automation and Control Solutions	9,416	8,031	7,464
Specialty Materials	3,234	3,497	3,169
Transportation Systems	4,505	4,323	3,650
Corporate	1	2	7
	$ 27,653	$ 25,601	$ 23,103
Segment Profit			
Aerospace	$ 1,703	$ 1,479	$ 1,221
Automation and Control Solutions	1,065	894	843
Specialty Materials	257	184	136
Transportation Systems	557	575	461
Corporate	(173)	(158)	(142)
	$ 3,409	$ 2,974	$ 2,519

A reconciliation of segment profit to income from continuing operations before taxes follows:

	2005	2004	2003
	(Dollars in millions)		
Segment profit	$ 3,409	$ 2,974	$ 2,519
Gain on sale of non-strategic businesses	36	255	38
Asbestos related litigation charges, net of insurance	(10)	(76)	—
Business impairment charges	(23)	(42)	—
Repositioning and other charges(1)	(367)	(646)	(276)
Pension and other postretirement benefits (expense)(1)	(561)	(628)	(325)
Equity in income of affiliated companies	134	82	38
Other income (expense)	61	92	(19)
Interest and other financial charges	(356)	(331)	(335)
Income from continuing operations before taxes	$ 2,323	$ 1,680	$ 1,640

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

Aerospace

	2005	2004	2003
		(Dollars in millions)	
Net sales	$ 10,497	$ 9,748	$ 8,813
% change compared with prior year	8%	11%	—%
Segment profit	$ 1,703	$ 1,479	$ 1,221
% change compared with prior year	15%	21%	(7)%

Aerospace sales increased by 8 and 11 percent in 2005 and 2004, respectively, due primarily to higher volumes. Aerospace sales by major customer end-markets were as follows:

	% of Aerospace Sales			% Change in Sales	
End-Markets	**2005**	**2004**	**2003**	**2005 Versus 2004**	**2004 Versus 2003**
Commercial:					
Air transport aftermarket	22%	22%	21%	5%	19%
Air transport original equipment	9	9	9	15	5
Regional transport aftermarket	7	8	9	—	11
Regional transport original equipment	2	3	2	(13)	48
Business and general aviation aftermarket	9	8	8	11	13
Business and general aviation original equipment	10	7	6	42	27
Defense and Space:					
Defense and space aftermarket	12	13	13	—	7
Defense and space original equipment	29	30	32	3	6
Total	100%	100%	100%	8%	11%

Details of the changes in sales for both 2005 and 2004 by customer end-markets were as follows:

- Air transport aftermarket sales improved in 2005 due primarily to a 7 percent increase in global flying hours partially offset by a decrease in the level of FAA-mandated safety avionics equipment upgrades and retrofits. New FAA regulatory standards were effective for 2005 which resulted in higher levels of upgrades and retrofits in 2004 to meet the effective date. Air transport aftermarket sales improved substantially in 2004 primarily related to a 10 percent increase in global flying hours, the reintroduction of aircraft into service which were previously parked in the desert, a replenishment of spare parts inventories by the airlines and growth in low cost carriers. Additionally, global flying hours in 2003 were adversely impacted as a result of the SARS epidemic. Sales also improved due to an increase in FAA-mandated safety avionics equipment upgrades and retrofits to meet new regulatory standards as discussed previously.

- Air transport original equipment (OE) sales increased in both 2005 and 2004 primarily reflecting higher aircraft production rates by our OE customers.

- Regional transport aftermarket sales were flat in 2005 primarily due to an increase in flying hours offset by the effects of a phase-out of regional aircraft with turboprop engines. Regional transport aftermarket sales increased in 2004 due primarily to an increase in fleet sizes and routes of regional carriers and the introduction of the Primus Epic integrated avionics system.

- Business and general aviation aftermarket sales were higher in both 2005 and 2004 as an improving economy drove increased utilization of corporate aircraft. Also, there was an increase in upgrade activity in avionics equipment (RVSM) in 2004 to meet new regulatory standards effective in 2005.

- Business and general aviation OE sales improved in both 2005 and 2004 due primarily to deliveries of the Primus Epic integrated avionics system and HTF7000 engine to support higher aircraft production rates by our business jet OE customers.

- Defense and space aftermarket sales were flat in 2005 principally due to a decline in war-related activities resulting in lower replenishment demand from the U.S. military. Defense and space aftermarket sales increased in 2004 driven by war-related activities resulting in increases in repairs, platform upgrades and modifications for fixed, rotary wing and ground vehicles.

- Defense and space OE sales increased in both 2005 and 2004 due principally to platform upgrades related to war-related activities, growth in precision munitions and increases in restricted space programs.

Aerospace segment profit in 2005 increased by 15 percent compared with 2004 due primarily to volume growth and the effect of productivity actions, partially offset by an increase in spending for information technology systems. Aerospace segment profit in 2004 increased by 21 percent compared with 2003 due primarily to volume growth partially offset by higher development expense associated with new programs and an increase in spending for information technology systems.

Trends which may impact Aerospace operating results in 2006 include:

- Global flying hours improved by 7 percent in 2005 and are expected to increase again in 2006 (5 to 6 percent).
- The financial condition of major commercial airlines continues to be a concern due mainly to high fuel costs and intense fare competition.
- The level and mix of U.S. government appropriations for defense and space programs and the nature and level of war-related activities.
- Aircraft production rates and delivery schedules in the air transport, business and general aviation end-markets.
- The impact of global economic conditions on utilization of business jet and general aviation aircraft.

Automation and Control Solutions

	2005	2004	2003
		(Dollars in millions)	
Net sales	$ 9,416	$ 8,031	$ 7,464
% change compared with prior year	17%	8%	7%
Segment profit	$ 1,065	$ 894	$ 843
% change compared with prior year	19%	6%	(2)%

Automation and Control Solutions sales in 2005 increased by 17 percent compared with 2004 due to acquisitions (mainly Novar's IBS business), net of divestitures, of 13 percent, higher volumes of 4 percent and the favorable effect of foreign exchange of 1 percent, partially offset by the impact of lower prices of 1 percent. Sales increased by 26 percent for our Products businesses driven primarily by the acquisition of Novar's IBS business. The increase was also due to volume growth and other acquisitions in our security and life safety businesses. Sales for our Building Solutions business increased by 10 percent due primarily to the acquisition of Novar's IBS business and growth in security and energy retrofits partially offset by the divestiture of our Security Monitoring business in the prior year. Sales for our Process Solutions business increased by 4 percent primarily due to an acquisition and the favorable effect of foreign exchange. Automation and Control Solutions sales in 2004 increased by 8 percent compared with 2003 due to higher volumes of 5 percent and the favorable effect of foreign exchange of 4 percent, partially offset by the impact of lower prices of 1 percent. Sales increased by 9 percent for our Products businesses due principally to strong sales of fire solutions, environmental controls and sensor products, and the favorable effects of foreign exchange and acquisitions. Sales for our Process Solutions business increased by 8 percent due primarily to the favorable effect of foreign exchange and improvement in industrial production and capital spending. Sales for our Building Solutions business increased by 5 percent due primarily to the favorable effect of foreign exchange and the impact of investments in sales and marketing initiatives, partially offset by the divestiture of our Security Monitoring business.

Automation and Control Solutions segment profit in 2005 increased by 19 percent compared with 2004 as the favorable effects of productivity actions, acquisitions (principally IBS) and higher sales volume (due in part to new products) more than offset the unfavorable effects of lower prices and investments in sales and marketing initiatives. Automation and Control Solutions segment profit in 2004 increased by 6 percent compared with 2003 due to the favorable effect of higher sales volumes partially offset by increased investments in sales and marketing initiatives and higher research and

development costs to support new product introductions. Segment profit was also adversely impacted in 2003 by pricing pressures across all businesses.

Trends which may impact Automation and Control Solutions operating results in 2006 include:

- The level of residential and commercial construction (including retrofits and upgrades) and capital spending on building and process automation.
- The level of industrial plant capacity expansion.

Specialty Materials

	2005	2004	2003
		(Dollars in millions)	
Net sales	$ 3,234	$ 3,497	$ 3,169
% change compared with prior year	(8)%	10%	(1)%
Segment profit	$ 257	$ 184	$ 136
% change compared with prior year	40%	35%	51%

Specialty Materials sales decreased by 8 percent in 2005 compared with 2004 due to divestitures (Performance Fibers, Industrial Wax and North American Nylon Carpet Fiber businesses), net of acquisitions (UOP) of 12 percent and lower volumes of 3 percent, partially offset by the impact of higher prices of 7 percent primarily in our Resins and Chemicals (previously Nylon) and Fluorocarbons (previously Chemicals) businesses. Sales for our Resins and Chemicals business increased by 9 percent driven by price increases. Sales for our Fluorocarbons business improved by 6 percent principally driven by price increases and demand for our non-ozone depleting HFC products for refrigeration and air conditioning applications, as well as for blowing agents for insulation applications. Sales for our Performance Products business decreased by 4 percent primarily driven by lower volumes in our specialty films business. Specialty Materials sales in 2004 increased by 10 percent compared with 2003 due to the impact of higher prices of 6 percent (mainly in our Resins and Chemicals business), higher volumes of 5 percent and the favorable effect of foreign exchange of 1 percent, partially offset by prior year divestitures, net of acquisitions, of 2 percent. Sales for our Fluorocarbons business improved by 19 percent driven principally by continuing strong demand for our non-ozone depleting HFC products for refrigeration and air conditioning applications, as well as for blowing agents for insulation applications. Sales for our Electronic Materials business increased by 13 percent driven by improvement in the semiconductor industry. Sales for our Performance Products business were also higher by 13 percent due to strong demand for our Spectra fiber, principally from the U.S. military.

Specialty Materials segment profit in 2005 increased by 40 percent compared with 2004 due principally to price increases and the favorable effect of productivity actions partially offset by higher raw material costs and lower sales volumes. Specialty Materials segment profit in 2004 increased by 35 percent compared with 2003 due principally to higher sales volumes and price increases, partially offset by higher raw material costs mainly in our Resins and Chemicals business. Additionally segment profit in 2003 was adversely impacted by temporary plant shutdowns in our Fluorocarbons and Resins and Chemicals businesses.

Trends which may impact Specialty Materials operating results in 2006 include:

- Degree of volatility in significant raw material costs (natural gas and benzene).
- Extent of change in order rates from global semiconductor customers.
- Worldwide demand for non-ozone depleting HFCs.
- Refining and petrochemical capacity, utilization and/or expansion.

Transportation Systems

	2005	2004	2003
		(Dollars in millions)	
Net sales	$ 4,505	$ 4,323	$ 3,650
% change compared with prior year	4%	18%	15%
Segment profit	$ 557	$ 575	$ 461
% change compared with prior year	(3)%	25%	17%

Transportation Systems sales in 2005 increased by 4 percent compared with 2004 due primarily to favorable sales mix of 2 percent, the favorable effect of foreign exchange of 1 percent and the impact of higher prices of 1 percent (principally ethylene glycol in our Consumer Products business). Sales for our Turbo Technologies business increased by 5 percent due to a favorable sales mix and the favorable effect of foreign exchange partially offset by lower volumes in Europe. The favorable sales mix was driven by continued strength in the North American truck segment. The lower volumes in Europe principally resulted from a shift in consumer demand among automotive platforms and slightly lower light vehicle production partially offset by a slight increase in diesel penetration. Sales for our Consumer Products Group business increased by 8 percent largely due to higher prices (primarily ethylene glycol). Sales for our Friction Materials business decreased by 3 percent primarily due to our exit in 2005 from the North American OE business. Transportation Systems sales in 2004 increased by 18 percent compared with 2003 due primarily to a favorable sales mix and higher volumes of 12 percent and the favorable effect of foreign exchange of 6 percent. The increase in sales for the segment resulted principally from a 29 percent increase in sales for our Honeywell Turbo Technologies business due to a favorable sales mix and volume growth driven by increasing diesel penetration in Europe and strength in the North American truck segment, and the favorable effect of foreign exchange. Sales for our Consumer Products Group business increased by 7 percent driven by strong retail demand for our high-end products and recent introductions of new Autolite, FRAM and Prestone products and the favorable effect of foreign exchange and higher prices (offsetting incremental ethylene glycol raw material costs). Sales for our Friction Materials business increased by 7 percent largely due to the favorable effect of foreign exchange.

Transportation Systems segment profit in 2005 decreased by 3 percent compared with 2004 due primarily to the impact of higher raw material costs (mainly steel and other metals in each of the segment's businesses) and operating costs associated with the exit from Friction Materials North American OE business, partially offset by the effects of higher prices and productivity actions. Transportation Systems segment profit in 2004 increased by 25 percent compared with 2003 due primarily to the effect of favorable sales mix and volume growth in our Honeywell Turbo Technologies business partially offset by higher raw material costs (mostly steel and other metals in each of the segment's businesses).

Trends which may impact Transportation Systems operating results in 2006 include:

- Turbocharger demand for diesel passenger cars in the European OEM market.
- Shift in European consumer preferences to diesel passenger cars with lower displacement engines.
- Demand for North American truck production in conjunction with the 2007 emissions change.
- Change in consumer spending for automotive aftermarket and car care products.

Repositioning and Other Charges

A summary of repositioning and other charges follows:

	2005	2004	2003
	(Dollars in millions)		
Severance	$ 248	$ 85	$ 69
Asset impairments	5	21	6
Exit costs	14	10	7
Reserve adjustments	(25)	(28)	(69)
Total net repositioning charge	242	88	13
Asbestos related litigation charges, net of insurance	10	76	—
Probable and reasonably estimable environmental liabilities	186	536	235
Business impairment charges	23	42	—
Arbitration award related to phenol supply agreement	(67)	—	—
Other	18	33	30
Total net repositioning and other charges	$ 412	$ 775	$ 278

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

	2005	2004	2003
	(Dollars in millions)		
Cost of products and services sold	$ 324	$ 621	$ 272
Selling, general and administrative expenses	43	25	4
Asbestos related litigation charges, net of insurance	10	76	—
Business impairment charges	23	42	—
Equity in (income) loss of affiliated companies	2	6	2
Other (income) expense	10	5	—
	$ 412	$ 775	$ 278

In 2005, we recognized repositioning charges totaling $267 million primarily for severance costs related to workforce reductions of 5,269 manufacturing and administrative positions across all of our reportable segments including the implementation of a new organizational structure in our Aerospace reportable segment which reorganized our Aerospace businesses to better align with customer segments. The implementation of the new Aerospace organizational structure was substantially completed in the third quarter of 2005. Also, $25 million of previously established accruals, primarily for severance at our Corporate, Specialty Materials and Automation and Control Solutions reportable segments were returned to income in 2005. The reversal of severance liabilities relates to changes in the scope of previously announced severance programs, excise taxes relating to executive severance amounts previously paid which were determined to no longer be payable, and severance amounts previously paid to an outside service provider as part of an outsourcing arrangement which were refunded to Honeywell.

In 2004, we recognized repositioning charges totaling $116 million primarily for severance costs related to workforce reductions of 2,272 manufacturing and administrative positions across all of our reportable segments. Also, $28 million of previously established accruals, primarily for severance, were returned to income in 2004, due to fewer employee separations than originally planned associated with certain prior repositioning actions, resulting in reduced severance liabilities principally in our Automation and Control Solutions reportable segment.

In 2003, we recognized repositioning charges totaling $82 million primarily for severance costs related to workforce reductions of 1,501 manufacturing and administrative positions across all of our reportable segments. Also, $69 million of previously established accruals, primarily for severance, were returned to income in 2003, due to fewer employee separations than originally planned associated with certain prior repositioning actions, resulting in reduced severance liabilities in our Automation and Control Solutions, Aerospace and Specialty Materials reportable segments.

Our 2005 repositioning actions are expected to generate incremental pretax savings of approximately $170 million in 2006 compared with 2005 principally from planned workforce reductions. Cash expenditures for severance and other exit costs necessary to execute our repositioning actions were $171, $164 and $200 million in 2005, 2004 and 2003, respectively. Such expenditures for severance and other exit costs have been funded principally through operating cash flows. Cash expenditures for severance and other exit costs necessary to execute the remaining actions will approximate $125 million in 2006 and will be funded principally through operating cash flows.

In 2005, we recognized a charge of $186 million for environmental liabilities deemed probable and reasonably estimable. We recognized asbestos related litigation charges, net of insurance, of $10 million which are discussed in detail in Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data". We recognized a credit of $67 million in connection with an arbitration award for overcharges by a supplier of phenol to our Specialty Materials business from June 2003 through the end of 2004. The arbitrator has also awarded Honeywell an additional $31 million of damages for overcharges in 2005, which has not been recognized as the overcharges for the years 2005 forward are subject to a separate arbitration scheduled for April 2006. The existing arbitration awards for 2003 to 2005 are subject to approval in federal court. We recognized impairment charges of $23 million related to the write-down of property, plant and equipment held and used in our Research and Life Sciences business and the write-down of property, plant and equipment held for sale in our Resins and Chemicals business, both in our Specialty Materials reportable segment. We also recognized other charges of $18 million principally related to the modification of a lease agreement for the Corporate headquarters facility ($10 million) and for various legal settlements ($7 million).

In 2004, we recognized a charge of $536 million for probable and reasonably estimable environmental liabilities primarily related to the denial of our appeal of the matter entitled *Interfaith Community Organization, et. al. v. Honeywell International Inc., et al.,* and estimated liabilities for remediation of environmental conditions in and around Onondaga Lake in Syracuse, New York. Both of these environmental matters are discussed in further detail in Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data." We recognized asbestos related litigation charges, net of insurance, of $76 million which are discussed in detail in Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data". We recognized an impairment charge of $42 million in the second quarter of 2004 related principally to the write-down of property, plant and equipment of our Performance Fibers business in our Specialty Materials reportable segment. This business was sold in December 2004. We also recognized other charges of $33 million consisting of $29 million for various legal settlements including property damage claims in our Automation and Control Solutions reportable segment, $14 million for the write-off of receivables, inventories and other assets net of a reversal of a reserve of $10 million established in the prior year for a contract settlement.

In 2003, we recognized a charge of $235 million for probable and reasonably estimable environmental liabilities mainly related to the matter entitled *Interfaith Community Organization, et al. v. Honeywell International Inc., et al.* and for remediation of environmental conditions in and around Onondaga Lake in Syracuse, New York, both as discussed in Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data." We also recognized other charges of $30 million consisting of $26 million for various legal settlements and $4 million in our Specialty Materials reportable segment including a loss on sale of an investment owned by an equity investee.

The following tables provide details of the pretax impact of total net repositioning and other charges by reportable segment.

Aerospace

	2005	2004	2003
		(Dollars in millions)	
Net repositioning charge	$ 96	$ 5	$ 10
Other	—	(10)	—
	$ 96	$ (5)	$ 10

Automation and Control Solutions

	2005	2004	2003
		(Dollars in millions)	
Net repositioning charge	$ 84	$ 15	$ (22)
Other	1	13	—
	$ 85	$ 28	$ (22)

Specialty Materials

	2005	2004	2003
		(Dollars in millions)	
Net repositioning charge	$ 14	$ 36	$ 16
Business impairment charges	23	42	—
Arbitration award related to phenol supply agreement	(67)	—	—
Other	(4)	12	4
	$ (34)	$ 90	$ 20

Transportation Systems

	2005	2004	2003
		(Dollars in millions)	
Net repositioning charge	$ 49	$ 26	$ 5
Asbestos related litigation charges, net of insurance	31	120	—
Other	2	1	11
	$ 82	$ 147	$ 16

Corporate

	2005	2004	2003
		(Dollars in millions)	
Net repositioning charge	$ (1)	$ 6	$ 4
Asbestos related litigation charges, net of insurance	(21)	(44)	—
Probable and reasonably estimable environmental liabilities	186	536	235
Other	19	17	15
	$ 183	$ 515	$ 254

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, are summarized as follows:

	2005	2004	2003
		(Dollars in millions)	
Cash provided by (used for):			
Operating activities	$ 2,442	$ 2,253	$ 2,199
Investing activities	(2,010)	(584)	(680)
Financing activities	(2,716)	(1,223)	(895)

Effect of exchange rate changes on cash	(68)	190	305
Net (decrease) increase in cash and cash equivalents	$ (2,352)	$ 636	$ 929

Cash provided by operating activities increased by $189 million during 2005 compared with 2004 due primarily to increased cash earnings and improvements in working capital (receivables, inventories and accounts payable) of $270 million partially offset by an increase in asbestos liability payments, net of insurance receipts, of $139 million. Cash provided by operating activities increased by $54 million during 2004 compared with 2003 due primarily to increased cash earnings and a decrease in voluntary

U.S. pension contributions of $630 million. The increase in cash provided by operating activities was partially offset by an increase in asbestos liability payments, net of insurance receipts, of $558 million as the prior year included $472 million in cash received in connection with a settlement with an insurance carrier, and an increase in working capital usage of $268 million principally related to higher sales and a weakening of the U.S. dollar versus the Euro and Canadian dollar throughout 2004.

Cash used for investing activities increased by $1,426 million during 2005 compared with 2004 due primarily to an increase in spending for acquisitions of $2,295 million (primarily Novar, UOP and Zellweger) partially offset by an increase in proceeds from sales of businesses of $571 million largely from the sale of the Security Printing business and an increase in proceeds of $320 million from maturities of investment securities. Cash used for investing activities decreased by $96 million during 2004 compared with 2003 due primarily to an increase in proceeds from sales of businesses of $289 million largely from the dispositions of our Security Monitoring and VCSEL Optical Products businesses in 2004. Additionally, proceeds from the maturity of investment securities were $80 million in 2004. The decrease in cash used for investing activities was partially offset by an increase in spending for acquisitions of $185 million due principally to various acquisitions in our Automation and Control Solutions reportable segment and an investment of $115 million in auction rate securities.

Cash used for financing activities increased by $1,493 million during 2005 compared with 2004 due primarily to an increase in debt repayments of $1,120 million related to an increase in scheduled maturities of long-term debt of $953 million and a repayment of debt of $702 million assumed in the Novar acquisition, partially offset by an increase in short-term and commercial paper borrowings of $535 million related principally to the UOP acquisition and share repurchases. The increase in cash used for financing activities was also driven by an increase in repurchases of common stock of $409 million and higher dividend payments of $57 million partially offset by increased proceeds from issuances of common stock of $93 million. Total debt of $5,106 million at December 31, 2005 was $167 million, or 3 percent lower than at December 31, 2004 mainly due to lower long-term debt due to scheduled maturities in 2005 partially offset by higher short-term borrowings mainly due to acquisitions and share repurchases. Cash used for financing activities increased by $328 million during 2004 compared with 2003 due primarily to an increase in repurchases of common stock of $687 million in connection with our stock repurchase program partially offset by a reduction in debt repayments, net of issuances, of $337 million in 2004. Total debt of $5,273 million at December 31, 2004 was $113 million, or 2 percent higher than at December 31, 2003 principally reflecting higher commercial paper borrowings to fund our share repurchases in 2004.

Liquidity

We manage our businesses to maximize operating cash flows as the primary source of our liquidity. Operating cash flows were $2.4 billion in 2005. We have approximately $1.2 billion in cash and cash equivalents at December 31, 2005 down from $3.6 billion at December 31, 2004 due primarily to acquisitions and share repurchases. Working capital (receivables, inventories and accounts payable) was $5.5 billion at December 31, 2005. Each of our businesses are focused on implementing strategies to improve working capital turnover in 2006 to increase operating cash flows. Considering the current economic environment in which each of our businesses operate and our business plans and strategies, including our focus on growth, cost reduction and productivity initiatives, we believe that our cash balances and operating cash flows will remain our principal source of liquidity. In addition to our available cash and operating cash flows, additional sources of liquidity include committed credit lines, access to the public debt and equity markets, as well as our ability to sell trade accounts receivables.

A source of liquidity is our ability to issue short-term debt in the commercial paper market. Commercial paper notes are sold at a discount and have a maturity of not more than 270 days from date of issuance. Borrowings under the commercial paper program are available for general corporate purposes as well as for financing potential acquisitions. There was $754 million of commercial paper outstanding at December 31, 2005.

Our ability to access the commercial paper market, and the related cost of these borrowings, is affected by the strength of our credit ratings and our $2.5 billion of committed bank revolving credit facilities (Revolving Credit Facilities). Our credit ratings are periodically reviewed by the major

independent debt-rating agencies. In 2004, Standard and Poor's and Fitch's Rating Services affirmed their corporate ratings on our long-term debt, A and A+, respectively, and short-term debt A1 and F1, respectively, and maintained Honeywell's ratings outlook as “stable”. In 2005, Moody's Investors Service affirmed its corporate rating on our long-term and short-term debt of A2 and P-1, respectively, and revised Honeywell's ratings outlook to “stable” from “negative”.

Revolving Credit Facilities of $2.3 billion are maintained with a group of banks, arranged by Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., which is comprised of: (a) a $1 billion Five-Year Credit Agreement and (b) a $1.3 billion Five-Year Credit Agreement. The credit agreements are maintained for general corporate purposes, including support for the issuance of commercial paper. The $1 billion Five-Year Credit Agreement includes a $200 million sub-limit for the potential issuance of letters of credit. The $1.3 billion Five-Year Credit Agreement includes a $300 million sub-limit for the potential issuance of letters of credit. A new 364-Day 240 million Canadian dollar facility ($206 million in U.S. dollars) was established in 2005. The new facility was arranged by Citibank, N.A., Canadian Branch for general corporate purposes, including support for the issuance of commercial paper in Canada. See Note 15 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data.”

We also have a shelf registration statement filed with the Securities and Exchange Commission which allows us to issue up to $3 billion in debt securities, common stock and preferred stock that may be offered in one or more offerings on terms to be determined at the time of the offering. Net proceeds of any offering would be used for general corporate purposes, including repayment of existing indebtedness, capital expenditures and acquisitions.

We also sell interests in designated pools of trade accounts receivables to third parties. The sold receivables were over-collateralized by $178 million at December 31, 2005 and we retain a subordinated interest in the pool of receivables representing that over-collateralization as well as an undivided interest in the balance of the receivables pools. New receivables are sold under the agreement as previously sold receivables are collected. The retained interests in the receivables are reflected at the amounts expected to be collected by us, and such carrying value approximates the fair value of our retained interests. The sold receivables were $500 million at both December 31, 2005 and 2004.

In addition to our normal operating cash requirements, our principal future cash requirements will be to fund capital expenditures, debt repayments, dividends, employee benefit obligations, environmental remediation costs, asbestos claims, severance and exit costs related to repositioning actions, share repurchases and any strategic acquisitions.

Specifically, we expect our primary cash requirements in 2006 to be as follows:

- Capital expenditures—we expect to spend approximately $800 million for capital expenditures in 2006 primarily for growth, replacement, production capacity expansion, cost reduction and maintenance.

- Debt repayments—there are $995 million of scheduled long-term debt maturities in 2006. We expect to refinance substantially all of these maturities in the debt capital markets during 2006.

- Share repurchases—in November 2005, Honeywell's Board of Directors authorized the Company to repurchase up to $3 billion of its common stock. We intend to repurchase outstanding shares from time to time in the open market using cash generated from operations.

- Dividends—we expect to pay approximately $750 million in dividends on our common stock in 2006 reflecting the 10 percent increase in the dividend rate announced by Honeywell's Board of Directors in December 2005.

- Asbestos claims—we expect our cash spending for asbestos claims and our cash receipts for related insurance recoveries to be approximately $520 and $176 million, respectively, in 2006. See Asbestos Matters in Note 21 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data” for further discussion.

- Pension contributions—assuming that actual pension plan returns are consistent with our expected rate of return of 9 percent in 2006 and beyond and that interest rates remain constant, we would not be required to make any contributions to our U.S. pension plans to satisfy minimum statutory funding requirements for the foreseeable future. However, we expect to make

voluntary contributions of approximately $45 million to our U.S. pension plans in 2006. We also expect to make contributions to our non-U.S. plans of approximately $150 million in 2006. See Note 22 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for further discussion of pension contributions.

- Repositioning actions—we expect that cash spending for severance and other exit costs necessary to execute the remaining repositioning actions will approximate $125 million in 2006.

- Environmental remediation costs—we expect to spend approximately $250 million in 2006 for remedial response and voluntary clean-up costs. See Environmental Matters section of this MD&A for further discussion.

We have made an all-cash Offer for the entire issued ordinary share capital of First Technology plc, a provider of gas sensing and detection products and services headquartered in the UK. The aggregate value of the Offer is approximately $718 million, fully diluted for the exercise of all outstanding options and including the assumption of approximately $199 million of outstanding debt. We expect to complete the transaction in the first half of 2006, subject to regulatory approval.

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 businesses that do not fit into our long-term strategic plan based on their market position, relative profitability or growth potential. These businesses are considered for potential divestiture, restructuring or other repositioning actions subject to regulatory constraints. In 2005, we realized $997 million in cash proceeds from sales of non-strategic businesses.

Based on past performance and current expectations, we believe that our operating cash flows will be sufficient to meet our future cash needs. Our available cash, committed credit lines, access to the public debt and equity markets as well as our ability to sell trade accounts receivables, provide additional sources of short-term and long-term liquidity to fund current operations, debt maturities, and future investment opportunities. Based on our current financial position and expected economic performance, we do not believe that our liquidity will be adversely impacted by an inability to access our sources of financing.

Contractual Obligations and Probable Liability Payments

Following is a summary of our significant contractual obligations and probable liability payments at December 31, 2005:

	Payments by Period				
	Total	2006	2007-2008	2009-2010	Thereafter
	(Dollars in millions)				
Long-term debt, including capitalized leases(1)	$ 4,077	$ 995	$ 826	$1,341	$ 915
Minimum operating lease payments	1,001	285	352	163	201
Purchase obligations(2)	3,959	811	1,303	1,299	546
Estimated environmental liability payments	879	250	225	225	179
Asbestos related liability payments(3)	2,069	520	793	167	589
	11,985	2,861	3,499	3,195	2,430
Asbestos insurance recoveries(4)	(1,473)	(176)	(215)	(256)	(826)
	$10,512	$2,685	$3,284	$2,939	$ 1,604

(1) Assumes all long-term debt is outstanding until scheduled maturity.

(2) Purchase obligations are entered into with various vendors in the normal course of business and are consistent with our expected requirements.

(3) These amounts are estimates of asbestos related cash payments for NARCO and Bendix. NARCO estimated payments are based on the terms and conditions, including evidentiary requirements, specified in the definitive agreements or agreements in principle and pursuant to Trust Distribution Procedures. Bendix payments are based on our estimate of pending claims. Projecting future

(footnotes continued on next page)

(footnotes continued from previous page)

events is subject to many uncertainties that could cause asbestos liabilities to be higher or lower than those projected and recorded. See Asbestos Matters in Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data".

(4) These amounts represent probable insurance recoveries through 2018. See Asbestos Matters in Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data."

The table excludes our pension and other postretirement benefits (OPEB) obligations. We made voluntary contributions of $40 and $670 million to our U.S. pension plans in 2004 and 2003, respectively. Future plan contributions are dependent upon actual plan asset returns and interest rates. Assuming that actual plan asset returns are consistent with our expected plan return of 9 percent in 2006 and beyond, and that interest rates remain constant, we would not be required to make any contributions to our U.S. pension plans to satisfy minimum statutory funding requirements for the foreseeable future. We expect to make voluntary contributions of approximately $45 million to our U.S. plans in 2006. We expect to make contributions to our non-U.S. plans of approximately $150 million in 2006. Payments due under our OPEB plans are not required to be funded in advance, but are paid as medical costs are incurred by covered retiree populations, and are principally dependent upon the future cost of retiree medical benefits under our plans. We expect our OPEB payments to approximate $186 million in 2006 including the benefit of approximately $19 million from the Medicare prescription subsidy. See Note 22 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for further discussion of our pension and OPEB plans.

Off-Balance Sheet Arrangements

Following is a summary of our off-balance sheet arrangements:

Guarantees—We have issued or are a party to the following direct and indirect guarantees at December 31, 2005:

	Maximum Potential Future Payments
	(Dollars in millions)
Operating lease residual values	$ 37
Other third parties' financing	11
Unconsolidated affiliates' financing	25
Customer financing	34
	$ 107

We do not expect that these guarantees will have a material adverse effect on our consolidated results of operations, financial position or liquidity.

In connection with the disposition of certain businesses and facilities we have indemnified the purchasers for the expected cost of remediation of environmental contamination, if any, existing on the date of disposition. Such expected costs are accrued when environmental assessments are made or remedial efforts are probable and the costs can be reasonably estimated.

Retained Interests in Factored Pools of Trade Accounts Receivables—As a source of liquidity, we sell interests in designated pools of trade accounts receivables to third parties. The sold receivables ($500 million at December 31, 2005) are over-collateralized and we retain a subordinated interest in the pool of receivables representing that over-collateralization as well as an undivided interest in the balance of the receivables pools. The over-collateralization provides credit support to the purchasers of the receivable interest by limiting their losses in the event that a portion of the receivables sold becomes uncollectible. At December 31, 2005, our retained subordinated and undivided interests at risk were $178 and $573 million, respectively. Based on the underlying credit quality of the receivables placed into the designated pools of receivables being sold, we do not expect

that any losses related to our retained interests at risk will have a material adverse effect on our consolidated results of operations, financial position or liquidity.

Environmental Matters

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

With respect to environmental matters involving site contamination, we continually conduct studies, individually or jointly with other responsible parties, to determine the feasibility of various remedial techniques to address environmental matters. It is our policy (see Note 1 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data") to record appropriate liabilities for environmental matters when remedial efforts or damage claim payments are probable and the costs can be reasonably estimated. Such liabilities are based on our best estimate of the undiscounted future costs required to complete the remedial work. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other potentially responsible parties, technology and information related to individual sites, we do not believe it is possible to develop an estimate of the range of reasonable possible environmental loss in excess of our accrual. We expect to fund expenditures for these matters from operating cash flow. The timing of cash expenditures depends on a number of factors, including the timing of litigation and settlements of remediation liability, personal injury and property damage claims, regulatory approval of cleanup projects, remedial techniques to be utilized and agreements with other parties.

Remedial response and voluntary cleanup payments were $247, $248 and $77 million in 2005, 2004, and 2003, respectively, and are currently estimated to be approximately $250 million in 2006. We expect to fund such expenditures from operating cash flow.

Remedial response and voluntary cleanup costs charged against pretax earnings were $186, $536 and $235 million in 2005, 2004 and 2003, respectively. At December 31, 2005 and 2004, the recorded liability for environmental matters was $879 and $895 million, respectively. In addition, in 2005 and 2004 we incurred operating costs for ongoing businesses of approximately $87 and $75 million, respectively, relating to compliance with environmental regulations.

Although we do not currently possess sufficient information to reasonably estimate the amounts of liabilities to be recorded upon future completion of studies, litigation or settlements, and neither the timing nor the amount of the ultimate costs associated with environmental matters can be determined, they could be material to our consolidated results of operations or operating cash flows in the periods recognized or paid. However, considering our past experience and existing reserves, we do not expect that environmental matters will have a material adverse effect on our consolidated financial position.

See Note 21 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data" for a discussion of our commitments and contingencies, including those related to environmental matters and toxic tort litigation.

Financial Instruments

As a result of our global operating and financing activities, we are exposed to market risks from changes in interest and foreign currency exchange rates and commodity prices, which may adversely affect our operating results and financial position. We minimize our risks from interest and foreign currency exchange rate and commodity price fluctuations through our normal operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. We do not use derivative financial instruments for trading or other speculative purposes and do not use leveraged

derivative financial instruments. A summary of our accounting policies for derivative financial instruments is included in Note 1 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data”.

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 anticipated transactions arising from international trade. Our objective is to preserve the economic value of non-functional currency cash flows. We attempt to have all transaction exposures hedged with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign currency forward and option agreements with third parties. Our principal currency exposures relate to the Euro, the Canadian dollar, British pound, and the U.S. dollar.

Our exposure to market risk from changes in interest rates relates primarily to our debt obligations. As described in Notes 15 and 17 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data”, we issue both fixed and variable rate debt and use interest rate swaps to manage our exposure to interest rate movements and reduce overall borrowing costs.

Financial instruments, including derivatives, expose us to counterparty credit risk for nonperformance and to market risk related to changes in interest or currency exchange rates. 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 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 and currency exchange rates and restrict the use of derivative financial instruments to hedging activities.

The following table illustrates the potential change in fair value for interest rate sensitive instruments based on a hypothetical immediate one-percentage-point increase in interest rates across all maturities, the potential change in fair value for foreign exchange rate sensitive instruments based on a 10 percent weakening of the U.S. dollar versus local currency exchange rates across all maturities, and the potential change in fair value of contracts hedging commodity purchases based on a 20 percent decrease in the price of the underlying commodity across all maturities at December 31, 2005 and 2004.

	Face or Notional Amount	Carrying Value(1)	Fair Value(1)	Estimated Increase (Decrease) In Fair Value
		(Dollars in millions)		
December 31, 2005				
Interest Rate Sensitive Instruments				
Long-term debt (including current maturities)	$ (4,070)	$ (4,077)	$ (4,291)	$ (88)
Interest rate swap agreements	681	9	9	(5)
Foreign Exchange Rate Sensitive Instruments				
Foreign currency exchange contracts(2)	1,998	(2)	(2)	(36)
Commodity Price Sensitive Instruments				
Forward commodity contracts(3)	141	17	17	(12)
December 31, 2004				
Interest Rate Sensitive Instruments				
Long-term debt (including current maturities)	$ (4,994)	$ (5,025)	$ (5,411)	$ (131)
Interest rate swap agreements	1,218	39	39	(15)
Foreign Exchange Rate Sensitive Instruments				
Foreign currency exchange contracts(2)	790	16	16	(21)
Commodity Price Sensitive Instruments				
Forward commodity contracts(3)	87	8	8	(11)

(1) Asset or (liability).
(2) Changes in the fair value of foreign currency exchange contracts are offset by changes in the fair value or cash flows of underlying hedged foreign currency transactions.
(3) Changes in the fair value of forward commodity contracts are offset by changes in the cash flows of underlying hedged commodity transactions.

The above discussion of our procedures to monitor market risk and the estimated changes in fair value resulting from our sensitivity analyses are forward-looking statements of market risk assuming

certain adverse market conditions occur. Actual results in the future may differ materially from these estimated results due to actual developments in the global financial markets. The methods used by us to assess and mitigate risk discussed above should not be considered projections of future events.

OTHER MATTERS

Litigation

See Note 21 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data” for a discussion of environmental, asbestos and other litigation matters.

Sales to the U.S. Government

Sales to the U.S. Government, acting through its various departments and agencies and through prime contractors, amounted to $3,719, $3,464 and $3,111 million in 2005, 2004 and 2003, respectively. This included sales to the U.S. Department of Defense (DoD), as a prime contractor and subcontractor, of $2,939, $2,808 and $2,564 million in 2005, 2004 and 2003, respectively. Sales to the DoD accounted for 10.6, 11.0 and 11.1 percent of our total sales in 2005, 2004 and 2003, respectively. U.S. defense spending increased in 2005 and is also expected to increase in 2006.

Backlog

Our total backlog at December 31, 2005 and 2004 was $9,327 and $8,229 million, respectively. We anticipate that approximately $7,594 million of the 2005 backlog will be filled in 2006. We believe that backlog is not necessarily a reliable indicator of our future sales because a substantial portion of the orders constituting this backlog may be canceled at the customer's option.

Inflation

Highly competitive market conditions have minimized inflation's impact on the selling prices of our products and the costs of our purchased materials. Except for the costs of certain raw materials in our Specialty Materials and Transportation Systems reportable segments (See Review of Business Segments section of this MD&A for further discussion), cost increases for materials and labor have generally been low, and productivity enhancement programs, including repositioning actions and Six Sigma initiatives, have largely offset any impact.

Recent Accounting Pronouncements

See Note 1 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data” for a discussion of recent accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Information relating to market risk is included in “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations” under the caption “Financial Instruments”.

Item 8. Financial Statements and Supplementary Data

HONEYWELL INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF OPERATIONS

	Years Ended December 31,		
	2005	2004	2003
	(Dollars in millions, except per share amounts)		
Product sales	$22,258	$20,408	$18,234
Service sales	5,395	5,193	4,869
	27,653	25,601	23,103
Costs, expenses and other			
Cost of products sold	17,622	16,904	14,753
Cost of services sold	3,843	3,681	3,482
Selling, general and administrative expenses	3,707	3,316	2,950
(Gain) loss on sale of non-strategic businesses	(36)	(255)	(38)
Asbestos related litigation charges, net of insurance	10	76	—
Business impairment charges	23	42	—
Equity in (income) loss of affiliated companies	(134)	(82)	(38)
Other (income) expense	(61)	(92)	19
Interest and other financial charges	356	331	335
	25,330	23,921	21,463
Income from continuing operations before taxes	2,323	1,680	1,640
Tax expense	742	399	296
Income from continuing operations	1,581	1,281	1,344
Income from discontinued operations, net of taxes	95	—	—
Cumulative effect of accounting change, net of taxes	(21)	—	(20)
Net income	$ 1,655	$ 1,281	$ 1,324
Earnings (loss) per share of common stock—basic:			
Income from continuing operations	$ 1.87	$ 1.49	$ 1.56
Income from discontinued operations	0.11	—	—
Cumulative effect of accounting change	(0.03)	—	(0.02)
Net income	$ 1.95	$ 1.49	$ 1.54
Earnings (loss) per share of common stock—assuming dilution:			
Income from continuing operations	$ 1.86	$ 1.49	$ 1.56
Income from discontinued operations	0.11	—	—
Cumulative effect of accounting change	(0.03)	—	(0.02)
Net income	$ 1.94	$ 1.49	$ 1.54

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

HONEYWELL INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEET

	December 31,	
	2005	2004
	(Dollars in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,234	$ 3,586
Accounts, notes and other receivables	5,017	4,243
Inventories	3,401	3,160
Deferred income taxes	1,243	1,289
Other current assets	542	542
Assets held for disposal	525	—
Total current assets	11,962	12,820
Investments and long-term receivables	370	542
Property, plant and equipment—net	4,658	4,331
Goodwill	7,660	6,013
Other intangible assets—net	1,976	1,241
Insurance recoveries for asbestos related liabilities	1,302	1,412
Deferred income taxes	588	613
Prepaid pension benefit cost	2,716	2,985
Other assets	1,062	1,105
Total assets	$32,294	$31,062
LIABILITIES		
Current liabilities:		
Accounts payable	$ 2,886	$ 2,564
Short-term borrowings	275	28
Commercial paper	754	220
Current maturities of long-term debt	995	956
Accrued liabilities	5,359	4,971
Liabilities related to assets held for disposal	161	—
Total current liabilities	10,430	8,739
Long-term debt	3,082	4,069
Deferred income taxes	503	397
Postretirement benefit obligations other than pensions	1,786	1,713
Asbestos related liabilities	1,549	2,006
Other liabilities	3,690	2,886
CONTINGENCIES		
SHAREOWNERS' EQUITY		
Capital—common stock—Authorized 2,000,000,000 shares (par value $1 per share):		
—issued 957,599,900 shares	958	958
—additional paid-in capital	3,626	3,574
Common stock held in treasury, at cost:		
2005—128,116,854 shares; 2004—107,586,616 shares	(5,027)	(4,185)
Accumulated other nonowner changes	(25)	138
Retained earnings	11,722	10,767
Total shareowners' equity	11,254	11,252
Total liabilities and shareowners' equity	$32,294	$31,062

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

HONEYWELL INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31,		
	2005	2004	2003
	(Dollars in millions)		
Cash Flows from Operating Activities			
Net income	$ 1,655	$ 1,281	$1,324
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change	21	—	20
(Gain) loss on sale of non-strategic businesses	(36)	(255)	(38)
Repositioning and other charges	379	657	278
Severance and exit cost payments	(171)	(164)	(200)
Environmental payments	(247)	(248)	(77)
Business impairment charges	23	42	—
Asbestos related litigation charges, net of insurance	10	76	—
Asbestos related liability payments	(750)	(518)	(557)
Insurance receipts for asbestos related liabilities	160	67	664
Depreciation and amortization	697	650	661
Undistributed earnings of equity affiliates	(30)	(75)	(38)
Deferred income taxes	52	223	344
Pension and other postretirement benefits expense	561	628	325
Pension contributions—U.S. plans	—	(40)	(670)
Other postretirement benefit payments	(199)	(207)	(203)
Other	(61)	(121)	(16)
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:			
Accounts, notes and other receivables	(94)	(470)	(236)
Inventories	37	(84)	118
Other current assets	61	(77)	(20)
Accounts payable	181	408	240
Accrued liabilities	193	480	280
Net cash provided by operating activities	2,442	2,253	2,199
Cash Flows from Investing Activities			
Expenditures for property, plant and equipment	(684)	(629)	(655)
Proceeds from disposals of property, plant and equipment	71	38	37
Decrease in investments	285	80	—
(Increase) in investments	—	(115)	—
Cash paid for acquisitions, net of cash acquired	(2,679)	(384)	(199)
Proceeds from sales of businesses	997	426	137
Net cash (used for) investing activities	(2,010)	(584)	(680)
Cash Flows from Financing Activities			
Net increase (decrease) in commercial paper	534	220	(201)
Net increase (decrease) in short-term borrowings	100	(121)	81
Payment of debt assumed in the acquisition of Novar plc	(702)	—	—
Payments of long-term debt	(982)	(29)	(147)
Proceeds from issuance of common stock	167	74	54
Repurchases of common stock	(1,133)	(724)	(37)
Cash dividends on common stock	(700)	(643)	(645)
Net cash (used for) financing activities	(2,716)	(1,223)	(895)
Effect of foreign exchange rate changes on cash and cash equivalents	(68)	190	305
Net (decrease) increase in cash and cash equivalents	(2,352)	636	929
Cash and cash equivalents at beginning of year	3,586	2,950	2,021
Cash and cash equivalents at end of year	$ 1,234	$ 3,586	$2,950

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

HONEYWELL INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY

	Common Stock Issued			Common Stock Held in Treasury				
	Shares	Amount	Additional Paid-in Capital	Shares	Amount	Accumulated Other Non-owner Changes	Retained Earnings	Total Shareowners' Equity
	(In millions, except per share amounts)							
Balance at December 31, 2002	957.6	$ 958	$ 3,409	(103.1)	$(3,783)	$ (1,109)	$ 9,450	$ 8,925
Net income							1,324	1,324
Foreign exchange translation adjustments						551		551
Minimum pension liability adjustment						369		369
Nonowner changes in shareowners' equity								2,244
Common stock issued for employee savings and option plans (including related tax benefits of $19)			75	9.3	182			257
Repurchases of common stock				(1.9)	(62)			(62)
Cash dividends on common stock ($0.75 per share)							(645)	(645)
Other owner changes			2	.4	8			10
Balance at December 31, 2003	957.6	958	3,486	(95.3)	(3,655)	(189)	10,129	10,729
Net income							1,281	1,281
Foreign exchange translation adjustments						351		351
Minimum pension liability adjustment						(15)		(15)
Change in fair value of effective cash flow hedges						(9)		(9)
Nonowner changes in shareowners' equity								1,608
Common stock issued for employee savings and option plans (including related tax benefits of $19)			79	7.5	162			241
Repurchases of common stock				(20.1)	(699)			(699)
Cash dividends on common stock ($0.75 per share)							(643)	(643)
Other owner changes			9	.3	7			16
Balance at December 31, 2004	957.6	958	3,574	(107.6)	(4,185)	138	10,767	11,252
Net income							1,655	1,655
Foreign exchange translation adjustments						(147)		(147)
Minimum pension liability adjustment						(16)		(16)
Nonowner changes in shareowners' equity								1,492
Common stock issued for employee savings and option plans (including related tax benefits of $17)			50	9.7	283			333
Repurchases of common stock				(30.6)	(1,133)			(1,133)
Cash dividends on common stock ($0.825 per share)							(700)	(700)
Other owner changes			2	.4	8			10
Balance at December 31, 2005	957.6	$ 958	$ 3,626	(128.1)	$(5,027)	$ (25)	$11,722	$ 11,254

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

Note 1—Summary of Significant Accounting Policies

Honeywell International Inc. is a diversified technology and manufacturing company, serving customers worldwide with aerospace products and services, control, sensing and security technologies for buildings, homes and industry, turbochargers, automotive products, specialty chemicals, electronic and advanced materials, and process technology for refining and petrochemicals. The following is a description of the significant accounting policies of Honeywell International Inc.

Principles of Consolidation—The consolidated financial statements include the accounts of Honeywell International Inc. and all of its subsidiaries and entities in which a controlling interest is maintained. Our consolidation policy requires the consolidation of entities where a controlling financial interest is obtained as well as consolidation of variable interest entities in which we bear a majority of the risk to the entities' potential losses or stand to gain from a majority of the entities' expected returns. All intercompany transactions and balances are eliminated in consolidation.

Cash and Cash Equivalents—Cash and cash equivalents include cash on hand and on deposit and highly liquid, temporary cash investments with an original maturity of three months or less.

Inventories—Inventories are valued at the lower of cost or market using the first-in, first-out or the average cost method and the last-in, first-out (LIFO) method for certain qualifying domestic inventories.

Investments—Investments in affiliates over which we have a significant influence, but not a controlling interest, are accounted for using the equity method of accounting. Other investments are carried at market value, if readily determinable, or cost. All equity investments are periodically reviewed to determine if declines in fair value below cost basis are other-than-temporary. Significant and sustained decreases in quoted market prices and a series of historic and projected operating losses by investees are considered in the review. If the decline in fair value is determined to be other-than-temporary, an impairment loss is recorded and the investment is written down to a new carrying value.

Property, Plant and Equipment—Property, plant and equipment are recorded at cost less accumulated depreciation. For financial reporting, the straight-line method of depreciation is used over the estimated useful lives of 10 to 40 years for buildings and improvements and 3 to 15 years for machinery and equipment.

Goodwill and Indefinite-Lived Intangible Assets—Goodwill represents the excess of acquisition costs over the fair value of net assets of businesses acquired. Goodwill and certain other intangible assets deemed to have indefinite lives are not amortized. Intangible assets determined to have definite lives are amortized over their useful lives. Goodwill and indefinite lived intangible assets are subject to impairment testing annually as of March 31, or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable, using the guidance and criteria described in Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets”. This testing compares carrying values to fair values and, when appropriate, the carrying value of these assets is reduced to fair value. We completed our annual goodwill impairment test as of March 31, 2005 and determined that there was no impairment as of that date. See Note 13 for additional details.

Other Intangible Assets with Determinable Lives—Other intangible assets with determinable lives consist of Aerospace sales incentives, patents and trademarks and other intangibles and are amortized over weighted average service periods of 25, 19 and 15 years, respectively.

Long-Lived Assets—We periodically evaluate the recoverability of the carrying amount of long-lived assets (including property, plant and equipment, and intangible assets with determinable lives) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. We evaluate events or changes in circumstances based on a number of factors including operating results, business plans and forecasts, general and industry trends and, economic projections and anticipated cash flows. An impairment is assessed when the undiscounted expected future cash flows derived from an asset are less than its carrying amount. Impairment losses are measured as the amount by which the carrying value of an asset exceeds its fair value and are

recognized in earnings. We also continually evaluate the estimated useful lives of all long-lived assets and periodically revise such estimates based on current events.

Sales Recognition—Product and service sales are recognized when persuasive evidence of an arrangement exists, product delivery has occurred or services have been rendered, pricing is fixed or determinable, and collection is reasonably assured. Service sales, principally representing repair, maintenance and engineering activities in our Aerospace and Automation and Control Solutions reportable segments, are recognized over the contractual period or as services are rendered. Sales under long-term contracts in the Aerospace and Automation and Control Solutions reportable segments are recorded on a percentage-of-completion method measured on the cost-to-cost basis for engineering-type contracts and the units-of-delivery basis for production-type contracts. Provisions for anticipated losses on long-term contracts are recorded in full when such losses become evident. Revenues from contracts with multiple element arrangements are recognized as each element is earned based on the relative fair value of each element and when the delivered elements have value to customers on a standalone basis. Amounts allocated to each element are based on its objectively determined fair value, such as the sales price for the product or service when it is sold separately or competitor prices for similar products or services.

Aerospace Sales Incentives—We provide sales incentives to commercial aircraft manufacturers and airlines in connection with their selection of our aircraft wheel and braking system hardware and auxiliary power units for installation on commercial aircraft. These incentives consist of free or deeply discounted products, product credits and upfront cash payments. The cost of these incentives are capitalized (in the case of auxiliary power units only when we are the sole source supplier) at the time we deliver the products to our customers or, in the case of product credits, at the time the credit is issued, or in the case of upfront cash payments, at the time the payment is made. In the case of free or deeply discounted product, the cost to manufacture less any amount recovered from the airframe manufacturer or airline is capitalized. Product credits and upfront cash payments are capitalized at exchanged value. Research, design, development and qualification costs related to these products are expensed as incurred, unless contractually guaranteed of reimbursement. The cost of the sales incentives described above is capitalized because the selection of our aircraft wheel and braking system hardware and auxiliary power units for installation on commercial aircraft results in the creation of future revenues and cash flows through aftermarket sales to fulfill long-term product maintenance requirements mandated by the Federal Aviation Administration (FAA) and other similar international organizations over the useful life of the aircraft. Once our products are certified and selected on an aircraft, the recovery of our investment is virtually guaranteed over the useful life of the aircraft. The likelihood of displacement by an alternative supplier is remote due to contractual sole-sourcing, the high cost to alternative suppliers and aircraft operators of product retrofits, and/or rigorous regulatory specifications, qualification and testing requirements. We amortize the cost of these capitalized sales incentives over their useful lives on a straight-line basis, up to 25 years, representing the estimated minimum service life of the aircraft. This useful life is the period over which we are virtually assured to earn revenues from the aftermarket sales of certified products necessary to fulfill the maintenance required by the FAA and other similar international organizations. We classify the amortization expense associated with free and discounted products as cost of goods sold and the amortization expense associated with product credits and upfront cash payments as a reduction of sales. We regularly evaluate the recoverability of capitalized amounts whenever events or changes in circumstances indicate that the carrying amount of the incentives may not be fully recoverable. There were no impairment charges related to these capitalized incentives recognized during 2005, 2004 and 2003.

On February 17, 2006, Honeywell announced its intention to change its method of accounting for these sales incentives in the first quarter of 2006 to recognize the cost of these incentives as provided. While we consider the existing policy acceptable, we believe that the new policy is preferable and will

improve decision-making and controls for sales incentives. As a result of this change, Honeywell will apply this new accounting policy retrospectively to the Company's previously issued financial statements as if it had been applicable during those historical periods. When adopted in the first quarter of 2006, the new accounting policy will reduce previously reported net income in 2005, 2004 and 2003 by approximately $20, $35 and $35 million, respectively, or $0.02 per share in 2005, $0.04 per share in 2004 and $0.04 per share in 2003. Additionally, application of the new accounting policy would have reduced shareowners' equity as of the beginning of 2003 by approximately $400 million. There is no impact on previously reported cash flows. See Note 13 for additional details.

Environmental Expenditures—Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and that do not provide future benefits, are expensed as incurred. Liabilities are recorded when environmental remedial efforts or damage claim payments are probable and the costs can be reasonably estimated. Such liabilities are based on our best estimate of the undiscounted future costs required to complete the remedial work. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other potentially responsible parties, technology and information related to individual sites, we do not believe it is possible to develop an estimate of the range of reasonably possible environmental loss in excess of our accruals.

Asbestos Related Contingencies and Insurance Recoveries—Honeywell is a defendant in personal injury actions related to asbestos containing products (refractory products and friction products). We recognize a liability for any asbestos related contingency that is probable of occurrence and reasonably estimable. Regarding North American Refractories Company (NARCO) asbestos related claims, we accrue for pending claims based on terms and conditions, including evidentiary requirements, in definitive agreements or agreements in principle with current claimants. We also accrued for the probable value of future asbestos related claims through 2018 based on the disease criteria and payment values contained in the NARCO trust as described in Note 21. In light of the inherent uncertainties in making long term projections regarding claims filing rates and disease manifestation, we do not believe that we have a reasonable basis for estimating NARCO asbestos claims beyond 2018 under Statement of Financial Accounting Standards No. 5, “Accounting for Contingencies” (SFAS No. 5). Regarding Bendix asbestos related claims, we accrue for the estimated value of pending claims based on expected claim resolution values and dismissal rates. We have not accrued for future Bendix asbestos related claims as we cannot reasonably predict how many additional claims may be brought against us, the allegations in such claims or their probable outcomes and resulting settlement values in the tort system. We continually assess the likelihood of any adverse judgments or outcomes to our contingencies, as well as potential ranges of probable losses and recognize a liability, if any, for these contingencies based on an analysis of each individual issue with the assistance of outside legal counsel and, if applicable, other experts.

In connection with the recognition of liabilities for asbestos related matters, we record asbestos related insurance recoveries that are deemed probable. In assessing the probability of insurance recovery, we make 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.

Research and Development—Research and development costs for company-sponsored research and development projects are expensed as incurred. Such costs are principally included in Cost of Products Sold and were $1,072, $917 and $751 million in 2005, 2004 and 2003, respectively.

Stock-Based Compensation Plans—We account for our fixed stock option plans under Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (APB No. 25). Under APB No. 25, there is no compensation cost recognized for our fixed stock option plans,

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

	2005	2004	2003
Net income, as reported	$1,655	$1,281	$1,324
Deduct: Total stock-based employee compensation cost determined under fair value method for fixed stock option plans, net of related tax effects	(53)	(42)	(48)
Pro forma net income	$1,602	$1,239	$1,276
Earnings per share of common stock:			
Basic—as reported	$ 1.95	$ 1.49	$ 1.54
Basic—pro forma	$ 1.89	$ 1.44	$ 1.48
Earnings per share of common stock:			
Assuming dilution—as reported	$ 1.94	1.49	$ 1.54
Assuming dilution—pro forma	$ 1.88	$ 1.44	$ 1.48

The following table sets forth fair value per share information, including related assumptions, used to determine compensation cost consistent with the requirements of SFAS No. 123.

	2005	2004	2003
Weighted average fair value per share of options granted during the year(1)	$ 10.67	$ 10.97	$ 8.82
Assumptions:			
Historical dividend yield	2.4%	2.1%	2.0%
Historical volatility	34.8%	37.9%	46.7%
Risk-free rate of return	3.7%	3.3%	2.9%
Expected life (years)	5.0	5.0	5.0

(1) Estimated on date of grant using Black-Scholes option-pricing model.

Foreign Currency Translation—Assets and liabilities of subsidiaries operating outside the United States with a functional currency other than U.S. dollars are translated into U.S. dollars using year-end exchange rates. Sales, costs and expenses are translated at the average exchange rates effective during the year. Foreign currency translation gains and losses are included as a component of Accumulated Other Nonowner Changes in Shareowners' Equity. For subsidiaries operating in highly inflationary environments, inventories and property, plant and equipment, including related expenses, are remeasured at the exchange rate in effect on the date the assets were acquired, while monetary assets and liabilities are remeasured at year-end exchange rates. Remeasurement adjustments for these subsidiaries are included in earnings.

Derivative Financial Instruments—As a result of our global operating and financing activities, we are exposed to market risks from changes in interest and foreign currency exchange rates and commodity prices, which may adversely affect our operating results and financial position. We minimize our risks from interest and foreign currency exchange rate and commodity price fluctuations through

our normal operating and financing activities and, when deemed appropriate through the use of derivative financial instruments. Derivative financial instruments are used to manage risk and are not used for trading or other speculative purposes and we do not use leveraged derivative financial instruments. Derivative financial instruments used for hedging purposes must be designated and effective as a hedge of the identified risk exposure at the inception of the contract. Accordingly, changes in fair value of the derivative contract must be highly correlated with changes in fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract.

All derivatives are recorded on the balance sheet as assets or liabilities and measured at fair value. For derivatives designated as hedges of the fair value of assets or liabilities, the changes in fair values of both the derivatives and the hedged items are recorded in current earnings. For derivatives designated as cash flow hedges, the effective portion of the changes in fair value of the derivatives are recorded in Accumulated Other Nonowner Changes in Shareowners' Equity and subsequently recognized in earnings when the hedged items impact earnings. Changes in the fair value of derivatives not designated as hedges and the ineffective portion of cash flow hedges are recorded in current earnings.

Transfers of Financial Instruments—Sales, transfers and securitization of financial instruments are accounted for under Statement of Financial Accounting Standards No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”. We sell interests in designated pools of trade accounts receivables to third parties. The receivables are removed from the Consolidated Balance Sheet at the time they are sold. The value assigned to our subordinated interests and undivided interests retained in trade receivables sold is based on the relative fair values of the interests retained and sold. The carrying value of the retained interests approximates fair value due to the short-term nature of the collection period for the receivables.

Income Taxes—Deferred tax liabilities or assets reflect temporary differences between amounts of assets and liabilities for financial and tax reporting. Such amounts are adjusted, as appropriate, to reflect changes in tax rates expected to be in effect when the temporary differences reverse. A valuation allowance is established to offset any deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Earnings Per Share—Basic earnings per share is based on the weighted average number of common shares outstanding. Diluted earnings per share is based on the weighted average number of common shares outstanding and all dilutive potential common shares outstanding.

Use of Estimates—The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements and related disclosures in the accompanying notes. Actual results could differ from those estimates. Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary.

Reclassifications—Certain prior year amounts have been reclassified to conform with the current year presentation.

Recent Accounting Pronouncements—In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143”, (FIN 47), which provides clarification with respect to the timing of liability recognition for legal obligations associated with the retirement of tangible long-lived assets when the timing and/or method of settlement of the obligation are conditional on a future event that may or may not be within the control of the entity. FIN 47 also clarifies that we are required to recognize a liability for such an obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 primarily impacts our accounting for costs associated with the future

retirement of facilities in our Automation and Control Solutions and Specialty Materials reportable segments. Upon adoption on December 31, 2005, we recorded an increase in property, plant and equipment, net of $14 million and recognized an asset retirement obligation of $46 million. This resulted in the recognition of a non-cash charge of $32 million ($21 million after tax, or $0.03 per share) that was reported as a cumulative effect of an accounting change.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R) requiring that the compensation cost relating to share-based payment transactions be recognized in the financial statements. The cost is to be measured based on the fair value of the equity or liability instruments issued. SFAS No. 123R is effective for fiscal years that begin after June 15, 2005. We will adopt SFAS No. 123R effective January 1, 2006 and currently expect to use the modified prospective method of adoption and therefore will not restate our prior-period results. Under the modified prospective method, awards that are granted, modified, or settled after the date of adoption should be measured and accounted for in accordance with SFAS No. 123R. Unvested equity-classified awards that were granted prior to the effective date of SFAS No. 123R should continue to be accounted for in accordance with SFAS No. 123, except that amounts must be recognized in the financial statements. We currently estimate that the adoption of SFAS No. 123R will reduce 2006 diluted earnings per share by $0.08 to $0.10. Future compensation cost will be impacted by various factors, including the number of awards granted and their related fair value at the date of grant.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, "Inventory Costs, an amendment of ARB No. 43, Chapter 4" (SFAS No. 151) which clarifies that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overhead to inventory be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect that the adoption of SFAS No. 151 will have a material effect on our consolidated financial statements.

Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143) requires recognition of the fair value of obligations associated with the retirement of tangible long-lived assets when there is a legal obligation to incur such costs. Upon initial recognition of a liability the cost is capitalized as part of the related long-lived asset and depreciated over the corresponding asset's useful life. SFAS No. 143 primarily impacted our accounting for costs associated with the future retirement of nuclear fuel conversion facilities in our Specialty Materials reportable segment. Upon adoption on January 1, 2003, we recorded an increase in property, plant and equipment, net of $16 million and recognized an asset retirement obligation of $47 million. This resulted in the recognition of a non-cash charge of $31 million ($20 million after-tax, or $0.02 per share) that was reported as a cumulative effect of an accounting change. This accounting change did not have a material impact on results of operations for 2005, 2004 and 2003.

Note 2—Acquisitions

We acquired businesses for an aggregate cost of $3,500, $396 and $199 million in 2005, 2004 and 2003, respectively. All of our acquisitions were accounted for under the purchase method of accounting, and accordingly, the assets and liabilities of the acquired businesses were recorded at their estimated fair values at the dates of acquisition. Significant acquisitions made in these years are discussed below.

On March 31, 2005, Honeywell declared its Offers for the entire issued and ordinary preference share capital of Novar plc (Novar) wholly unconditional and assumed control of Novar as of that date. The aggregate value of the Offers was approximately $2.4 billion (fully diluted for the exercise of all

outstanding options), including the assumption of approximately $569 million of outstanding debt, net of cash. The payment for Novar's share capital and the repayment of substantially all of Novar's existing debt occurred during the second quarter of 2005 and was funded with our existing cash resources.

Novar had consolidated revenues of approximately $2.7 billion in 2004 and operated globally in three different businesses. Intelligent Building Systems (IBS) is a global business supplying electrical, electronic and control products and services to building operators, contractors and developers. The integration of the IBS business into our Automation and Control Solutions segment has enhanced our offerings of security, fire and building controls products and services, particularly in the United Kingdom and Germany, and is supporting our global growth of these businesses. Indalex Aluminum Solutions (Indalex) is a leading manufacturer of aluminum extrusions with a comprehensive network of plants across North America. Security Printing Services (Security Printing) is engaged in the printing of checks, other financial instruments, business forms and providing other check-related services for financial institutions, credit unions and their customers and members throughout the United States. In December 2005, we completed the sale of the Security Printing business to M&F Worldwide Corp. for $800 million in cash resulting in a decrease of $225 million to the value of the goodwill attributable to the Novar acquisition. In February 2006, we completed the sale of Indalex to an affiliate of private investment firm Sun Capital Partners, Inc. for approximately $425 million in cash. The Indalex business has been classified as held for sale in our December 31, 2005 Consolidated Balance Sheet and both the Indalex and Security Printing businesses have been presented as discontinued operations in our Statement of Operations for all periods presented.

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

	Adjusted Fair Value of Assets & Liabilities as of Acquisition Date
Accounts and other receivables	$ 304
Inventories	124
Assets held for disposal	1,429
Other current assets	(9)
Investments and long-term receivables	21
Property, plant and equipment	99
Other intangible assets	261
Deferred income taxes	97
Accounts payable	(79)
Accrued liabilities	(256)
Liabilities related to assets held for disposal	(204)
Long-term debt	(700)
Other liabilities	(680)
Net assets acquired	407
Goodwill	1,295
Purchase price	$ 1,702

The $1.3 billion of goodwill resulting from this acquisition arises primarily from the avoidance of the time and costs which would be required (and the associated risks that would be encountered) to develop a business comparable to Novar's IBS business and the expected cost synergies that will be

realized through the consolidation of the acquired business into our Automation and Control Solutions segment. These cost synergies are expected to be realized principally in the areas of selling, general and administrative expenses, material sourcing and manufacturing.

We allocated $261 million to other intangible assets (contractual customer relationships, existing technology and trademarks) based on valuation studies performed by third party valuation consultants. These intangible assets are being amortized over their estimated useful lives which range from 5 to 15 years using straight-line and accelerated amortization methods. In addition, accrued liabilities include approximately $76 million of repositioning costs related to the integration of the Novar operations. The repositioning costs relate principally to severance costs for workforce reductions primarily in the IBS business and the former Novar corporate office. The workforce reductions are expected to be completed by June 30, 2006. Since the acquisition date, we made adjustments to the original fair value of assets and liabilities acquired resulting principally from our refinements of our analyses of receivables, inventories, property, plant and equipment, pension liabilities and deferred taxes (including the valuation studies performed by third party valuation consultants). Such adjustments were not considered material. As of December 31, 2005, the allocation of the purchase price for the assets acquired and liabilities assumed is complete.

The following table presents balance sheet information for the Indalex business acquired as part of the Novar transaction described above which is classified as held for sale in our December 31, 2005 Consolidated Balance Sheet.

Accounts and other receivables	$ 135
Inventories	60
Other current assets	4
Investments and long-term receivables	94
Property, plant and equipment	189
Goodwill	39
Other assets	4
Assets held for disposal	$ 525
Accounts payable	$ (90)
Accrued liabilities	(24)
Other liabilities	(47)
Liabilities related to assets held for disposal	$ (161)

Net sales and pretax income for the discontinued operations in 2005 were $1,209 and $149 million, respectively.

Effective November 30, 2005, we acquired the 50 percent interest in UOP LLC (UOP) formerly indirectly owned by Union Carbide Corporation, a wholly owned subsidiary of the Dow Chemical Company, giving Honeywell full ownership of the entity. The aggregate cost for the remaining 50 percent interest in UOP was approximately $800 million, including the assumption of outstanding debt, net of cash acquired. The estimated fair value of the assets and liabilities acquired resulted in an increase to goodwill of $353 million. UOP had net sales of approximately $1.2 billion in 2004 and is a supplier and licensor of process technology, catalysts, process plants and consulting services to the petroleum refining, petrochemical and gas processing industries and is being included in our Specialty Materials reportable segment.

In May 2003, Honeywell sold its Engineering Plastics business to BASF in exchange for BASF's nylon fiber business and $90 million in cash. BASF's nylon fiber business became part of Specialty Materials' nylon business. Since the cash consideration received from BASF was in excess of 25 percent of the fair value of this exchange, this transaction was viewed as “monetary” in accordance

with Issue 8(a) of EITF 01-2, "Interpretations of APB Opinion No. 29". Accordingly, the pre-tax gain on the sale of our Engineering Plastics business of $38 million was based on the fair value of the consideration received from BASF less the sum of the net book value of our Engineering Plastics business and related transaction costs. We recorded the assets and liabilities acquired in the BASF business at fair market value based on a valuation performed by a third party valuation consultant at the acquistion date which corresponded to the value agreed upon in the asset purchase agreement for this transaction. Specialty Materials' Engineering Plastics business and BASF's nylon fiber business both had annual sales of approximately $400 million.

In connection with all acquisitions in 2005, 2004 and 2003, except for the Novar acquisition as described above, the amounts recorded for transaction costs and the costs of integrating the acquired businesses into Honeywell were not material. The results of operations of all acquired businesses have been included in the consolidated results of Honeywell from their respective acquisition dates. The pro forma results for 2005, 2004 and 2003, assuming these acquisitions had been made at the beginning of the year, would not be materially different from reported results.

Note 3—Repositioning and Other Charges

A summary of repositioning and other charges follows:

	Years Ended December 31,		
	2005	2004	2003
Severance	$248	$ 85	$ 69
Asset impairments	5	21	6
Exit costs	14	10	7
Reserve adjustments	(25)	(28)	(69)
Total net repositioning charge	242	88	13
Asbestos related litigation charges, net of insurance	10	76	—
Probable and reasonably estimable environmental liabilities	186	536	235
Business impairment charges	23	42	—
Arbitration award related to phenol supply agreement	(67)	—	—
Other	18	33	30
Total net repositioning and other charges	$412	$775	$278

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

	Years Ended December 31,		
	2005	2004	2003
Cost of products and services sold	$324	$621	$272
Selling, general and administrative expenses	43	25	4
Asbestos related litigation charges, net of insurance	10	76	—
Business impairment charges	23	42	—
Equity in (income) loss of affiliated companies	2	6	2
Other (income) expense	10	5	—
	$412	$775	$278

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

	Years Ended December 31,		
	2005	2004	2003
Aerospace	$ 96	$ (5)	$ 10
Automation and Control Solutions	85	28	(22)
Specialty Materials	(34)	90	20
Transportation Systems	82	147	16
Corporate	183	515	254
	$412	$775	$278

In 2005, we recognized repositioning charges totaling $267 million primarily for severance costs related to workforce reductions of 5,269 maufacturing and administrative positions across all of our reportable segments including the implementation of a new organizational structure in our Aerospace reportable segment which reorganized our Aerospace businesses to better align with customer segments. The implementation of the new Aerospace organizational structure was substantially completed in the third quarter of 2005. Also, $25 million of previously established accruals, primarily for severance at our Corporate, Specialty Materials and Automation and Control Solutions reportable segments were returned to income in 2005. The reversal of severance liabilities relates to changes in the scope of previously announced severance programs, excise taxes relating to an executive severance amount previously paid which were determined to no longer be payable, and severance amounts previously paid to an outside service provider as part of an outsourcing arrangement which were refunded to Honeywell.

In 2004, we recognized repositioning charges totaling $116 million primarily for severance costs related to workforce reductions of 2,272 manufacturing and administrative positions across all of our reportable segments. Also, $28 million of previously established accruals, primarily for severance, were returned to income in 2004, due to fewer employee separations than originally planned associated with certain prior repositioning actions, resulting in reduced severance liabilities principally in our Automation and Control Solutions reportable segment.

In 2003, we recognized repositioning charges totaling $82 million primarily for severance costs related to workforce reductions of 1,501 manufacturing and administrative positions across all of our reportable segments. Also, $69 million of previously established accruals, primarily for severance, were returned to income in 2003, due to fewer employee separations than originally planned associated with certain prior repositioning actions, resulting in reduced severance liabilities in our Automation and Control Solutions, Aerospace and Specialty Materials reportable segments.

The following table summarizes the status of our total repositioning costs.

	Severance Costs	Asset Impairments	Exit Costs	Total
Balance at December 31, 2002	$ 325	$ —	$ 81	$ 406
2003 charges	69	6	7	82
2003 usage	(166)	(6)	(34)	(206)
Adjustments	(57)	—	(12)	(69)
Balance at December 31, 2003	171	—	42	213
2004 charges	85	21	10	116
2004 usage	(138)	(21)	(26)	(185)
Adjustments	(21)	—	(7)	(28)
Balance at December 31, 2004	97	—	19	116
2005 charges	248	5	14	267
2005 usage	(156)	(5)	(15)	(176)
Adjustments	(21)	—	(4)	(25)
Balance at December 31, 2005	$ 168	$ —	$ 14	$ 182

In 2005, we recognized a charge of $186 million for environmental liabilities deemed probable and reasonably estimable during the year. We recognized asbestos related litigation charges, net of insurance, of $10 million which are discussed in detail in Note 21. We recognized a credit of $67 million in connection with an arbitration award for overcharges by a supplier of phenol to our Specialty Materials business from June 2003 through the end of 2004. The arbitrator has also awarded Honeywell an additional $31 million of damages for overcharges in 2005, which has not been recognized as the overcharges for the years 2005 forward are subject to a separate arbitration scheduled for April 2006. The existing arbitration awards for 2003 to 2005 are subject to approval in federal court. We recognized impairment charges of $23 million related to the write-down of property, plant and equipment held and used in our Research and Life Sciences business and the write-down of property, plant and equipment held for sale in our Resins and Chemicals business, both in our Specialty Materials reportable segment. We also recognized other charges of $18 million principally related to the modification of a lease agreement for the Corporate headquarters facility ($10 million) and for various legal settlements ($7 million).

In 2004, we recognized a charge of $536 million for probable and reasonably estimable environmental liabilities primarily related to the denial of our appeal of the matter entitled *Interfaith Community Organization, et. al. v. Honeywell International Inc., et al.,* and estimated liabilities for remediation of environmental conditions in and around Onondaga Lake in Syracuse, New York. Both of these environmental matters are discussed in further detail in Note 21. We recognized asbestos related litigation charges, net of insurance, of $76 million which are discussed in detail in Note 21. We recognized an impairment charge of $42 million in the second quarter of 2004 related principally to the write-down of property, plant and equipment of our Performance Fibers business in our Specialty Materials reportable segment. This business was sold in December 2004. We also recognized other charges of $33 million consisting of $29 million for various legal settlements including property damage claims in our Automation and Control Solutions reportable segment, $14 million for the write-off of receivables, inventories and other assets net of a reversal of a reserve of $10 million established in the prior year for a contract settlement.

In 2003, we recognized a charge of $235 million for probable and reasonably estimable environmental liabilities mainly related to the matter entitled *Interfaith Community Organization, et al. v. Honeywell International Inc., et al.* and for remediation of environmental conditions in and around Onondaga Lake in Syracuse, New York, both as discussed in Note 21. We also recognized other charges of $30 million consisting of $26 million for various legal settlements and $4 million in our

Specialty Materials reportable segment including a loss on sale of an investment owned by an equity investee.

Note 4—Gain (Loss) on Sale of Non-Strategic Businesses

The following is a summary of non-strategic businesses sold:

	Year Ended December 31, 2005	
	Pretax Gain (Loss)	After-tax Gain (Loss)
Industrial Wax	$ (30)	$ 33
North American Nylon Carpet Fiber	23	1
Other (1)	43	26
	$ 36	$ 60

In 2005, we realized proceeds of $197 million in cash on the sales of these businesses. The sales of these businesses did not materially impact net sales and segment profit in 2005 compared with 2004. The after-tax gain on the sale of our Industrial Wax business was due to the higher tax basis of this business than its book basis.

	Year Ended December 31, 2004	
	Pretax Gain (Loss)	After-tax Gain (Loss)
Automation and Control Solutions—Security Monitoring and VSCEL Optical Products	$ 251	$ 133
Specialty Materials—Performance Fibers	(15)	(3)
Other (1)	19	14
	$ 255	$ 144

In 2004, we realized proceeds of $426 million in cash on the sales of these businesses. The sales of these businesses did not materially impact net sales and segment profit in 2004 compared with 2003.

	Year Ended December 31, 2003	
	Pretax Gain (Loss)	After-tax Gain (Loss)
Specialty Materials—Engineering Plastics, Rudolstadt and Metglas	$ 25	$ (5)
Aerospace—Honeywell Aerospace Defense Services	13	9
	$ 38	$ 4

In 2003, we realized proceeds of $137 million in cash on the sales of these businesses. The sales of these businesses did not materially impact net sales and segment profit in 2003 compared with 2002. The after-tax loss on the sale of our Specialty Materials' businesses resulted mainly from tax benefits associated with prior capital losses.

(1) Consists of post closing adjustments related to businesses sold in prior years.

Note 5—Other (Income) Expense

	Years Ended December 31,		
	2005	2004	2003
Interest income and other	$(92)	$(130)	$(109)
Minority interests	10	10	7
Foreign exchange loss	21	28	121
	$(61)	$ (92)	$ 19

Note 6—Interest and Other Financial Charges

	Years Ended December 31,		
	2005	2004	2003
Total interest and other financial charges	$373	$349	$350
Less—capitalized interest	(17)	(18)	(15)
	$356	$331	$335

The weighted average interest rate on short-term borrowings and commercial paper outstanding at December 31, 2005 and 2004 was 4.48 and 2.81 percent, respectively.

Note 7—Income Taxes

Income from continuing operations before taxes

	Years Ended December 31,		
	2005	2004	2003
United States	$1,557	$ 878	$ 925
Foreign	766	802	715
	$2,323	$1,680	$1,640

Tax expense

	Years Ended December 31,		
	2005	2004	2003
United States	$437	$170	$ 98
Foreign	305	229	198
	$742	$399	$296

	Years Ended December 31,		
	2005	2004	2003
Tax expense consist of:			
Current:			
United States	$395	$ 26	$(251)
State	19	16	(1)
Foreign	276	134	204
	690	176	(48)
Deferred:			
United States	27	109	347
State	(4)	19	3
Foreign	29	95	(6)
	52	223	344
	$742	$399	$ 296

	Years Ended December 31,		
	2005	2004	2003
The U.S. statutory federal income tax rate is reconciled to our effective income tax rate as follows:			
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
Taxes on foreign earnings below U.S. tax rate (1)	(1.4)	(7.1)	(5.0)
Asset basis differences	(3.5)	(.6)	(2.2)
Nondeductible amortization	.6	1.1	1.9
State income taxes (1)	.7	1.4	.4
Tax benefits on export sales	(3.3)	(4.5)	(3.6)
ESOP dividend tax benefit	(.9)	(1.2)	(1.2)
Tax credits	(.5)	(.6)	(1.0)
Equity income	(.5)	(.5)	(.8)
Repatriation expense related to American Jobs Creation Act of 2004	6.7	—	—
Redesignation of Friction Materials business from held for sale to held and used	—	—	(6.6)
All other items—net	(1.0)	.8	1.1
	31.9%	23.8%	18.0%

(1) Net of changes in valuation allowance.

Deferred tax assets (liabilities)

	December 31,	
	2005	2004
Deferred income taxes represent the future tax effects of transactions which are reported in different periods for tax and financial reporting purposes. The tax effects of temporary differences and tax carryforwards which give rise to future income tax benefits and payables are as follows:		
Property, plant and equipment basis differences	$ (582)	$ (509)
Postretirement benefits other than pensions and postemployment benefits	771	748
Investment and other asset basis differences	(342)	(205)
Other accrued items	642	558
Net operating and capital losses	841	706
Tax credits	408	440
Undistributed earnings of subsidiaries	(40)	(34)
All other items—net	8	(33)
	1,706	1,671
Valuation allowance	(477)	(338)
	$1,229	$1,333

The amount of federal tax net operating losses available for carryforward at December 31, 2005 was $22 million that were generated by certain subsidiaries prior to their acquisition and have expiration dates through 2022. The use of pre-acquisition operating losses is subject to limitations imposed by the Internal Revenue Code. We do not anticipate that these limitations will affect utilization of the carryforwards prior to their expiration. In 2005, we reported a net capital loss of $251 million on the sale of our Industrial Wax business. This loss will be carried back to 2004 where there are sufficient capital gains to absorb this loss. Various subsidiaries have state tax net operating loss carryforwards of $2.9 billion at December 31, 2005 with varying expiration dates through 2024. We also have foreign net operating and capital losses of $2.3 billion which are available to reduce future income tax payments in several countries, subject to varying expiration rules. Also included are $698 million of loss carryforwards that were generated by certain subsidiaries prior to their acquisition and have varying expiration dates.

We have U.S. tax credit carryforwards of $81 million at December 31, 2005, including carryforwards of $78 million with various expiration dates through 2025 and tax credits of $3 million which are not subject to expiration. In addition, we have $327 million of foreign tax credits available for carryback or carryforward at December 31, 2005 with varying expiration dates through 2015.

The valuation allowance was increased by $139, $39 and $108 million in 2005, 2004 and 2003, respectively. The increase in 2005 was primarily due to an increase in foreign net operating and capital losses and net deferred tax assets attributable to acquired businesses not expected to be realized, offset by a decrease in state tax net operating loss carryforwards (net of federal impact) and the disallowance of foreign net operating losses for which a valuation allowance had previously been provided of $222, $46, and $39 million, respectively. The portion of the valuation allowance charged to goodwill was $219 million, and therefore the future realization of any of these tax benefits will be credited first to reduce to zero goodwill related to the acquisition, second to reduce to zero other non current intangible assets related to the acquisition, and third to reduce income tax expense. The increase in 2004 was primarily due to an increase in state tax net operating loss carryforwards (net of federal impact) and foreign net operating and capital losses that are not expected to be realized of $40

and $27 million, respectively, offset by a decrease of $30 million for foreign tax credits which we now believe will be utilized due to the extension of the foreign tax credit carryforward period from five to 10 years under the American Jobs Creation Act of 2004 (Act). The increase in 2003 was primarily due to an increase in foreign net operating losses that are not expected to be utilized.

The Act, signed into law in October 2004, provides for a variety of changes in the tax law including incentives to repatriate undistributed earnings of foreign subsidiaries, a phased elimination of the extra-territorial income exclusion, and a domestic manufacturing benefit. More specifically, the Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned outside the U.S. by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. In May 2005, the U.S. Treasury issued guidance clarifying certain provisions of the Act and, accordingly, during the second quarter of 2005 we were able to finalize our assessment of the Act and its impact on Honeywell. We repatriated approximately $2.7 billion of foreign earnings during the remainder of 2005, of which $2.2 billion receives the benefit under the Act, with an income tax provision of $155 million. As of December 31, 2005, Honeywell has not provided for U.S. federal income and foreign withholding taxes on $2.1 billion of undistributed earnings from non-U.S. operations. Such earnings are currently intended to be reinvested indefinitely. It is not practicable to estimate the amount of tax that might be payable if some or all of such earnings were to be remitted, and foreign tax credits would be available to reduce or eliminate the resulting U.S. income tax liability.

The extra-territorial income exclusion for foreign sales will be phased-out over two years beginning in 2005. The deduction for income from qualified domestic production activities will be phased-in from 2005 through 2010. We do not expect that this legislation will have a material effect on our consolidated tax accruals or effective tax rate.

Note 8—Earnings (Loss) Per Share

The following table sets forth the computations of basic and diluted earnings (loss) per share:

	2005		2004		2003	
	Basic	Assuming Dilution	Basic	Assuming Dilution	Basic	Assuming Dilution
Income						
Income from continuing operations	$ 1,581	$ 1,581	$ 1,281	$ 1,281	$ 1,344	$ 1,344
Income from discontinued operations, net of taxes	95	95	—	—	—	—
Cumulative effect of accounting change, net of taxes	(21)	(21)	—	—	(20)	(20)
Net income	$ 1,655	$ 1,655	$ 1,281	$ 1,281	$ 1,324	$ 1,324
Average shares						
Average shares outstanding	848,740,395	848,740,395	858,857,721	858,857,721	860,671,264	860,671,264
Dilutive securities issuable in connection with stock plans	—	3,594,592	—	3,475,613	—	1,423,992
Total average shares	848,740,395	852,334,987	858,857,721	862,333,334	860,671,264	862,095,256
Earnings (loss) per share of common stock						
Income from continuing operations	$ 1.87	$ 1.86	$ 1.49	$ 1.49	$ 1.56	$ 1.56
Income from discontinued operations, net of taxes	0.11	0.11	—	—	—	—
Cumulative effect of accounting change, net of taxes	(0.03)	(0.03)	—	—	(0.02)	(0.02)
Net income	$ 1.95	$ 1.94	$ 1.49	$ 1.49	$ 1.54	$ 1.54

In 2005, 2004 and 2003, the diluted earnings per share calculation excludes the effect of stock options when the options' exercise prices exceed the average market price of the common shares during the period. In 2005, 2004 and 2003, the number of stock options not included in the computation were 17,793,385, 41,656,606 and 41,908,964, respectively. These stock options were outstanding at the end of each of the respective years.

Note 9—Accounts, Notes and Other Receivables

	December 31,	
	2005	2004
Trade	$4,623	$3,656
Other	573	724
	5,196	4,380
Less—Allowance for doubtful accounts	(179)	(137)
	$5,017	$4,243

We sell interests in designated pools of trade accounts receivables to third parties. The sold receivables are over-collateralized by $178 million at December 31, 2005 and we retain a subordinated interest in the pool of receivables representing that over-collateralization as well as an undivided interest in the balance of the receivables pools. New receivables are sold under the agreement as previously sold receivables are collected. Losses are recognized when our interest in the receivables are sold. The retained interests in the receivables are shown at the amounts expected to be collected by us, and such carrying value approximates the fair value of our retained interests. We are compensated for our services in the collection and administration of the receivables.

	December 31,	
	2005	2004
Designated pools of trade receivables	$1,251	$1,060
Interest sold to third parties	(500)	(500)
Retained interest	$ 751	$ 560

Losses on sales of receivables were $18, $9 and $7 million in 2005, 2004 and 2003, respectively. No credit losses were incurred during those years.

Note 10—Inventories

	December 31,	
	2005	2004
Raw materials	$1,438	$1,153
Work in process	695	779
Finished products	1,427	1,382
	3,560	3,314
Less—		
Progress payments	(14)	(24)
Reduction to LIFO cost basis	(145)	(130)
	$3,401	$3,160

Inventories valued at LIFO amounted to $258 and $108 million at December 31, 2005 and 2004, respectively. Had such LIFO inventories been valued at current costs, their carrying values would have been approximately $145 and $130 million higher at December 31, 2005 and 2004, respectively.

Note 11—Investments and Long-Term Receivables

	December 31,	
	2005	2004
Investments	$ 64	$305
Long-term receivables	306	237
	$370	$542

Note 12—Property, Plant and Equipment

	December 31,	
	2005	2004
Land and improvements	$ 352	$ 356
Machinery and equipment	9,381	8,935
Buildings and improvements	2,120	2,027
Construction in progress	433	344
	12,286	11,662
Less—Accumulated depreciation and amortization	(7,628)	(7,331)
	$ 4,658	$ 4,331

Depreciation expense was $578, $572 and $595 million in 2005, 2004 and 2003, respectively.

Note 13—Goodwill and Other Intangibles—Net

The change in the carrying amount of goodwill for the years ended December 31, 2005 and 2004 by reportable segment are as follows:

	December 31, 2004	Acquisitions	Divestitures	Currency Translation Adjustment	December 31, 2005
Aerospace	$ 1,721	$ 11	$ —	$ (9)	$ 1,723
Automation and Control Solutions	2,954	1,407	—	(28)	4,333
Specialty Materials	779	353	(48)	(18)	1,066
Transportation Systems	559	—	—	(21)	538
	$ 6,013	$ 1,771	$ (48)	$ (76)	$ 7,660

	December 31, 2003	Acquisitions	Divestitures	Currency Translation Adjustment	December 31, 2004
Aerospace	$ 1,641	$ 64	$ —	$ 16	$ 1,721
Automation and Control Solutions	2,832	162	(60)	20	2,954
Specialty Materials	781	—	(12)	10	779
Transportation Systems	535	—	—	24	559
	$ 5,789	$ 226	$ (72)	$ 70	$ 6,013

Intangible assets are comprised of:

	December 31, 2005			December 31, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with determinable lives:						
Investments in Aerospace sales incentives	$ 1,018	$ (215)	$ 803	$ 952	$ (176)	$ 776
Patents and trademarks	512	(326)	186	445	(310)	135
Other	1,153	(273)	880	512	(219)	293
	2,683	(814)	1,869	1,909	(705)	1,204
Trademark with indefinite life	116	(9)	107	46	(9)	37
	$ 2,799	$ (823)	$ 1,976	$ 1,955	$ (714)	$ 1,241

Aerospace sales incentives capitalized were $71, $93 and $95 million in 2005, 2004 and 2003, respectively. Aerospace sales incentives amortized to income were $44, $36 and $38 million in 2005, 2004 and 2003, respectively. Sales incentives related to certain auxiliary power units where we are not the sole supplier were $13, $9 and $13 million in 2005, 2004 and 2003, respectively, and were expensed as incurred.

Intangible assets amortization expense was $119, $78 and $66 million in 2005, 2004 and 2003, respectively. Estimated intangible assets amortization expense for each of the five succeeding years approximates $140 million.

Note 14—Accrued Liabilities

	December 31,	
	2005	2004
Compensation and benefit costs	$ 996	$ 926
Customer advances and deferred income	932	775
Income taxes	361	217
Environmental costs	237	267
Asbestos related liabilities	520	744
Product warranties and performance guarantees	322	270
Other	1,991	1,772
	$5,359	$4,971

Note 15—Long-term Debt and Credit Agreements

	December 31, 2005	December 31, 2004
5.25% notes due 2006	$ —	$ 368
8⅝% debentures due 2006	—	100
5⅛% notes due 2006	—	500
7.0% notes due 2007	350	350
7⅛% notes due 2008	200	200
6.20% notes due 2008	200	200
Zero coupon bonds and money multiplier notes, 13.0%–14.26%, due 2009	100	100
Floating rate notes due 2009-2011	249	252
7.50% notes due 2010	1,000	1,000
6⅛% notes due 2011	500	500
Industrial development bond obligations, 3.25%–9.50% maturing at various dates through 2037	65	66
6⅝% debentures due 2028	216	216
9.065% debentures due 2033	51	51
Other (including capitalized leases), 0.53%–15.69%, maturing at various dates through 2020	151	166
	$3,082	$4,069

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

	At December 31, 2005
2006	$ 995
2007	414
2008	412
2009	211
2010	1,130
Thereafter	915
	4,077
Less—current portion	(995)
	$ 3,082

We maintain $2.3 billion of bank revolving credit facilities with a group of banks, arranged by Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., which is comprised of: (a) a $1.3 billion Five-Year Credit Agreement, with a $300 million letter of credit sub-limit and (b) a $1 billion Five-Year Credit Agreement with a $200 million letter of credit sub-limit. The credit agreements are maintained for general corporate purposes, including support for the issuance of commercial paper. We had no borrowings outstanding under either agreement at December 31, 2005. We have issued $175 million of letters of credit under the $1.3 billion Five-Year Credit Agreement at December 31, 2005.

Neither of the credit agreements restricts our ability to pay dividends and neither contains financial covenants. The failure to comply with customary conditions or the occurrence of customary events of default contained in the credit agreements would prevent any further borrowings and would generally require the repayment of any outstanding borrowings under such credit agreements. Such events of default include: (a) non-payment of credit agreement debt, interest or fees; (b) non-compliance with the terms of the credit agreement covenants; (c) cross-default to other debt in certain circumstances; (d) bankruptcy; and (e) defaults upon obligations under Employee Retirement Income Security Act.

Additionally, each of the banks has the right to terminate its commitment to lend additional funds or issue additional letters of credit under the credit agreements if any person or group acquires beneficial ownership of 30 percent or more of our voting stock, or, during any 12-month period, individuals who were directors of Honeywell at the beginning of the period cease to constitute a majority of the Board of Directors (the Board).

Loans under the $1.3 billion Five-Year Credit Agreement are required to be repaid no later than November 26, 2008. Loans under the $1 billion Five-Year Credit Agreement are required to be repaid no later than October 22, 2009. We have agreed to pay a facility fee of 0.08 percent per annum on the aggregate commitment for both Five-Year Credit Agreements.

Interest on borrowings under both Five-Year Credit Agreements would be determined, at Honeywell's option, by (a) an auction bidding procedure; (b) the highest of the floating base rate publicly announced by Citibank, N.A., 0.5 percent above the average CD rate, or 0.5 percent above the Federal funds rate; or (c) the Eurocurrency rate plus 0.22 percent (applicable margin).

The facility fee, the applicable margin over the Eurocurrency rate on both Five-Year Credit Agreements and the letter of credit issuance fee in both Five-Year Credit Agreements, are subject to change, based upon a grid determined by our long-term debt ratings. Neither credit agreement is subject to termination based upon a decrease in our debt ratings or a material adverse change.

A new 364-Day 240 million Canadian dollar credit facility was established on September 9, 2005, arranged by Citibank, N.A., Canadian Branch. The facility was established for general corporate purposes, including support for the issuance of commercial paper in Canada. There are no borrowings outstanding under this credit facility at December 31, 2005. We have agreed to pay a facility fee of 0.06 percent per annum on the commitment amount. Interest on borrowings under this facility would be determined, at Honeywell's option, by (a) the highest of the floating base rate publicly announced by Citibank, N.A., 0.5 percent above the average CD rate, or 0.5 percent above the Federal funds rate; (b) the highest of the Canadian dollar prime rate publicly announced by Citibank, N.A. or 0.5 percent above the Canadian dollar bankers' acceptance; or (c) the Eurocurrency rate or bankers' acceptance plus 0.24 percent (applicable margin).

Note 16—Lease Commitments

Future minimum lease payments under operating leases having initial or remaining noncancellable lease terms in excess of one year are as follows:

	At December 31, 2005
2006	$ 285
2007	206
2008	146
2009	94
2010	69
Thereafter	201
	$ 1,001

We have entered into agreements to lease land, equipment and buildings. Principally all our operating leases have initial terms of up to 25 years, and some contain renewal options subject to customary conditions. At any time during the terms of some of our leases, we may at our option purchase the leased assets for amounts that approximate fair value. We do not expect that any of our commitments under the lease agreements will have a material adverse effect on our consolidated results of operations, financial position or liquidity.

Rent expense was $326, $321 and $314 million in 2005, 2004 and 2003, respectively.

Note 17—Financial Instruments

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 or currency exchange rates. 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 and currency exchange rates 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. While concentrations of credit risk associated with our trade accounts and notes receivable are considered minimal due to our diverse customer base, a significant portion of our customers are in the commercial air transport industry (aircraft manufacturers and airlines) accounting for approximately 13 percent of our consolidated sales in 2005. 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 anticipated transactions arising from international trade. Our objective is to preserve the economic value of non-functional currency denominated cash flows. We attempt to have all transaction exposures hedged with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign currency forward and option agreements with third parties. Our principal currency exposures relate to the Euro, the British pound, the Canadian dollar, and the U.S. dollar.

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 hedge our exposure to changes in foreign exchange rates principally with forward contracts. Forward contracts are marked-to-market with the resulting gains and losses similarly recognized in earnings offsetting the gains and losses on the non-functional currency denominated monetary assets and liabilities being hedged.

We partially hedge forecasted 2006 sales and purchases denominated in non-functional currencies with currency forward contracts. When a functional currency strengthens against non-functional currencies, the decline in value of forecasted non-functional currency cash inflows (sales) or outflows (purchases) is partially offset by the recognition of gains (sales) and losses (purchases), respectively, in the value of the forward contracts designated as hedges. Conversely, when a functional currency weakens against non-functional currencies, the increase in value of forecasted non-functional currency cash inflows (sales) or outflows (purchases) is partially offset by the recognition of losses (sales) and gains (purchases), respectively, in the value of the forward contracts designated as hedges. Market value gains and losses on these contracts are recognized in earnings when the hedged transaction is recognized. All open forward contracts mature by December 31, 2006.

At December 31, 2005 and 2004, we had contracts with notional amounts of $1,998 and $790 million, respectively, to exchange foreign currencies, principally in the Euro countries and Great Britain.

Commodity Price Risk Management—Our exposure to market risk for commodity prices can result in changes in our cost of production. We mitigate our exposure to commodity price risk through the use of long-term, firm-price contracts with our suppliers and forward commodity purchase agreements with third parties hedging anticipated purchases of several commodities (principally natural gas). Forward commodity purchase agreements are marked-to-market, with the resulting gains and losses recognized in earnings when the hedged transaction is recognized.

Interest Rate Risk Management—We use a combination of financial instruments, including 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 December 31, 2005 and 2004, interest rate swap agreements designated as fair value hedges effectively changed $681 and $1,218 million, respectively, of fixed rate debt at an average rate of 6.15 and 6.42 percent, respectively, to LIBOR based floating rate debt. Our interest rate swaps mature through 2007.

Fair Value of Financial Instruments—The carrying value of cash and cash equivalents, trade accounts and notes receivables, payables, commercial paper and short-term borrowings contained in the Consolidated Balance Sheet approximates fair value. Summarized below are the carrying values and fair values of our other financial instruments at December 31, 2005 and 2004. The fair values are based on the quoted market prices for the issues (if traded), current rates offered to us for debt of the same remaining maturity and characteristics, or other valuation techniques, as appropriate.

	December 31, 2005		December 31, 2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Long-term receivables	$ 306	$ 285	$ 237	$ 218
Interest rate swap agreements	9	9	39	39
Foreign currency exchange contracts	3	3	22	22
Forward commodity contracts	18	18	10	10
Liabilities				
Long-term debt and related current maturities	$ (4,077)	$ (4,291)	$ (5,025)	$ (5,411)
Foreign currency exchange contracts	(5)	(5)	(6)	(6)
Forward commodity contracts	(1)	(1)	(2)	(2)

Note 18—Capital Stock

We are authorized to issue up to 2,000,000,000 shares of common stock, with a par value of one dollar. Common shareowners are entitled to receive such dividends as may be declared by the Board, are entitled to one vote per share, and are entitled, in the event of liquidation, to share ratably in all the assets of Honeywell which are available for distribution to the common shareowners. Common shareowners do not have preemptive or conversion rights. Shares of common stock issued and outstanding or held in the treasury are not liable to further calls or assessments. There are no restrictions on us relative to dividends or the repurchase or redemption of common stock.

In November 2005, Honeywell's Board authorized the Company to repurchase up to $3 billion of its common stock. As of December 31, 2005, approximately $2.6 billion of additional shares may yet be purchased under this program. The amount and timing of repurchases may vary depending on market conditions and the level of other investing activities.

We are authorized to issue up to 40,000,000 shares of preferred stock, without par value, and can determine the number of shares of each series, and the rights, preferences and limitations of each series. At December 31, 2005, there was no preferred stock outstanding.

Note 19—Other Nonowner Changes in Shareowners' Equity

Total nonowner changes in shareowners' equity are included in the Consolidated Statement of Shareowners' Equity. The changes in Accumulated Other Nonowner Changes are as follows:

	Pretax	Tax	After-Tax
Year Ended December 31, 2005			
Foreign exchange translation adjustments	$ (147)	$ —	$ (147)
Minimum pension liability adjustment	(26)	10	(16)
	$ (173)	$ 10	$ (163)
Year Ended December 31, 2004			
Foreign exchange translation adjustments	$ 351	$ —	$ 351
Change in fair value of effective cash flow hedges	(15)	6	(9)
Minimum pension liability adjustment	(19)	4	(15)
	$ 317	$ 10	$ 327
Year Ended December 31, 2003			
Foreign exchange translation adjustments	$ 551	$ —	$ 551
Minimum pension liability adjustment	604	(235)	369
	$ 1,155	$ (235)	$ 920

The components of Accumulated Other Nonowner Changes are as follows:

	December 31,	
	2005	2004
Cumulative foreign exchange translation adjustments	$ 342	$ 489
Fair value of effective cash flow hedges	8	8
Minimum pension liability	(375)	(359)
	$ (25)	$ 138

Note 20—Stock-Based Compensation Plans

We have stock plans available to grant incentive stock options, non-qualified stock options and stock appreciation rights to officers and employees.

Fixed Stock Options—The exercise price, term and other conditions applicable to each option granted under the stock plans are generally determined by the Management Development and Compensation Committee of the Board. The options are granted at a price equal to our stock's fair market value on the date of grant. The options generally become exercisable over a three-year period and expire after ten years.

The following table summarizes information about stock option activity for the three years ended December 31, 2005:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2002	52,014,709	$ 39.50
Granted	9,372,850	23.70
Exercised	(2,361,930)	18.34
Lapsed or canceled	(4,735,283)	39.58
Outstanding at December 31, 2003	54,290,346	37.68
Granted	9,409,800	35.49
Exercised	(2,947,232)	21.20
Lapsed or canceled	(2,433,985)	39.41
Outstanding at December 31, 2004	58,318,929	38.09
Granted	10,272,350	36.75
Exercised	(5,357,101)	29.07
Lapsed or canceled	(4,251,923)	40.46
Outstanding at December 31, 2005	58,982,255	$ 38.50

The following table summarizes information about stock options outstanding and exercisable at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number Outstanding	Weighted Average Life(1)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$21.41–$29.86	7,780,575	6.4	$ 23.99	5,646,405	$ 24.09
$30.03–$39.94	36,464,806	6.4	36.12	22,033,306	36.02
$40.02–$49.97	8,160,471	3.1	43.56	8,160,471	43.56
$50.32–$66.40	6,576,403	3.9	62.62	6,576,403	62.62
	58,982,255	5.7	38.50	42,416,585	40.01

(1) Average remaining contractual life in years.

There were 43,343,099 and 40,547,240 options exercisable at weighted average exercise prices of $40.36 and $41.14 at December 31, 2004 and 2003, respectively. There were 13,454,032 shares available for future grants under the terms of our stock option plans at December 31, 2005.

Restricted Stock Units—Restricted stock unit (RSU) awards entitle the holder to receive one share of common stock for each unit when the units vest. RSU's are issued to certain key employees as compensation and as incentives tied directly to the achievement of certain performance objectives.

There were 1,230,884, 980,706 and 1,578,000 RSU's issued in 2005, 2004 and 2003, respectively. Compensation expense related to these RSUs was $24, $24 and $27 million in 2005, 2004 and 2003, respectively. There were 3,965,531, 3,691,556 and 3,103,513 RSU's outstanding, with a weighted average grant date fair value per share of $32.97, $31.18 and $30.10 at December 31, 2005, 2004 and 2003, respectively.

Non-Employee Directors' Plan—We also have a Stock Plan for Non-Employee Directors (Directors' Plan) under which restricted shares and options are granted. Each new director receives a one-time grant of 3,000 shares of common stock, subject to specific restrictions.

The Directors' Plan also provides for an annual grant to each director of options to purchase 5,000 shares of common stock at the fair market value on the date of grant. Options generally become exercisable over a three-year period and expire after ten years.

Note 21—Commitments and Contingencies

Environmental Matters

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

With respect to environmental matters involving site contamination, we continually conduct studies, individually or jointly with other potentially responsible parties, to determine the feasibility of various remedial techniques to address environmental matters. It is our policy to record appropriate liabilities for environmental matters when remedial efforts or damage claim payments are probable and the costs can be reasonably estimated. Such liabilities are based on our best estimate of the undiscounted future costs required to complete the remedial work. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other potentially responsible parties, technology and information related to individual sites, we do not believe it is possible to develop an estimate of the range of reasonably possible environmental loss in excess of our accruals. We expect to fund expenditures for these matters from operating cash flow. The timing of cash expenditures depends on a number of factors, including the timing of litigation and settlements of remediation liability, personal injury and property damage claims, regulatory approval of cleanup projects, remedial techniques to be utilized and agreements with other parties. The following table summarizes information concerning our recorded undiscounted liabilities for environmental costs:

	Years Ended December 31,		
	2005	2004	2003
Beginning of year	$ 895	$ 593	$435
Accruals for environmental matters deemed probable and reasonably estimable	186	536	235
Environmental liability payments	(247)	(248)	(77)
Other adjustments(1)	45	14	—
End of year	$ 879	$ 895	$593

(1) In 2005, $45 million principally relates to reclassification of the carrying value of land to property, plant and equipment with a corresponding increase to environmental liabilities.

Environmental liabilities are included in the following balance sheet accounts:

	December 31,	
	2005	2004
Accrued liabilities	$237	$267
Other liabilities	642	628
	$879	$895

Although we do not currently possess sufficient information to reasonably estimate the amounts of liabilities to be recorded upon future completion of studies, litigation or settlements, and neither the timing nor the amount of the ultimate costs associated with environmental matters can be determined, they could be material to our consolidated results of operations or operating cash flows in the periods recognized or paid. However, considering our past experience and existing reserves, we do not expect that these environmental matters will have a material adverse effect on our consolidated financial position.

Jersey City, NJ—In February 2005, the Third Circuit Court of Appeals upheld the decision of the United States District Court for the District of New Jersey (the "District Court") in the matter entitled *Interfaith Community Organization (ICO), et al. v. Honeywell International Inc., et al.*, that a predecessor Honeywell site located in Jersey City, New Jersey constituted an imminent and substantial endangerment and ordered Honeywell to conduct the excavation and transport for offsite disposal of approximately one million tons of chromium residue present at the site, as well as the remediation of site-impacted ground water and river sediments. The District Court has dismissed without prejudice Honeywell's motion for relief in this matter seeking approval of an alternative remedy in which Honeywell would excavate approximately half of the chromium residue present at the site and encase the remaining material with a multi-media containment system. Provisions have been made in our financial statements for the estimated cost of implementation of the excavation and offsite removal remedy, which is expected to be incurred evenly over a five-year period starting in April 2006. We do not expect implementation of this remedy to have a material adverse effect on our future consolidated results of operations, operating cash flows or financial position. We are developing a proposed plan for remediation of ground water and river sediments for submission later this year and cannot reasonably estimate the costs of that remediation, both because the remediation planned has not been finalized and because numerous third parties could be responsible for an as yet undetermined portion of the ultimate costs of remediating the river sediment.

The site at issue in the ICO matter is one of twenty-one sites located in Jersey City, New Jersey which are the subject of an Administrative Consent Order (ACO) entered into with the New Jersey Department of Environmental Protection (NJDEP) in 1993. Remedial investigations and activities consistent with the ACO are underway at the other sites (the "Honeywell ACO Sites").

On May 3, 2005, NJDEP filed a lawsuit in New Jersey Superior Court against Honeywell and two other companies seeking declaratory and injunctive relief, unspecified damages, and the reimbursement of unspecified total costs relating to sites in New Jersey allegedly contaminated with chrome ore processing residue. The claims against Honeywell relate to the activities of a predecessor company which ceased its New Jersey manufacturing operations in the mid-1950s. While the complaint is not entirely clear, it appears that approximately 100 sites are at issue, including 17 of the Honeywell ACO Sites, approximately 32 sites at which the other two companies have agreed to remediate under separate administrative consent orders, as well as approximately 53 other sites (identified in the complaint as the "Publicly Funded Sites") for which none of the three companies have signed an administrative consent order. In addition to claims specific to each company, NJDEP claims that all three companies should be collectively liable for all the chrome sites based on a "market share" theory. In addition, NJDEP is seeking treble damages for all costs it has incurred or will incur at the Publicly Funded Sites. Honeywell has previously denied responsibility for the Publicly Funded Sites. Honeywell believes that it has no connection with either the sites covered by the other companies' administrative consent orders or the Publicly Funded Sites and, therefore, we have no responsibility for those sites. At the Honeywell ACO Sites, we are conducting remedial investigations and activities consistent with the ACO; thus, we do not believe the lawsuit will significantly change our obligations with respect to the Honeywell ACO Sites. Lawsuits have also been filed against Honeywell in the District Court under the Resource Conservation and Recovery Act (RCRA) by two New Jersey municipal utilities seeking the

cleanup of chromium residue at two Honeywell ACO Sites and by a citizens' group against Honeywell and thirteen other defendants with respect to contamination on about a dozen of the Honeywell ACO Sites. For the reasons stated above, we do not believe these lawsuits will significantly change our obligations with respect to the Honeywell ACO Sites.

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

Onondaga Lake, Syracuse, NY—A predecessor company to Honeywell operated a chemical plant which is alleged to have contributed mercury and other contaminants to the Lake. In July 2005, the New York State Department of Environmental Conservation (the DEC) issued its Record of Decision with respect to remediation of industrial contamination in the Lake.

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

Asbestos Matters

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

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

When we sold the NARCO business in 1986, we agreed to indemnify NARCO with respect to personal injury claims for products that had been discontinued prior to the sale (as defined in the sale agreement). NARCO retained all liability for all other claims. 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. Although the stay has remained in effect continuously since January 4, 2002, there is no assurance that such stay will remain in effect. In connection with NARCO's bankruptcy filing, we paid NARCO's parent company $40 million and agreed to provide NARCO with up to $20 million in financing. We also agreed to pay $20 million to NARCO's parent company upon the filing of a plan of reorganization for NARCO acceptable to Honeywell (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, upon the confirmation and consummation, respectively, of such a plan.

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 Committee of Asbestos Creditors 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. The Court approved NARCO's Disclosure Statement for its Third Amended Plan of Reorganization in late January 2006. NARCO is in the process of distributing this Disclosure Statement to creditors for voting, which will close March 31, 2006. The Court has scheduled NARCO's confirmation hearing to begin in June 2006. Although we expect the NARCO plan of reorganization and the NARCO trust to be ultimately approved by the Court, no assurances can be given as to the Court's ruling or the time frame for resolving any appeals of such ruling.

Our consolidated financial statements reflect an estimated liability for settlement of pending and future NARCO-related asbestos claims of $1.8 and $2.4 billion as of December 31, 2005 and 2004, respectively. The estimated liability for current claims is based on terms and conditions, including evidentiary requirements, in definitive agreements with approximately 260,000 current claimants. Substantially all settlement payments with respect to current claims are expected to be made by the end of 2007. Approximately $90 million of payments due pursuant to these settlements is due only upon establishment of the NARCO trust.

The estimated liability for future claims represents the estimated value of future asbestos related bodily injury claims expected to be asserted against NARCO through 2018 and the aforementioned obligations to NARCO's parent. The estimate is based upon the disease criteria and payment values contained in the NARCO Trust Distribution Procedures negotiated with the NARCO Asbestos Claimants Committee and the NARCO future claimants' representative. In light of the uncertainties inherent in making long-term projections we do not believe that we have a reasonable basis for estimating asbestos claims beyond 2018 under Statement of Financial Accounting Standards No. 5. Honeywell retained the expert services of Hamilton, Rabinovitz and Alschuler, Inc. (HR&A) to project the probable number and value, including trust claim handling costs, of asbestos related future liabilities based upon historical experience with similar trusts. The methodology used to estimate the liability for future claims has been commonly accepted by numerous courts and is the same methodology that is utilized by an expert who is routinely retained by the asbestos claimants committee in asbestos related bankruptcies. The valuation methodology includes an analysis of the population likely to have been exposed to asbestos containing products, epidemiological studies to estimate the number of people likely to develop asbestos related diseases, NARCO claims filing history, the pending

inventory of NARCO asbestos related claims and payment rates expected to be established by the NARCO trust.

As of December 31, 2005 and 2004, our consolidated financial statements reflect an insurance receivable corresponding to the liability for settlement of pending and future NARCO-related asbestos claims of $1.1 and $1.2 billion, 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 December 31, 2005, a significant portion of this coverage is with insurance companies with whom we have agreements to pay full policy limits based on corresponding Honeywell claims costs. We conduct analyses to determine the amount of insurance that we estimate is probable that we will recover in relation to payment of current and 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.

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

Friction Products—Honeywell's Bendix Friction Materials (Bendix) business manufactured automotive brake pads that contained chrysotile asbestos in an encapsulated form. There is a group of existing and potential claimants consisting largely of individuals that allege to have performed brake replacements.

From 1981 through December 31, 2005, we have resolved approximately 78,000 Bendix related asbestos claims including trials covering 122 plaintiffs, which resulted in 116 favorable verdicts. Trials covering six individuals resulted in adverse verdicts; however, two of these verdicts were reversed on appeal, a third will shortly be appealed, and the remaining three claims were settled. The following tables present information regarding Bendix related asbestos claims activity:

	Years Ended December 31,	
Claims Activity	**2005**	**2004**
Claims Unresolved at the beginning of year	76,348	72,976
Claims Filed	7,520	10,504
Claims Resolved	(6,890)	(7,132)
Claims Unresolved at the end of year	76,978	76,348

	December 31,	
Disease Distribution of Unresolved Claims	**2005**	**2004**
Mesothelioma and Other Cancer Claims	4,604	3,534
Other Claims	72,374	72,814
Total Claims	76,978	76,348

Approximately 30 percent of the approximately 77,000 pending claims at December 31, 2005 are on the inactive, deferred, or similar dockets established in some jurisdictions for claimants who allege

minimal or no impairment. The approximately 77,000 pending claims also include claims filed in jurisdictions such as Texas, Virginia and Mississippi that historically allowed for consolidated filings. In these jurisdictions, plaintiffs were permitted to file complaints against a pre-determined master list of defendants, regardless of whether they have claims against each individual defendant. Many of these plaintiffs may not actually have claims against Honeywell. Based on state rules and prior experience in these jurisdictions, we anticipate that many of these claims will ultimately be dismissed.

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

	Years Ended December 31,		
	2005	2004	2003
	(in whole dollars)		
Malignant claims	$58,000	$90,000	$95,000
Nonmalignant claims	$ 600	$ 1,600	$ 3,500

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

We have accrued for the estimated cost of pending Bendix related asbestos claims. The estimate is based on the number of pending claims at December 31, 2005, disease classifications, expected settlement values and historic dismissal rates. Honeywell retained the expert services of HR&A (see discussion of HR&A under Refractory products above) to assist in developing the estimated expected settlement values and historic dismissal rates. HR&A updates expected settlement values for pending claims during the second quarter each year. We cannot reasonably estimate losses which could arise from future Bendix related asbestos claims because we cannot predict how many additional claims may be brought against us, the allegations in such claims or their probable outcomes and resulting settlement values in the tort system.

Honeywell currently has approximately $1.9 billion of insurance coverage remaining with respect to pending and potential future Bendix related asbestos claims of which $377 and $336 million are reflected as receivables in our consolidated balance sheet at December 31, 2005 and 2004, respectively. This coverage is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. Insurance receivables are recorded in the financial statements simultaneous with the recording of the liability for the estimated value of the underlying asbestos claims. The amount of the insurance receivable recorded is based on our ongoing analysis of the insurance that we estimate is probable of recovery. This determination is based on our analysis of the underlying insurance policies, our historical experience with our insurers, our ongoing review of the solvency of our insurers, our interpretation of judicial determinations relevant to our insurance programs, and our consideration of the impacts of any settlements reached with our insurers. Insurance receivables are also recorded when structured insurance settlements provide for future fixed payment streams that are not contingent upon future claims or other events. Such amounts are recorded at the net present value of the fixed payment stream.

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

Honeywell believes it has sufficient insurance coverage and reserves to cover all pending Bendix related asbestos claims. Although it is impossible to predict the outcome of pending claims or to

reasonably estimate losses which could arise from future Bendix related asbestos claims, we do not believe that such claims would have a material adverse effect on our consolidated financial position in light of our insurance coverage and our prior experience in resolving such claims. If the rate and types of claims filed, the average indemnity cost of such claims and the period of time over which claim settlements are paid (collectively, the "Variable Claims Factors") do not substantially change, Honeywell would not expect future Bendix related asbestos claims to have a material adverse effect on our results of operations or operating cash flows in any fiscal year. No assurances can be given, however, that the Variable Claims Factors will not change.

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

Asbestos Related Liabilities

	Year Ended December 31, 2005			Year Ended December 31, 2004			Year Ended December 31, 2003		
	Bendix	NARCO	Total	Bendix	NARCO	Total	Bendix	NARCO	Total
Beginning of year	$ 355	$ 2,395	$ 2,750	$ 249	$ 2,760	$ 3,009	$ 241	$ 3,200	$ 3,441
Accrual for claims filed and defense costs incurred	170	—	170	186	—	186	—	—	—
Asbestos related liability payments	(153)	(597)	(750)	(153)	(365)	(518)	(117)	(440)	(557)
Settlement with plaintiff firms of certain pending asbestos claims(1)	—	(21)	(21)	—	—	—	—	—	—
Update of expected resolution values for pending claims	(85)	—	(85)	73	—	73	—	—	—
Other(2)	—	5	5	—	—	—	125	—	125
End of year	$ 287	$ 1,782	$ 2,069	$ 355	$ 2,395	$ 2,750	$ 249	$ 2,760	$ 3,009

(1) In 2005, consists of a charge of $52 million to reflect a settlement of certain current asbestos claims during the year and a credit of $73 million related to a re-estimation of asbestos reserves in connection with an additional settlement.
(2) In 2003, relates to accrual for asbestos liabilities recognized upon the termination of the transaction to sell our Friction Materials business.

Insurance Recoveries for Asbestos Related Liabilities

	Year Ended December 31, 2005			Year Ended December 31, 2004			Year Ended December 31, 2003		
	Bendix	NARCO	Total	Bendix	NARCO	Total	Bendix	NARCO	Total
Beginning of year	$ 336	$ 1,226	$ 1,562	$ 209	$ 1,238	$ 1,447	$ 145	$ 1,811	$ 1,956
Probable insurance recoveries related to claims filed	34	—	34	96	—	96	—	—	—
Probable insurance recoveries related to annual update of expected resolution values for pending claims	(15)	—	(15)	39	—	39	—	—	—
Insurance receipts for asbestos related liabilities	(33)	(127)	(160)	(8)	(59)	(67)	(91)	(573)	(664)
Insurance receivables settlements and write-offs(1)	41	—	41	—	—	—	—	—	—
Other(2)	14	(3)	11	—	47	47	155	—	155
End of year	$ 377	$ 1,096	$ 1,473	$ 336	$ 1,226	$ 1,562	$ 209	$ 1,238	$ 1,447

(1) In 2005, consists of gains from insurance settlements of $172 million principally related to a structured insurance settlement with a carrier which converted a policy into a future, fixed, non-contingent payment stream, and charges of $131 million for write-offs of certain amounts due from insurance carriers.

(footnotes continued on next page)

(footnotes continued from previous page)

(2) In 2004, $47 million related to additional probable insurance recoveries identified in the second quarter of 2004 based on our ongoing evaluation of the enforceability of our rights under the various insurance policies. In 2003, $155 million related to additional probable insurance recoveries recognized in connection with the accrual for asbestos liabilities recorded upon the termination of the transaction to sell our Friction Materials business.

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

	December 31,	
	2005	2004
Other current assets	$ 171	$ 150
Insurance recoveries for asbestos related liabilities	1,302	1,412
	$1,473	$1,562
Accrued liabilities	$ 520	$ 744
Asbestos related liabilities	1,549	2,006
	$2,069	$2,750

We are monitoring proposals for federal asbestos legislation pending in the United States Congress. Due to the uncertainty as to whether proposed legislation will be adopted and as to the terms of any adopted legislation, it is not possible at this point in time to determine what impact such legislation would have on our asbestos liabilities and related insurance recoveries.

Other Matters

Breed Technologies Inc. v. AlliedSignal—The plaintiff alleges fraud in connection with AlliedSignal's (a predecessor to the Company) October 1997 sale of its safety restraints business to Breed and seeks compensatory damages of up to $375 million and punitive damages. The trial commenced in January 2006 in Florida state court. We believe plaintiff's claims are without merit and expect to prevail in this matter. Accordingly, we do not believe that a liability is probable of occurrence and reasonably estimable and have not recorded a provision for this matter in our financial statements. Given the uncertainty inherent in litigation, it is not possible to estimate the range of possible loss that might result from an adverse resolution of this matter.

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

Although we expect to prevail in the Breed and Allen matters discussed above, an adverse outcome in either matter could have a material adverse effect on our results of operations or operating

cash flows in the periods recognized or paid. We do not believe that an adverse outcome in either matter would have a material adverse effect on our consolidated financial position.

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

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

Warranties and Guarantees—We have issued or are a party to the following direct and indirect guarantees at December 31, 2005:

	Maximum Potential Future Payments
Operating lease residual values	$ 37
Other third parties' financing	11
Unconsolidated affiliates' financing	25
Customer financing	34
	$ 107

We do not expect that these guarantees will have a material adverse effect on our consolidated results of operations, financial position or liquidity.

In connection with the disposition of certain businesses and facilities we have indemnified the purchasers for the expected cost of remediation of environmental contamination, if any, existing on the date of disposition. Such expected costs are accrued when environmental assessments are made or remedial efforts are probable and the costs can be reasonably estimated.

In the normal course of business we issue product warranties and product performance guarantees. We accrue for the estimated cost of product warranties and performance guarantees based on contract terms and historical experience at the time of sale. Adjustments to initial obligations for warranties and guarantees are made as changes in the obligations become reasonably estimable. The following table summarizes information concerning our recorded obligations for product warranties and product performance guarantees:

	Years Ended December 31,		
	2005	2004	2003
Beginning of year	$ 299	$ 275	$ 217
Accruals for warranties/guarantees issued during the year	203	236	215
Adjustment of pre-existing warranties/guarantees	17	1	35
Settlement of warranty/guarantee claims	(172)	(213)	(192)
End of year	$ 347	$ 299	$ 275

Product warranties and product performance guarantees are included in the following balance sheet accounts:

	December 31,	
	2005	2004
Accrued liabilities	$322	$270
Other liabilities	25	29
	$347	$299

Note 22—Pension and Other Postretirement Benefits

We sponsor both funded and unfunded U.S. and non-U.S. defined benefit pension plans covering the majority of our employees and retirees. Pension benefits for substantially all U.S. employees are provided through non-contributory, qualified and non-qualified defined benefit pension plans. U.S. defined benefit pension plans comprise 79 percent of our projected benefit obligation. Non-U.S. employees, who are not U.S. citizens, are covered by various retirement benefit arrangements, some of which are considered to be defined benefit pension plans for accounting purposes. Non-U.S. defined benefit pension plans comprise 21 percent of our projected benefit obligation.

We also sponsor postretirement benefit plans that provide health care benefits and life insurance coverage to eligible retirees. Our retiree medical plans mainly cover U.S. employees who retire with pension eligibility for hospital, professional and other medical services. All non-union hourly and salaried employees joining Honeywell after January 1, 2000 are not eligible to participate in our retiree medical and life insurance plans. Most of the U.S. retiree medical plans require deductibles and copayments, and virtually all are integrated with Medicare. Retiree contributions are generally required based on coverage type, plan and Medicare eligibility. Honeywell has limited its subsidy of its retiree medical plans to a fixed-dollar amount for substantially all future retirees and for almost half of its current retirees. This cap of retiree medical benefits under our plans limits our exposure to the impact of future health care cost increases. The retiree medical and life insurance plans are not funded. Claims and expenses are paid from our operating cash flow.

The following tables summarize the balance sheet impact, including the benefit obligations, assets and funded status associated with our significant pension and other postretirement benefit plans at December 31, 2005 and 2004. We use a December 31 measurement date for the majority of our pension and postretirement benefit plans.

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 13,587	$ 12,993	$ 2,353	$ 2,421
Service cost	236	222	17	17
Interest cost	815	755	120	138
Plan amendments	(2)	1	(20)	(19)
Actuarial losses	685	361	(74)	3
Acquisitions (divestitures)	1,940	(9)	121	—
Benefits paid	(965)	(905)	(199)	(207)
Settlements and curtailments	(1)	1	—	—
Other	(127)	168	—	—
Benefit obligation at end of year	16,168	13,587	2,318	2,353
Change in plan assets:				
Fair value of plan assets at beginning of year	13,070	12,265	—	—
Actual return on plan assets	1,229	1,461	—	—
Company contributions	105	111	—	—
Acquisitions (divestitures)	1,317	(9)	—	—
Benefits paid	(965)	(905)	—	—
Other	(103)	147	—	—
Fair value of plan assets at end of year	14,653	13,070	—	—
Funded status of plans	(1,515)	(517)	(2,318)	(2,353)
Unrecognized net obligation at transition	9	11	—	—
Unrecognized net loss	3,444	3,245	552	679
Unrecognized prior service cost (credit)	119	151	(175)	(196)
Net amount recognized	$ 2,057	$ 2,890	$ (1,941)	$ (1,870)
Amounts recognized in Consolidated Balance Sheet consist of:				
Prepaid pension benefit cost	$ 2,716	$ 2,985	$ —	$ —
Intangible asset(1)	79	88	—	—
Accrued liabilities	—	—	(197)	(197)
Postretirement benefit obligations other than pensions(2)	—	—	(1,744)	(1,673)
Accrued benefit liability(3)	(767)	(225)	—	—
Additional minimum liability(3)	(518)	(462)	—	—
Accumulated other nonowner changes	547	504	—	—
Net amount recognized	$ 2,057	$ 2,890	$ (1,941)	$ (1,870)

(1) Included in Other Assets—Non-Current on Consolidated Balance Sheet.

(2) Excludes Non-U.S. plans of $42 and $40 million in 2005 and 2004, respectively.

(3) Included in Other Liabilities—Non-Current on Consolidated Balance Sheet.

The accumulated benefit obligation for our defined benefit pension plans was $15,420 and $12,996 million at December 31, 2005 and 2004, respectively.

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

	Pension Benefits		
	Years Ended December 31,		
	2005	2004	2003
Service cost	$ 236	$ 222	$ 201
Interest cost	815	755	757
Expected return on plan assets	(1,104)	(1,042)	(1,030)
Amortization of transition asset	—	—	(7)
Amortization of prior service cost	30	38	37
Recognition of actuarial losses	392	413	178
Net periodic benefit cost	$ 369	$ 386	$ 136

	Other Postretirement Benefits		
	Years Ended December 31,		
	2005	2004	2003
Service cost	$ 17	$ 17	$ 17
Interest cost	120	138	145
Expected return on plan assets	—	—	—
Amortization of prior service (credit)	(39)	(37)	(30)
Recognition of actuarial losses	63	101	62
Net periodic benefit cost	$161	$219	$194

Major actuarial assumptions used in determining the benefit obligations and net periodic benefit cost for our U.S. benefit plans are presented in the following table. For non-U.S. benefit plans, no one of which was material, assumptions reflect economic assumptions applicable to each country.

	Pension Benefits			Other Postretirement Benefits		
	2005	2004	2003	2005	2004	2003
Actuarial assumptions used to determine benefit obligations as of December 31:						
Discount rate	5.75%	5.875%	6.00%	5.50%	5.50%	6.00%
Expected annual rate of compensation increase	4.00%	4.00%	4.00%	—	—	—
Actuarial assumptions used to determine net periodic benefit cost for years ended December 31:						
Discount rate	5.875%	6.00%	6.75%	5.50%	6.00%	6.75%
Expected rate of return on plan assets	9.00%	9.00%	9.00%	—	—	—
Expected annual rate of compensation increase	4.00%	4.00%	4.00%	—	—	—

To select a discount rate for our retirement benefit plans, we use a modeling process that involves matching the expected cash outflows of our benefit plans to a yield curve constructed from a portfolio of double A rated fixed-income debt instruments. We use the average yield of this hypothetical portfolio as a discount rate benchmark. The discount rate used to determine the other postretirement benefit obligation is lower due to a shorter expected duration of other postretirement plan obligations as compared to pension plan obligations.

Our expected rate of return on plan assets of 9 percent is a long-term rate based on historic plan asset returns over varying long-term periods combined with current market conditions and broad asset mix considerations. The expected rate of return is a long-term assumption and generally does not change annually. For our U.S. pension plans, we use the market-related value of plan assets reflecting changes in the fair value of plan assets over a three-year period.

For our U.S. benefit plans, unrecognized losses in excess of 10 percent of the greater of the market-related value of plan assets or the plans projected benefit obligation are recognized over a six-year period.

Mortality assumptions for our U.S. benefit plans were updated as of December 31, 2005 using the RP2000 Mortality table for all participants.

Pension Benefits

Pension plans with accumulated benefit obligations exceeding the fair value of plan assets were as follows:

	December 31,	
	2005	2004
Projected benefit obligation	$2,746	$1,801
Accumulated benefit obligation	2,541	1,720
Fair value of plan assets	1,511	950

Statement of Financial Accounting Standards No. 87, “Employers Accounting for Pensions” (SFAS No. 87) requires recognition of an additional minimum pension liability if the fair value of plan assets is

less than the accumulated benefit obligation at the end of the plan year. In 2005, we recorded a non-cash adjustment to equity through accumulated other nonowner changes of $16 million ($26 million on a pretax basis) which increased the minimum pension liability. In 2004, we recorded a non-cash adjustment to equity through accumulated other nonowner changes of $15 million ($19 million on a pretax basis) which increased the additional minimum pension liability. In 2003, we recorded a non-cash adjustment to equity through accumulated other nonowner changes of $369 million ($604 million on a pretax basis) to reduce the additional minimum pension liability by $304 million and reinstate a portion of the pension assets ($300 million) written off in the prior year's minimum pension liability adjustment. This 2003 adjustment resulted from an increase in our pension assets in 2003 due to the improvement in equity markets and our contribution of $670 million to our U.S. plans.

Our U.S. pension plans assets were $12.0 and $11.5 billion and our non-U.S. pension plans assets were $2.6 and $1.6 billion at December 31, 2005 and 2004, respectively. Our asset allocation and target allocation for our pension plans assets are as follows:

	Percentage of Plans Assets at December 31,		Long-term Target Allocation
Asset Category	2005	2004	
Equity securities	63%	61%	40-65%
Debt securities, including cash	31	33	30-45
Real estate	4	4	2-8
Other	2	2	2-6
	100%	100%	

Equity securities include Honeywell common stock of $2 and $214 million at December 31, 2005 and 2004, respectively. An independent fiduciary holds and makes all investment decisions with respect to the Honeywell common stock.

Our asset investment strategy focuses on maintaining a diversified portfolio, using various asset classes, in order to achieve our long-term investment objectives on a risk adjusted basis. Our actual invested positions in various securities change over time based on short and longer-term investment opportunities. To achieve our objectives, our U.S. investment policy requires that our U.S. Master Retirement Trust be invested as follows: (a) no less than 30 percent be invested in fixed income securities; (b) no more than 10 percent in high-yield securities; (c) no more than 10 percent in private real estate investments; and (d) no more than 6 percent in other investment alternatives involving limited partnerships of various types. There is no stated limit on investments in publically-held U.S. and international equity securities. Our non-U.S. investment policies are different for each country, but the long-term investment objectives remain the same.

Our general funding policy for qualified pension plans is to contribute amounts at least sufficient to satisfy regulatory funding standards. In 2004 and 2003, we made voluntary contributions of $40 and $670 million, respectively, to our U.S. defined benefit pension plans to improve the funded status of our plans. Assuming that actual plan asset returns are consistent with our expected rate of 9 percent in 2006 and beyond, and that interest rates remain constant, we would not be required to make any contributions to our U.S. pension plans for the foreseeable future. We expect to make voluntary contributions of approximately $45 million in cash in 2006 to certain of our U.S. plans for government contracting purposes. We also expect to contribute approximately $150 million in cash in 2006 to our non-U.S. defined benefit pension plans primarily related to funding requirements of recently acquired companies. These contributions do not reflect benefits to be paid directly from Company assets.

Benefit payments, including amounts to be paid from Company assets, and reflecting expected future service, as appropriate, are expected to be paid as follows:

2006	$ 998
2007	996
2008	1,003
2009	1,014
2010	1,025
2011-2015	5,407

Other Postretirement Benefits

Effective December 31, 2004, we adopted FASB Staff Position No. 106-2 “Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003” (FSP No. 106-2). FSP No. 106-2 provides guidance on accounting for the effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) for employers that sponsor postretirement health care plans that provide prescription drug coverage that is at least actuarially equivalent to that offered by Medicare Part D. The enactment of the Act did not have a material impact on our accumulated postretirement benefit obligation as December 31, 2004. The impact of the Act reduced other postretirement benefits expense by approximately $45 million in 2005. This decrease in other postretirement benefits expense resulted from lower amortization of actuarial losses of approximately $33 million due to the effect of the actuarial gain experienced from the impact of the Act and from lower interest cost of approximately $12 million.

	December 31,	
	2005	2004
Assumed health care cost trend rate:		
Health care cost trend rate assumed for next year	9.0%	10.0%
Rate that the cost trend rate gradually declines to	5.0%	5.0%
Year that the rate reaches the rate it is assumed to remain at	2010	2010

The assumed health care cost trend rate has a significant effect on the amounts reported. A one-percentage-point change in the assumed health care cost trend rate would have the following effects:

	1 percentage point	
	Increase	Decrease
Effect on total of service and interest cost components	$ 7	$ (7)
Effect on postretirement benefit obligation	$ 116	$ (105)

Benefit payments reflecting expected future service, as appropriate, are expected to be paid as follows:

	Without Impact of Medicare Subsidy	Net of Medicare Subsidy
2006	$ 205	$ 186
2007	207	188
2008	210	190
2009	208	187
2010	203	182
2011-2015	950	865

Employee Savings Plans—We sponsor employee savings plans under which we match, in the form of our common stock, savings plan contributions for certain eligible U.S. employees. Shares issued under the stock match plans were 4.1, 4.3 and 6.5 million at a cost of $153, $151 and $173 million in 2005, 2004 and 2003, respectively.

Note 23—Segment Financial Data

We globally manage our business operations through four reportable segments serving customers worldwide with aerospace products and services, control, sensing and security technologies for buildings, homes and industry, automotive products and chemicals. Segment information is consistent with how management reviews the businesses, makes investing and resource allocation decisions and assesses operating performance. Our four reportable segments are as follows:

- Aerospace is organized by customer end-market (Air Transport and Regional, Business and General Aviation and Defense and Space) and provides products and services which include auxiliary power units; propulsion engines; environmental control systems; engine controls; repair and overhaul services; hardware; logistics; electric power systems; flight safety, communications, navigation, radar and surveillance systems; aircraft and airport lighting; management and technical services; advanced systems and instruments; and aircraft wheels and brakes.

- Automation and Control Solutions includes Products (controls for heating, cooling, indoor air quality, ventilation, humidification and home automation; advanced software applications for home/building control and optimization; sensors, switches, control systems and instruments for measuring pressure, air flow, temperature and electrical current; security, fire and gas detection; access control; video surveillance; and remote patient monitoring systems); Building Solutions (installs, maintains and upgrades systems that keep buildings safe, comfortable and productive); and Process Solutions (provides a full range of automation and control solutions for industrial plants, offering advanced software and automation systems that integrate, control and monitor complex processes in many types of industrial settings).

- Specialty Materials includes fluorocarbons, specialty films, advanced fibers, customized research chemicals and intermediates, electronic materials and chemicals, and catalysts and adsorbents.

- Transportation Systems includes Honeywell Turbo Technologies (turbochargers and charge-air and thermal systems); and the Consumer Products Group (car care products including anti-freeze, filters, spark plugs, and cleaners, waxes and additives; and brake hard parts and other friction materials).

The accounting policies of the segments are the same as those described in Note 1. Honeywell's senior management evaluates segment performance based on segment profit. Segment profit is business unit income (loss) before taxes excluding general corporate unallocated expenses, gains (losses) on sales of non-strategic businesses, equity income (loss), other income (expense), interest and other financial charges, pension and other postretirement benefits (expense) and repositioning and other charges and accounting changes. In 2003, Honeywell changed its definition of segment profit to exclude pension and other postretirement benefits (expense). Pension and other postretirement benefits (expense) is significantly impacted by external factors such as investment returns, interest rates and other actuarial assumptions that Honeywell does not consider indicative of the underlying business segment operating performance under the control of business unit management. Intersegment sales approximate market and are not significant. Reportable segment data follows:

	Years Ended December 31,		
	2005	2004	2003
Net sales			
Aerospace	$10,497	$ 9,748	$ 8,813
Automation and Control Solutions	9,416	8,031	7,464
Specialty Materials	3,234	3,497	3,169
Transportation Systems	4,505	4,323	3,650
Corporate	1	2	7
	$27,653	$25,601	$23,103
Depreciation and amortization			
Aerospace	$ 232	$ 235	$ 256
Automation and Control Solutions	202	159	168
Specialty Materials	137	141	133
Transportation Systems	93	80	80
Corporate	33	35	24
	$ 697	$ 650	$ 661
Segment profit			
Aerospace	$ 1,703	$ 1,479	$ 1,221
Automation and Control Solutions	1,065	894	843
Specialty Materials	257	184	136
Transportation Systems	557	575	461
Corporate	(173)	(158)	(142)
	$ 3,409	$ 2,974	$ 2,519
Capital expenditures			
Aerospace	$ 178	$ 168	$ 218
Automation and Control Solutions	136	106	100
Specialty Materials	155	156	144
Transportation Systems	143	137	108
Corporate	72	62	85
	$ 684	$ 629	$ 655

	December 31,		
	2005	2004	2003
Total assets			
Aerospace	$ 8,357	$ 8,441	$ 7,792
Automation and Control Solutions	10,080	8,128	7,590
Specialty Materials	4,732	3,239	3,239
Transportation Systems	2,880	3,131	2,612
Corporate	6,245	8,123	8,081
	$32,294	$31,062	$29,314

A reconciliation of segment profit to consolidated income from continuing operations before taxes is as follows:

	Years Ended December 31,		
	2005	2004	2003
Segment profit	$3,409	$2,974	$2,519
Gain on sale of non-strategic businesses	36	255	38
Asbestos related litigation charges, net of insurance	(10)	(76)	—
Business impairment charges	(23)	(42)	—
Repositioning and other charges(1)	(367)	(646)	(276)
Pension and other postretirement benefits (expense)(1)	(561)	(628)	(325)
Equity in income of affiliated companies	134	82	38
Other income (expense)	61	92	(19)
Interest and other financial charges	(356)	(331)	(335)
Income from continuing operations before taxes	$2,323	$1,680	$1,640

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

Note 24—Geographic Areas—Financial Data

	Net Sales(1)			Long-lived Assets(2)		
	Years Ended December 31,			Years Ended December 31,		
	2005	2004	2003	2005	2004	2003
United States	$ 17,957	$ 16,633	$ 15,178	$ 11,645	$ 9,083	$ 8,963
Europe	6,552	6,097	5,433	1,958	2,044	1,833
Other International	3,144	2,871	2,492	691	458	386
	$ 27,653	$ 25,601	$ 23,103	$ 14,294	$ 11,585	$ 11,182

(1) Sales between geographic areas approximate market and are not significant. Net sales are classified according to their country of origin. Included in United States net sales are export sales of $2,780, $2,399 and $2,246 million in 2005, 2004 and 2003, respectively.

(2) Long-lived assets are comprised of property, plant and equipment, goodwill and other intangible assets.

Note 25—Supplemental Cash Flow Information

	Years Ended December 31,		
	2005	2004	2003
Interest paid, net of amounts capitalized	$397	$330	$367
Income taxes paid, net of refunds	235	178	31
Non-cash investing and financing activities:			
Common stock contributed to U.S. savings plans	153	151	173
Debt assumed in the purchase of leased assets	—	—	267

Note 26—Unaudited Quarterly Financial Information

	2005					2004				
	Mar. 31(1)(2)	June 30(3)(4)	Sept. 30(5)(6)	Dec. 31(7)(8)	Year	Mar. 31(9)(10)	June 30(11)(12)	Sept. 30(13)(14)(15)	Dec. 31(16)(17)	Year
Net sales	$ 6,453	$ 7,026	$ 6,899	$ 7,275	$27,653	$ 6,178	$ 6,388	$ 6,395	$ 6,640	$25,601
Gross profit	1,402	1,530	1,644	1,612	6,188	1,259	1,209	1,332	1,216	5,016
Income from continuing operations	359	278	433	511	1,581	295	361	372	253	1,281
Income from discontinued operations	—	28	37	30	95	—	—	—	—	—
Cumulative effect of accounting change	—	—	—	(21)	(21)	—	—	—	—	—
Net income	359	306	470	520	1,655	295	361	372	253	1,281
Earnings per share—basic:										
Income from continuing operations	.42	.33	.51	.61	1.87	.34	.42	.43	.30	1.49
Income from discontinued operations	—	.03	.04	.04	.11	—	—	—	—	—
Cumulative effect of accounting change	—	—	—	(.03)	(.03)	—	—	—	—	—
Net income	.42	.36	.55	.62	1.95	.34	.42	.43	.30	1.49
Earnings per share—assuming dilution:										
Income from continuing operations	.42	.33	.51	.61	1.86	.34	.42	.43	.30	1.49
Income from discontinued operations	—	.03	.04	.04	.11	—	—	—	—	—
Cumulative effect of accounting change	—	—	—	(.03)	(.03)	—	—	—	—	—
Net income	.42	.36	.55	.62	1.94	.34	.42	.43	.30	1.49
Dividends paid	.20625	.20625	.20625	.20625	.8250	.1875	.1875	.1875	.1875	.75
Market price(18)										
High	39.30	38.12	39.29	37.96	39.30	37.43	37.51	38.11	36.76	38.11
Low	34.00	35.17	35.41	33.21	33.21	31.75	32.60	34.58	32.23	31.75

(1) Includes a $99 million provision for environmental, litigation and net repositioning charges. Total after-tax charge was $70 million, or $0.08 per share. The total pretax charge included in gross profit was $68 million.
(2) Includes an after-tax gain of $5 million, or $0.01 per share for a post-closing adjustment related to the sale of our Security Monitoring business which was sold in the prior year.
(3) Includes a $123 million provision for environmental, litigation, net repositioning and other charges. Total after-tax charge was $96 million, or $0.11 per share. The total pretax charge included in gross profit was $117 million.
(4) Includes an after-tax gain of $39 million, or $0.05 per share on the sale of our Industrial Wax business and for a post-closing adjustment on the sale of our Performance Fibers business which was sold in the prior year. Also includes a tax provision of $155 million, or $0.18 per share for repatriation of foreign earnings.
(5) Includes a $110 million provision for environmental, litigation, net repositioning and other charges. Total after-tax charge was $76 million, or $0.09 per share. The total pretax charge included in gross profit was $24 million.
(6) Includes an after-tax gain of $13 million, or $0.02 per share, for post-closing adjustments related to businesses sold in the prior year.

(footnotes continued on next page)

(footnotes continued from previous page)

(7) Includes a $65 million provision for environmental, litigation, net repositioning and other charges (credits). Total after-tax charge was $54 million, or $0.06 per share. The total pretax charge included in gross profit was $115 million.
(8) Includes an after-tax gain of $3 million, with no effect on earnings per share, related to the sale of our Nylon Carpet Fiber business and post-closing adjustments related to businesses sold in prior periods.
(9) Includes a $56 million provision for environmental, litigation and net repositioning charges. Total after-tax charge was $35 million, or $0.04 per share. The total pretax charge included in gross profit was $41 million.
(10) Includes an after-tax gain of $14 million, or $0.02 per share, on the sale of our VCSEL Optical Products business.
(11) Includes a $242 million provision for environmental, litigation, business impairment, net repositioning and other charges. Total after-tax charge was $158 million, or $0.18 per share. The total pretax charge included in gross profit was $183 million.
(12) Includes an after-tax gain of $130 million, or $0.15 per share, on the sale of our Security Monitoring business.
(13) Includes a $101 million provision for environmental, litigation and net repositioning charges. Total after-tax charge was $56 million, or $0.06 per share. The total pretax charge included in gross profit was $76 million.
(14) Includes an after-tax gain of $3 million, with no effect on earnings per share, for post-closing adjustments related to businesses sold in prior periods.
(15) Includes an after-tax gain of $17 million, or $0.02 per share, related to the settlement of a patent infringement lawsuit.
(16) Includes a $376 million provision for environmental, litigation, business impairment, net repositioning and other charges. Total after-tax charge was $227 million, or $0.26 per share. The total pretax charge included in gross profit was $321 million.
(17) Includes an after-tax loss of $3 million, with no effect on earnings per share, on the sale of our Performance Fibers business and for post-closing adjustments related to businesses sold in prior periods.
(18) From composite tape–stock is primarily traded on the New York Stock Exchange.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREOWNERS OF
HONEYWELL INTERNATIONAL INC.:

We have completed integrated audits of Honeywell International Inc.'s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005 and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Honeywell International Inc. and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143,” for the year ended December 31, 2005, and FASB Statement No. 143, “Accounting for Asset Retirement Obligations” for the year ended December 31, 2003.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating

effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Florham Park, New Jersey
March 1, 2006

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not Applicable.

Item 9A. Controls and Procedures

Honeywell management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. 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 Annual Report on Form 10-K in alerting them on a timely basis to material information relating to Honeywell required to be included in Honeywell's periodic filings under the Exchange Act. There have been no changes that have materially affected, or are reasonably likely to materially affect, Honeywell's internal control over financial reporting that have occurred during the period covered by this Annual Report on Form 10-K.

Management's Report on Internal Control Over Financial Reporting

Honeywell management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Honeywell's internal control over financial reporting is a process designed 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. Honeywell's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of Honeywell's assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of Honeywell's management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Honeywell's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Honeywell's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.*

Based on this assessment, management determined that Honeywell maintained effective internal control over financial reporting as of December 31, 2005.

Management's assessment of the effectiveness of Honeywell's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accouting firm, as stated in their report which is included in “Item 8. Financial Statements and Supplementary Data.”

Item 9B. Other Information

Not Applicable.

Part III.

Item 10. Directors and Executive Officers of the Registrant

Information relating to the Directors of Honeywell, as well as information relating to compliance with Section 16(a) of the Securities Exchange Act of 1934, will be contained in our definitive Proxy Statement involving the election of the Directors which will be filed with the SEC pursuant to Regulation 14A not later than 120 days after December 31, 2005, and such information is incorporated herein by reference. Certain other information relating to the Executive Officers of Honeywell appears in Part I of this Annual Report on Form 10-K under the heading “Executive Officers of the Registrant”.

The members of the Audit Committee of our Board of Directors are: Russell E. Palmer (Chair), D. Scott Davis, James J. Howard, Eric K. Shinseki, John R. Stafford, and Michael W. Wright. The Board has determined that Mr. Palmer satisfies the “audit committee financial expert” criteria established by the SEC and the “accounting or related financial management expertise” criteria established by the NYSE. All members of the Audit Committee are “independent” as that term is defined in applicable SEC Rules and NYSE listing standards.

Honeywell's Code of Business Conduct is available, free of charge, on our website under the heading “Investor Relations” (see “Corporate Governance”), or by writing to Honeywell, 101 Columbia Road, Morris Township, New Jersey 07962, c/o Vice President and Corporate Secretary. Honeywell's Code of Business Conduct applies to all Honeywell directors, officers (including the Chief Executive Officer, Chief Financial Officer and Controller) and employees. Amendments to or waivers of the Code of Business Conduct granted to any of Honeywell's directors or executive officers will be published on our website within five business days of such amendment or waiver.

Item 11. Executive Compensation

Information relating to executive compensation is contained in the Proxy Statement referred to above in “Item 10. Directors and Executive Officers of the Registrant,” and such information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information relating to security ownership of certain beneficial owners and management, equity compensation plans and related stockholder matters is contained in the Proxy Statement referred to above in “Item 10. Directors and Executive Officers of the Registrant,” and such information is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information relating to certain relationships and related transactions is contained in the Proxy Statement referred to above in “Item 10. Directors and Executive Officers of the Registrant,” and such information is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information relating to fees paid to and services performed by PricewaterhouseCoopers LLP in 2005 and 2004 and our Audit Committee's pre-approval policies and procedures with respect to non-audit services are contained in the Proxy Statement referred to above in “Item 10. Directors and Executive Officers of the Registrant,” and such information is incorporated herein by reference.

Part IV.

Item 15. Exhibits and Financial Statement Schedules

(a)(1.) Consolidated Financial Statements:

	Page Number in Form 10-K
Consolidated Statement of Operations for the years ended December 31, 2005, 2004 and 2003	44
Consolidated Balance Sheet at December 31, 2005 and 2004	45
Consolidated Statement of Cash Flows for the years ended December 31, 2005, 2004 and 2003	46
Consolidated Statement of Shareowners' Equity for the years ended December 31, 2005, 2004 and 2003	47
Notes to Financial Statements	48
Report of Independent Registered Public Accounting Firm	93

(a)(2.) Consolidated Financial Statement Schedules:

	Page Number in Form 10-K
Schedule II—Valuation and Qualifying Accounts	102

All other financial statement schedules have been omitted because they are not applicable to us or the required information is shown in the consolidated financial statements or notes thereto.

(a)(3.) Exhibits

See the Exhibit Index on pages 99 through 101 of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

HONEYWELL INTERNATIONAL INC.

March 1, 2006By: /s/ THOMAS A. SZLOSEK

Thomas A. Szlosek
Vice President and Controller

Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated:

Name	Name
*	*
David M. Cote Chairman of the Board, Chief Executive Officer and Director *	Bruce Karatz Director *
Gordon M. Bethune Director *	Russell E. Palmer Director *
D. Scott Davis Director *	Ivan G. Seidenberg Director *
Jaime Chico Pardo Director *	Bradley T. Sheares, Ph.D. Director *
Clive R. Hollick Director *	Eric K. Shinseki Director *
James J. Howard Director /s/ DAVID J. ANDERSON	John R. Stafford Director *
David J. Anderson Senior Vice President and Chief Financial Officer (Principal Financial Officer)	Michael W. Wright Director /s/ THOMAS A. SZLOSEK
	Thomas A. Szlosek Vice President and Controller (Principal Accounting Officer)

*By: /s/ DAVID J. ANDERSON

(David J. Anderson
Attorney-in-fact)
March 1, 2006

EXHIBIT INDEX

Exhibit No.	Description
2	Omitted (Inapplicable)
3(i)	Restated Certificate of Incorporation of Honeywell International Inc., as amended April 25, 2005 (filed herewith)
3(ii)	By-laws of Honeywell, as amended April 25, 2005 (filed herewith)
4	Honeywell International Inc. is a party to several long-term debt instruments under which, in each case, the total amount of securities authorized does not exceed 10% of the total assets of Honeywell and its subsidiaries on a consolidated basis. Pursuant to paragraph 4(iii)(A) of Item 601(b) of Regulation S-K, Honeywell agrees to furnish a copy of such instruments to the Securities and Exchange Commission upon request.
9	Omitted (Inapplicable)
10.1*	2003 Stock Incentive Plan of Honeywell International Inc., and its Affiliates (incorporated by reference to Honeywell's Proxy Statement, dated March 17, 2003, filed pursuant to Rule 14a-6 of the Securities and Exchange Act of 1934 and amended by Exhibit 10.1 to Honeywell's Form 8-K filed December 21, 2004)
10.2*	Deferred Compensation Plan for Non-Employee Directors of Honeywell International Inc., as amended and restated (incorporated by reference to Exhibit 10.2 to Honeywell's Form 10-Q for quarter ended June 30, 2003, amended by Exhibit 10.1 to Honeywell's Form 8-K filed December 21, 2004 and by the attached amendment (filed herewith)
10.3*	Stock Plan for Non-Employee Directors of AlliedSignal Inc., as amended (incorporated by reference to Exhibit 10.3 to Honeywell's Form 10-Q for the quarter ended June 30, 2003)
10.4*	1985 Stock Plan for Employees of AlliedSignal Inc. and its Subsidiaries, as amended (incorporated by reference to Exhibit 19.3 to Honeywell's Form 10-Q for the quarter ended September 30, 1991)
10.5*	AlliedSignal, Inc. Incentive Compensation Plan for Executive Employees, as amended (incorporated by reference to Exhibit B to Honeywell's Proxy Statement, dated March 10, 1994, filed pursuant to Rule 14a-6 of the Securities and Exchange Act of 1934 , and amended by Exhibit 10.5 to Honeywell's Form 10-Q for the quarter ended June 30, 1999)
10.6*	Supplemental Non-Qualified Savings Plan for Highly Compensated Employees of Honeywell International Inc. and its Subsidiaries as amended and restated (incorporated by reference to Exhibit 10.6 to Honeywell's Form 10-Q for the quarter ended September 30, 2005)
10.7*	Honeywell International Inc. Severance Plan for Senior Executives, as amended and restated (incorporated by reference to Exhibit 10.7 to Honeywell's Form 10-K for the year ended December 31, 2003, and amended by Exhibit 10.7 to Honeywell's Form 10-Q for the quarter ended June 30, 2004)
10.8*	Salary and Incentive Award Deferral Plan for Selected Employees of Honeywell International Inc., and its Affiliates, as amended and restated (incorporated by reference to Exhibit 10.8 to Honeywell's Form 10-Q for the quarter ended September 30, 2005)

Exhibit No.	Description
10.9*	1993 Stock Plan for Employees of Honeywell International Inc. and its Affiliates, as amended (incorporated by reference to Exhibit A to Honeywell's Proxy Statement, dated March 10, 1994, filed pursuant to Rule 14a-6 of the Securities and Exchange Act of 1934, and amended by Exhibit 10.1 to Honeywell's Form 8-K filed December 21, 2004)
10.10	Five-Year $1 Billion Credit Agreement dated as of October 22, 2004 among Honeywell, the initial lenders named therein, Citicorp USA, Inc., as administrative agent, JPMorgan Chase Bank, as syndication agent, and Bank of America, N.A., Barclays Bank plc, Deutsche Bank AG, New York branch, and UBS Securities LLC as documentation agents and CitiGroup Global Markets Inc. and J.P. Morgan Securities Inc., as joint lead arrangers and co-book managers (incorporated by reference to Exhibit 10.10 to Honeywell's Form 10-K filed for the year ended December 31, 2004)
10.11	Five-Year $1.3 Billion Credit Agreement dated as of November 26, 2003 among Honeywell, the initial lenders named therein, Citibank, N.A., as administrative agent, JPMorgan Chase Bank, as syndication agent, and Deutsche Bank AG, New York Branch, Bank of America, N.A., UBS Securities LLC, and Barclays Bank PLC, as documentation agents, and CitiGroup Global Markets Inc. and J.P. Morgan Securities Inc., as joint lead arrangers and co-book managers (incorporated by reference to Exhibit 10.11 to Honeywell's Form 10-K for the year ended December 31, 2003)
10.12*	Honeywell International Inc. Supplemental Pension Plan, as amended and restated (incorporated by reference to Exhibit 10.13 to Honeywell's Form 10-K for the year ended December 31, 2000, and amended by Exhibit 10.1 to Honeywell's Form 8-K filed December 21, 2004)
10.13*	Employment Separation Agreement and Release between J. Kevin Gilligan and Honeywell International Inc. dated February 10, 2004 (incorporated by reference to Honeywell's Form 10-K for year ended December 31, 2003)
10.14*	Honeywell International Inc. Supplemental Executive Retirement Plan for Executives in Career Band 6 and Above (incorporated by reference to Exhibit 10.14 to Honeywell's Form 10-Q for the quarter ended June 30, 2004, and amended by Exhibit 10.1 to Honeywell's Form 8-K filed December 21, 2004)
10.15*	Honeywell Supplemental Defined Benefit Retirement Plan, as amended and restated (incorporated by reference to Exhibit 10.15 to Honeywell's Form 10-Q for the quarter ended June 30, 2004, and amended by Exhibit 10.1 to Honeywell's Form 8-K filed December 21, 2004)
10.16*	Letter between David J. Anderson and Honeywell International Inc. dated June 12, 2003 (incorporated by reference to Exhibit 10.26 to Honeywell's Form 10-Q for the quarter ended June 30, 2003)
10.17*	Employment Separation Agreement and Release between Richard F. Wallman and Honeywell International Inc. dated July 17, 2003 (incorporated by reference to Exhibit 10.2 to Honeywell's Form 10-Q for the quarter ended September 30, 2003)
10.18*	Honeywell International Inc. Severance Plan for Corporate Staff Employees (Involuntary Termination Following a Change in Control), as amended and restated (incorporated by reference to Exhibit 10.19 to Honeywell's Form 10-K for the year ended December 31, 2002)

Exhibit No.	Description
10.19*	Employment Agreement dated as of February 18, 2002 between Honeywell and David M. Cote (incorporated by reference to Exhibit 10.24 to Honeywell's Form 8-K filed March 4, 2002)
10.20*	2003 Stock Incentive Plan for Employees of Honeywell International Inc. and its Affiliates Award Agreement (incorporated by reference to Exhibit 10.1 to Honeywell's Form 8-K filed on February 7, 2005)
10.21*	2003 Stock Incentive Plan for Employees of Honeywell International Inc. and its Affiliates Restricted Unit Agreement (filed herewith)
10.22*	2003 Stock Incentive Plan for Employees of Honeywell International Inc. and its Affiliates Growth Plan Agreement (filed herewith)
10.23*	Stock Plan For Non-Employee Directors of Honeywell International Inc. Option Agreement (incorporated by reference to Exhibit 10.1 to Form 8-K filed April 29, 2005.)
10.24	364-Day $240 Million Credit Agreement dated as of September 9, 2005 among Honeywell, Honeywell AsCa Inc., Honeywell Limited/Honeywell Limitee, and Honeywell Aerospatiale Inc. as borrowers, and the initial lenders named therein, Citibank, N.A., Canadian branch as administrative agent and Citigroup Global Markets Inc. and Royal Bank of Canada as joint lead arrangers and co-book managers (filed herewith)
10.25	Purchase and Sale Agreement between Catalysts, Adsorbents and Process Systems, Inc., and Honeywell Specialty Materials, LLC, dated September 30, 2005 (incorporated by reference to Exhibit 10.23 to Honeywell's Form 10-Q for the quarter ended September 30, 2005)
10.26	Stock Purchase Agreement by and between Honeywell International Inc. and M&F Worldwide Corp. (incorporated by reference to Exhibit 2.1 to Honeywell's Form 8-K filed November 1, 2005.)
11	Omitted (Inapplicable)
12	Statement re: Computation of Ratio of Earnings to Fixed Charges (filed herewith)
16	Omitted (Inapplicable)
18	Omitted (Inapplicable)
21	Subsidiaries of the Registrant (filed herewith)
22	Omitted (Inapplicable)
23	Consent of PricewaterhouseCoopers LLP (filed herewith)
24	Powers of Attorney (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)
99	Omitted (Inapplicable)

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

HONEYWELL INTERNATIONAL INC
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
Three Years Ended December 31, 2005
(In millions)

Allowance for Doubtful Accounts:	
Balance December 31, 2002	$ 147
Provision charged to income	72
Deductions from reserves(1)	(69)
Balance December 31, 2003	150
Provision charged to income	100
Deductions from reserves(1)	(113)
Balance December 31, 2004	137
Provision charged to income	83
Deductions from reserves(1)	(71)
Acquisitions	30
Balance December 31, 2005	$ 179

(1) Represents uncollectible accounts written off, less recoveries, translation adjustments and reserves acquired.

Deferred Tax Assets—Valuation Allowance	
Balance December 31, 2002	$ 191
Additions charged to income tax expense	147
Reductions credited to income tax expense	(39)
Balance December 31, 2003	299
Additions charged to income tax expense	145
Reductions credited to income tax expense	(108)
Additions charged to goodwill, due to acquisitions	2
Balance December 31, 2004	338
Additions charged to income tax expense	46
Reductions credited to income tax expense	(126)
Additions charged to goodwill, due to acquisitions	219
Balance December 31, 2005	$ 477

Exhibit 3(i)

Restated
Certificate of Incorporation
of
Honeywell International Inc.

As filed with the Secretary of State
of the State of Delaware
on April 25, 2005

Exhibit A

Restated Certificate of Incorporation
of
Honeywell International Inc.

Honeywell International Inc., which was originally incorporated in the State of Delaware on May 13, 1985 under the name of East/West Newco Corporation, hereby certifies that this Restated Certificate of Incorporation was duly adopted in accordance with the provisions of Sections 242 and 245 of the General Corporation Law of the State of Delaware. This Restated Certificate of Incorporation amends, restates and integrates the provisions of the Corporation's certificate of incorporation as hereby amended. The text of the certificate of incorporation as heretofore amended is hereby restated to read in its entirety as follows:

FIRST: The name of the corporation is Honeywell International Inc.

SECOND: The address of the registered office of the corporation in the State of Delaware is 2711 Centerville Road, Suite 400, in the City of Wilmington, 19808 County of New Castle. The name of its registered agent at that address is Corporation Service Company.

THIRD: The purpose of the corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware as set forth in Title 8 of the Delaware Code.

FOURTH: The total number of shares of stock which the corporation shall have authority to issue is 2,040,000,000 shares of which 2,000,000,000 shares shall be Common Stock, par value $1.00 per share ("Common Shares"), and 40,000,000 shares shall be Preferred Stock, without par value ("Preferred Stock").

FIFTH: From time to time the corporation may issue and may sell its authorized shares for such consideration per share (with respect to shares having a par value, not less than the par value thereof), either in money or money's worth of property or services, or for such other considerations, whether greater or less, now or from time to time hereafter permitted by law, as may be fixed by the Board of Directors; and all shares so issued shall be fully paid and nonassessable.

No holder of any shares of any class shall as such holder have any preemptive right to subscribe for or purchase any other shares or securities of any class, whether now or hereafter authorized, which at any time may be offered for sale or sold by the corporation.

Each holder of record of the Common Shares of the corporation shall be entitled to one vote for every Common Share standing in his name on the books of the corporation.

The corporation may issue Preferred Stock from time to time in one or more series as the Board of Directors may establish by the adoption of a resolution or resolutions relating thereto, each series to have such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions providing for the issue of such series adopted by the Board of Directors pursuant to authority to do so, which authority is hereby granted to the Board of Directors.

SIXTH: The duration of the corporation is to be perpetual.

SEVENTH: Except as otherwise provided pursuant to the provisions of this Certificate of Incorporation relating to the rights of certain holders of Preferred Stock to elect additional Directors under specified circumstances, the number of Directors of the corporation shall be determined from time to time in the manner described in the By-laws. The Directors, other than those who may be elected by the holders of Preferred Stock pursuant to this Certificate of Incorporation, shall be elected by the holders of the then outstanding shares of capital

stock of the corporation entitled to vote generally in the election of Directors (the "Voting Stock"), voting together as a single class, and shall hold office until the next annual meeting of stockholders and until their successors have been elected and qualified. Directors serving on April 25, 2005 shall hold office until the next succeeding annual meeting of stockholders and until their successors shall have been elected and qualified, notwithstanding that such directors may have been elected for a term that extended beyond the date of such annual meeting of stockholders. No Director need be a stockholder.

Except as otherwise provided pursuant to this Certificate of Incorporation relating to the rights of certain holders of Preferred Stock to elect Directors under specified circumstances, newly created directorships resulting from any increase in the number of Directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining Directors then in office, even if less than a quorum of the Board of Directors, or by a sole remaining director. Any Director elected in accordance with the preceding sentence shall hold office until the annual meeting of stockholders at which the term of office of the class to which such Director has been elected expires, and until such Director's successor shall have been elected and qualified. No decrease in the number of Directors constituting the Board of Directors shall shorten the term of any incumbent Director.

Subject to the rights of certain holders of Preferred Stock to elect Directors under circumstances specified in this Certificate of Incorporation, Directors may be removed from office, with or without cause, by the affirmative vote of the holders of a majority of the Voting Stock, voting together as a single class.

EIGHTH: The By-laws of the corporation may contain provisions, not inconsistent with law or this Certificate of Incorporation, relating to the management of the business of the corporation, the regulation of its affairs, the transfer of its stock, the qualifications, compensation and powers and duties of its Directors and the time and place and the manner of calling the meetings of its stockholders and Directors.

The Board of Directors may from time to time fix, determine and vary the amount of the working capital of the corporation, may determine what part, if any, (i) of its surplus or (ii) in case there shall be no such surplus, of its net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year shall be declared as dividends and paid to the stockholders, may determine the time or times for the declaration and payment of dividends, the amount thereof and whether they are to be in cash, property or shares of the capital stock of the corporation and may direct and determine the use and disposition of any surplus over and above the capital of the corporation.

The Board of Directors may from time to time make, amend, supplement or repeal the By-laws; provided, however, that the stockholders may change or repeal any By-law adopted by the Board of Directors.

The Board of Directors shall, except as otherwise provided by law, this Certificate of Incorporation or the By-laws, exercise the powers of the corporation.

Pursuant to the By-laws, an Executive Committee and/or one or more other committees may be appointed from among the Directors or otherwise, to which may be delegated any of or all the powers and duties of the Board of Directors, to the full extent permitted by law.

Except as otherwise required by law and subject to the rights of the holders of Preferred Stock pursuant to the provisions of this Certificate of Incorporation, special meetings of stockholders may be called only by the Chief Executive Officer or by the Board of Directors pursuant to a resolution approved by a majority of the then authorized number of Directors of the corporation (as determined in accordance with the By-laws).

No contract or other transaction of the corporation shall be void, voidable, fraudulent or otherwise invalidated, impaired or affected, in any respect, by reason of the fact that any one or more of the officers, Directors or stockholders of the corporation shall individually be party or parties thereto or otherwise interested therein, or shall be officers, directors or stockholders of any other corporation or corporations which shall be party or parties thereto or otherwise interested therein; provided that such contract or other transactions be duly authorized or

ratified by the Board of Directors or Executive Committee, with the assenting vote of a majority of the disinterested Directors or Executive Committeemen then present, or, if only one such is present, with his assenting vote.

NINTH: No stockholder action may be taken except at an annual or special meeting of stockholders of the corporation and stockholders may not take any action by written consent in lieu of a meeting.

TENTH: Unless required by law or demanded by a stockholder of the corporation entitled to vote at a meeting of stockholders or determined by the chairman of such meeting to be advisable, the vote on any question need not be by ballot. On a vote by ballot, each ballot shall be signed by the stockholder voting, or his proxy if there be such proxy, and shall state the number of shares voted by such stockholder or proxy.

ELEVENTH: (1)*Elimination of Certain Liability of Directors*. A Director of the corporation shall not be personally liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as a Director, except for liability (i) for any breach of the Director's duty of loyalty to the corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law, or (iv) for any transaction from which the Director derived an improper personal benefit. If the Delaware General Corporation Law is amended after approval by the stockholders of this Article ELEVENTH to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a Director of the corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended. Any repeal or modification of this Section by the stockholders of the corporation shall not adversely affect any right or protection of a Director of the corporation existing at the time of such repeal or modification.

(2) *Indemnification and Insurance.*

(A) *Right to Indemnification*. Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a Director, officer or employee of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans (hereinafter, an "indemnitee"), whether the basis of such proceeding is alleged action in an official capacity as a Director, officer, employee or agent or in any other capacity while serving as a Director, officer, employee or agent, shall be indemnified and held harmless by the corporation to the fullest extent authorized by the Delaware General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said Law permitted the corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid or to be paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith and such indemnification shall continue as to an indemnitee who has ceased to be a Director, officer, employee or agent and shall inure to the benefit of the indemnitee's heirs, executors and administrators; *provided, however*, that, except as provided in paragraph (B) hereof with respect to proceedings to enforce rights to indemnification, the corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors of the corporation. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the corporation the expenses incurred in defending any such proceeding in advance of its final disposition (hereinafter, an "advancement of expenses"); *provided, however,* that, if the Delaware General Corporation Law requires, an advancement of expenses incurred by an indemnitee in his or her capacity as a Director or officer (and not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the corporation of an undertaking (hereinafter, an "undertaking"), by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter, a "final adjudication") that such indemnitee is not entitled to be indemnified for such expenses under this Section or otherwise, and, *provided further*, that an advancement of expenses incurred by an employee other than a Director or officer in advance of the final disposition of a proceeding shall be made, unless otherwise determined by the Board of Directors, only upon

delivery to the corporation of an undertaking by or on behalf of such employee to the same effect as any undertaking required to be delivered by a Director or officer.

(B*) Right of Indemnitee to Bring Suit.* If a claim under paragraph (A) of this Section is not paid in full by the corporation within sixty days after a written claim has been received by the corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty days, the indemnitee may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) any suit by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met the applicable standard of conduct set forth in the Delaware General Corporation Law. Neither the failure of the corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the Delaware General Corporation Law, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or by the corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Section or otherwise shall be on the corporation.

(C) *Non-Exclusivity of Rights.* The rights to indemnification and to the advancement of expenses conferred in this Section shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of this Certificate of Incorporation, By-law, agreement, vote of stockholders or disinterested Directors or otherwise.

(D) *Insurance*. The corporation may maintain insurance, at its expense, to protect itself and any Director, officer, employee or agent of the corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware General Corporation Law.

(E) *Indemnification of Agents of the Corporation.* The corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any agent of the corporation to the fullest extent of the provisions of this Section with respect to the indemnification and advancement of expenses of Directors, officers and employees of the corporation.

TWELFTH: The corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

Exhibit 3(ii)

By-laws
of
Honeywell International Inc.

Amended as of
April 25, 2005

TABLE OF CONTENTS

ARTICLE I--OFFICES	1
SECTION 1. Registered Office	1
SECTION 2. Other Offices	1
ARTICLE II--MEETINGS OF STOCKHOLDERS	1
SECTION 1. Place of Meetings	1
SECTION 2. Annual Meetings	1
SECTION 3. Special Meetings	1
SECTION 4. Notice of Meetings	1
SECTION 5. Quorum	2
SECTION 6. Order of Business	2
SECTION 7. Voting	2
SECTION 8. Inspectors	2
ARTICLE III--DIRECTORS	3
SECTION 1. Powers	3
SECTION 2. Number, Election and Terms	3
SECTION 3. Advance Notice of Stockholder Business and Nominations	3
SECTION 4. Place of Meetings	6
SECTION 5. Regular Meetings	6
SECTION 6. Special Meetings	6
SECTION 7. Notice of Meetings	6
SECTION 8. Quorum and Manner of Acting	6

SECTION 9. Resignation 7
SECTION 10. Removal of Directors 7
SECTION 11. Compensation of Directors 7
ARTICLE IV--COMMITTEES OF THE BOARD 7
SECTION 1. Appointment and Powers of Audit Committee 7
SECTION 2. Other Committees 8
SECTION 3. Action by Consent; Participation by Telephone or Similar Equipment 8
SECTION 4. Changes in Committees; Resignations; Removals 8
ARTICLE V--OFFICERS 9
SECTION 1. Number and Qualifications 9
SECTION 2. Resignations 9
SECTION 3. Removal 9
SECTION 4. Vacancies 9
SECTION 5. Chairman of the Board 9
SECTION 6. Vice Chairman of the Board 9
SECTION 7. Chief Executive Officer 10
SECTION 8. President 10
SECTION 9. Vice Presidents 10
SECTION 10. General Counsel 10
SECTION 11. Treasurer 10
SECTION 12. Secretary 10
SECTION 13. Controller 11
SECTION 14. Bonds of Officers 11
SECTION 15. Compensation 11

SECTION 16. Officers of Operating Companies or Divisions 11
ARTICLE VI--CONTRACTS, CHECKS, LOANS, DEPOSITS, ETC. 11
SECTION 1. Contracts 11
SECTION 2. Checks, etc. 11
SECTION 3. Loans 11
SECTION 4. Deposits 12
ARTICLE VII--CAPITAL STOCK 12
SECTION 1. Stock Certificates and Uncertificated Shares 12
SECTION 2. List of Stockholders Entitled to Vote 12
SECTION 3. Stock Ledger 12
SECTION 4. Transfers of Capital Stock 12
SECTION 5. Lost Certificates 13
SECTION 6. Fixing of Record Date 13
SECTION 7. Registered Owners 13
ARTICLE VIII--FISCAL YEAR 13
ARTICLE IX--SEAL 14
ARTICLE X--WAIVER OF NOTICE 14
ARTICLE XI--AMENDMENTS 14
ARTICLE XII--EMERGENCY BY-LAWS 14
SECTION 1. Emergency Board of Directors 14
SECTION 2. Membership of Emergency Board of Directors 14
SECTION 3. Powers of the Emergency Board 15
SECTION 4. Stockholders' Meeting 15

SECTION 5. Emergency Corporate Headquarters 15
SECTION 6. Limitation of Liability 15

By-laws
of
Honeywell International Inc.

ARTICLE I
OFFICES

SECTION 1. ***Registered Office***. The registered office of Honeywell International Inc. (hereinafter called the Corporation) within the State of Delaware shall be in the City of Wilmington, County of New Castle.

SECTION 2. ***Other Offices***. The Corporation may also have an office or offices and keep the books and records of the Corporation, except as may otherwise be required by law, in such other place or places, either within or without the State of Delaware, as the Board of Directors of the Corporation (hereinafter called the Board) may from time to time determine or the business of the Corporation may require.

ARTICLE II
MEETINGS OF STOCKHOLDERS

SECTION 1. ***Place of Meetings***. All meetings of Stockholders of the Corporation shall be held at the registered office of the Corporation in the State of Delaware or at such other place, within or without the State of Delaware, as may from time to time be fixed by the Board or specified or fixed in the respective notices or waivers of notice thereof.

SECTION 2. ***Annual Meetings***. The annual meeting of Stockholders of the Corporation for the election of directors and for the transaction of any other proper business shall be held at 10:00 a.m. on the last Monday of April of each year, or on such other date and at such other time as may be fixed by the Board. If the annual meeting for the election of directors shall not be held on the day designated, the Board shall cause the meeting to be held as soon thereafter as convenient.

SECTION 3. ***Special Meetings***. Special meetings of Stockholders, unless otherwise provided by law, may be called at any time by the Board pursuant to a resolution adopted by a majority of the then authorized number of directors (as determined in accordance with Section 2 of Article III of these By-laws), or by the Chief Executive Officer. Any such call must specify the matter or matters to be acted upon at such meeting and only such matter or matters shall be acted upon thereat.

SECTION 4. ***Notice of Meetings***. Notice of each meeting of Stockholders, annual or special, shall be in writing, shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Unless otherwise provided by law, the written notice of any meeting shall be given not less than 10 nor more than 60 days before the date of the meeting to each Stockholder entitled to vote at the meeting. If mailed, notice is given when deposited in the United States mail, postage prepaid, directed to the Stockholder at his address as it appears on the records of the Corporation. Unless (i) the adjournment is for more than 30 days, or (ii) the Board shall fix a

new record date for any adjourned meeting after the adjournment, notice of an adjourned meeting need not be given if the time and place to which the meeting shall be adjourned were announced at the meeting at which the adjournment was taken.

SECTION 5. ***Quorum***. At each meeting of Stockholders of the Corporation, the holders of a majority of the shares of capital stock of the Corporation entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum for the transaction of business, except as otherwise provided by law. In the absence of a quorum, the chairman of the meeting or a majority in interest of those present in person or represented by proxy and entitled to vote at the meeting may adjourn the meeting from time to time until a quorum shall be present.

SECTION 6. ***Order of Business***. The order of business at all meetings of Stockholders shall be as determined by the chairman of the meeting.

SECTION 7. ***Voting***. Except as otherwise provided in the Certificate of Incorporation, at each meeting of Stockholders, every Stockholder of the Corporation shall be entitled to one vote for every share of capital stock standing in his name on the stock record of the Corporation (i) at the time fixed pursuant to Section 6 of Article VII of these By-laws as the record date for the determination of Stockholders entitled to vote at such meeting, or (ii) if no such record date shall have been fixed, then at the close of business on the day next preceding the day on which notice thereof shall be given. At each meeting of Stockholders, except as otherwise provided by law or in the Certificate of Incorporation or these By-laws, in all matters other than the election of directors, the affirmative vote of the majority of shares present in person or represented by proxy and entitled to vote on the subject matter shall be the act of the Stockholders.

SECTION 8. ***Inspectors***. In advance of any meeting of Stockholders, the Board shall appoint one or more inspectors to act at the meeting and make a written report thereof and may designate one or more alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Each inspector shall take and sign such oath and perform such duties as shall be required by law and may perform such other duties not inconsistent therewith as may be requested by the Corporation.

ARTICLE III
DIRECTORS

SECTION 1. ***Powers***. The business and affairs of the Corporation shall be managed by or under the direction of the Board. The Board may exercise all such authority and powers of the Corporation and do all such lawful acts and things as are not by law or otherwise directed or required to be exercised or done by the Stockholders.

SECTION 2. ***Number, Election and Terms***. The authorized number of directors may be determined from time to time by vote of a majority of the then authorized number of directors or by the affirmative vote of the holders of a majority of the voting power of the then outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, voting together as a single class; provided, however, that such number shall not be less than 13 nor more than 23, and that such number shall automatically be increased by two in the event of default in the payment of dividends on the Preferred Stock under the circumstances described in the Certificate of Incorporation. The directors, other than those who may be elected by the holders of the Preferred Stock of the Corporation pursuant to the Certificate of Incorporation, shall hold office until the next annual meeting of stockholders and until their successors have been elected and qualified. Except as otherwise provided in the Certificate of Incorporation, newly created directorships resulting from any increase in the number of directors and any vacancies on the Board resulting from death, resignation, disqualification, removal or other cause shall be filled by the affirmative vote of a majority of the remaining directors then in office, even if less than a quorum of the Board, or by a sole remaining director. Any director elected in accordance with the preceding sentence shall hold office until the annual meeting of Stockholders and until such director's successor shall have been elected and qualified. No decrease in the number of directors constituting the Board shall shorten the term of any incumbent director.

SECTION 3. ***Advance Notice of Stockholder Business and Nominations***.

a) Annual Meeting of Stockholders.

(i) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the Stockholders may be made at an annual meeting of Stockholders as follows:

a) pursuant to the Corporation's notice of meeting;

b) by or at the direction of the Board of Directors; or

c) by any Stockholder of the Corporation who was a Stockholder of record at the time of giving notice provided for in this by-law, who is entitled to vote at the meeting and who complied with the notice procedures set forth in this by-law.

(ii) For nominations or other business to be properly brought before an annual meeting by a Stockholder pursuant to clause c) of paragraph (a)(i) of this by-law, the Stockholder must have given timely notice thereof in writing to the Secretary,

of the Corporation, and such other business must be a proper matter for Stockholder action. To be timely, a Stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the Stockholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a Stockholder's notice as described above. Such Stockholder's notice shall set forth:

a) as to each person whom the Stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-11 thereunder (including such person's written consent to be named in the proxy statement as a nominee and to serve as a director if elected);

b) as to any other business that the Stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such Stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and

c) as to the Stockholder giving notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made i) the name and address of such Stockholder, as they appear on the Corporation's books, and of such beneficial owner and ii) the class and number of shares of the Corporation which are owned beneficially and of record by such Stockholder and such beneficial owner.

(iii) Notwithstanding anything in the second sentence of paragraph (a)(ii) of this by-law to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least 100 days prior to the first anniversary of the preceding year's annual meeting, a Stockholder's notice required by this by-law shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Corporation not later than the close

of business on the 10th day following the day on which such public announcement is first made by the Corporation.

a) Special Meetings of Stockholders. Only such business shall be conducted at a special meeting of Stockholders as shall have been brought before the meeting pursuant to the Corporation's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of Stockholders at which directors are to be elected pursuant to the Corporation's notice of meeting (i) by or at the direction of the Board of Directors or (ii) by any Stockholder of the Corporation who is a Stockholder of record at the time of giving of notice provided for in this by-law, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this by-law. In the event the Corporation calls a special meeting of Stockholders for the purpose of electing one or more directors to the Board of Directors, any such Stockholder may nominate a person or persons (as the case may be), for election to such position(s) as specified in the Corporation's notice of meeting, if the Stockholder's notice required by paragraph (a)(iii) of this by-law shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall the public announcement of an adjournment of a special meeting commence a new time period for the giving of a Stockholder's notice as described above.

b) General.

(i) Only such persons who are nominated in accordance with the procedures set forth in this by-law shall be eligible to serve as directors and only such business shall be conducted at a meeting of Stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this by-law. Except as otherwise provided by law or the by-laws of the Corporation, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made, or proposed, as the case may be, in accordance with the procedures set forth in this by-law and, if any proposed nomination or business is not in compliance with this by-law, to declare that such defective proposal or nomination shall be disregarded.

(ii) For purposes of this by-law, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and

Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(iii) Notwithstanding the foregoing provisions of this by-law, a Stockholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this by-law. Nothing in this by-law shall be deemed to affect any rights of a) Stockholders to request inclusion in proposals in the Corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act or b) the holders of any series of Preferred Stock to elect directors under specified circumstances.

SECTION 4. ***Place of Meetings***. Meetings of the Board shall be held at such place, within or without the State of Delaware, as the Board may from time to time determine or as shall be specified or fixed in the notice or waiver of notice of any such meeting.

SECTION 5. ***Regular Meetings***. Regular meetings of the Board shall be held in accordance with a yearly meeting schedule as determined by the Board; or such meetings may be held on such other days and at such other times as the Board may from time to time determine. Notice of regular meetings of the Board need not be given except as otherwise required by these By-laws.

SECTION 6. ***Special Meetings***. Special meetings of the Board may be called by the Chief Executive Officer and shall be called by the Secretary at the request of any two of the other directors.

SECTION 7. ***Notice of Meetings***. Notice of each special meeting of the Board (and of each regular meeting for which notice shall be required), stating the time, place and purposes thereof, shall be mailed to each director, addressed to him at his residence or usual place of business, or shall be sent to him by telex, cable or telegram so addressed, or shall be given personally or by telephone, on 24 hours' notice, or such shorter notice as the person or persons calling such meeting may deem necessary or appropriate in the circumstances.

SECTION 8. ***Quorum and Manner of Acting***. The presence of at least a majority of the authorized number of directors shall constitute a quorum for the transaction of business at any meeting of the Board. If a quorum shall not be present at any meeting of the Board, a majority of the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present. Except where a different vote is required by law or the Certificate of Incorporation or these By-laws, the vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board. Any action required or permitted to be taken by the Board may be taken without a meeting if all the directors consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board. Any one or more directors may participate in any meeting of the Board by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can

hear each other. Participation by such means shall constitute presence in person at a meeting of the Board.

SECTION 9. ***Resignation***. Any director may resign at any time by giving written notice to the Chairman of the Board, the Chief Executive Officer or the Secretary, which notice shall be deemed to constitute notice to the Corporation. Such resignation shall take effect upon receipt of such notice or at any later time specified therein.

SECTION 10. ***Removal of Directors***. Subject to the rights of the holders of Preferred Stock, any director may be removed from office, with or without cause, by the affirmative vote of the holders of a majority of the voting power of all shares of the Corporation entitled to vote generally in the election of directors, voting together as a single class.

SECTION 11. ***Compensation of Directors***. The Board may provide for the payment to any of the directors, other than officers or employees of the Corporation, of a specified amount for services as a director or member of a committee of the Board, or of a specified amount for attendance at each regular or special Board meeting or committee meeting, or of both, and all directors shall be reimbursed for expenses of attendance at any such meeting; provided, however, that nothing herein contained shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE IV
COMMITTEES OF THE BOARD

SECTION 1. ***Appointment and Powers of Audit Committee***. The Board shall, by resolution adopted by the affirmative vote of a majority of the authorized number of directors, designate an Audit Committee of the Board, which shall consist of such number of directors as the Board may determine and shall be comprised solely of directors independent of management and free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a committee member. The Audit Committee shall (i) make recommendations to the Board as to the independent accountants to be appointed by the Board; (ii) review with the independent accountants the scope of their examination; (iii) receive the reports of the independent accountants and meet with representatives of such accountants for the purpose of reviewing and considering questions relating to their examination and such reports; (iv) review, either directly or through the independent accountants, the internal accounting and auditing procedures of the Corporation and (v) perform such other functions as may be assigned to it from time to time by the Board. The Audit Committee may determine its manner of acting and fix the time and place of its meetings, unless the Board shall otherwise provide. A majority of the members of the Audit Committee shall constitute a quorum for the transaction of business by the committee and the vote of a majority of the members of the committee present at a meeting at which a quorum is present shall be the act of the committee.

SECTION 2. ***Other Committees***. The Board may, by the affirmative vote of a majority of the authorized number of directors, designate members of the Board to constitute an Executive Committee, a Management Development and Compensation Committee and other committees of the Board, which shall in each case consist of such number of directors as the Board may determine, and shall have and may exercise, to the extent permitted by law, such powers and authority as the Board may by resolution delegate to them and may authorize the seal of the Corporation to be affixed to all papers which require it. Each such committee may determine its manner of acting and fix the time and place of its meetings, unless the Board shall otherwise provide. A majority of the members of any such committee shall constitute a quorum for the transaction of business by the committee and the vote of a majority of the members of such committee present at a meeting at which a quorum is present shall be the act of the committee.

SECTION 3. ***Action by Consent; Participation by Telephone or Similar Equipment***. Unless the Board shall otherwise provide, any action required or permitted to be taken by any committee may be taken without a meeting if all members of the committee consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the committee. Unless the Board shall otherwise provide, any one or more members of any committee may participate in any meeting of the committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation by such means shall constitute presence in person at a meeting of the committee.

SECTION 4. ***Changes in Committees; Resignations; Removals***. The Board shall have power, by the affirmative vote of a majority of the authorized number of directors, at any time to change the members of, to fill vacancies in, and to discharge any committee of the Board. Any member of any such committee may resign at any time by giving written notice to the Chairman of the Board, the Chief Executive Officer, the Chairman of such committee or the Secretary, which notice shall be deemed to constitute notice to the Corporation. Such resignation shall take effect upon receipt of such notice or at any later time specified therein. Any member of any such committee may be removed at any time, either with or without cause, by the affirmative vote of a majority of the authorized number of directors at any meeting of the Board, provided such removal shall have been referred to in the notice of such meeting.

ARTICLE V
OFFICERS

SECTION 1. ***Number and Qualifications***. The officers of the Corporation may include a Chairman of the Board, Vice Chairman of the Board, Chief Executive Officer, President, one or more Vice Presidents, General Counsel, Treasurer, Secretary and Controller; provided, however, that any one or more of the foregoing offices may remain vacant from time to time, except as otherwise required by law. So far as practicable, the officers shall be elected annually on the day of the annual meeting of Stockholders. Each officer shall hold office until the next annual election of officers and until his successor is elected and qualified, or until his death or retirement, or until he shall have resigned or been removed in the manner hereinafter provided. The same person may hold more than one office. The Chairman of the Board, the Vice Chairman of the Board, the Chief Executive Officer and the President shall be elected from among the directors. The Board may from time to time elect or appoint such other officers or agents as may be necessary or desirable for the business of the Corporation. Such other officers and agents shall have such titles and duties and shall hold their offices for such terms as may be prescribed by the Board. The Chief Executive Officer may appoint one or more Deputy, Associate or Assistant officers, or such other agents as may be necessary or desirable for the business of the Corporation. In case one or more Deputy, Associate or Assistant officers shall be appointed, the officer such appointee assists may delegate to him the authority to perform such of the officer's duties as the officer may determine.

SECTION 2. ***Resignations***. Any officer may resign at any time by giving written notice to the Chairman of the Board, the Chief Executive Officer or the Secretary, which notice shall be deemed to constitute notice to the Corporation. Such resignation shall take effect upon receipt of such notice or at any later time specified therein.

SECTION 3. ***Removal***. Any officer or agent may be removed, either with or without cause, at any time, by the Board at any meeting, provided such removal shall have been referred to in the notice of such meeting; provided, further, that the Chief Executive Officer may remove any agent appointed by the Chief Executive Officer.

SECTION 4. ***Vacancies***. Any vacancy among the officers, whether caused by death, resignation, removal or otherwise, shall be filled in the manner prescribed for election to such office.

SECTION 5. ***Chairman of the Board***. The Chairman of the Board shall, if present, preside at all meetings of the Board and, in the absence of the Chief Executive Officer, at all meetings of the Stockholders. He shall perform the duties incident to the office of the Chairman of the Board and all such other duties as are specified in these By-laws or as shall be assigned to him from time to time by the Board.

SECTION 6. ***Vice Chairman of the Board***. The Vice Chairman of the Board shall, if present, preside at all meetings of the Board at which the Chairman of the Board shall not be present and at all meetings of the Stockholders at which neither the Chief Executive Officer

nor the Chairman of the Board shall be present. He shall perform such other duties as shall be assigned to him from time to time by the Board or the Chief Executive Officer.

SECTION 7. ***Chief Executive Officer***. The Chief Executive Officer shall, if present, preside at all meetings of the Stockholders. He shall have, under the control of the Board, general supervision and direction of the business and affairs of the Corporation. He shall at all times see that all resolutions or determinations of the Board are carried into effect. He may from time to time appoint, remove or change members of and discharge one or more advisory committees, each of which shall consist of such number of persons (who may, but need not, be directors or officers of the Corporation), and have such advisory duties, as he shall determine. He shall perform the duties incident to the office of the Chief Executive Officer and all such other duties as are specified in these By-laws or as shall be assigned to him from time to time by the Board.

SECTION 8. ***President***. The President shall be the chief operating officer of the Corporation and shall perform such duties as shall be assigned to him from time to time by the Board or the Chief Executive Officer.

SECTION 9. ***Vice Presidents***. The Board shall, if it so determines, elect one or more Vice Presidents (with such additional titles as the Board may prescribe), each of whom shall perform such duties as shall be assigned to him from time to time by the Chief Executive Officer or such other officer to whom the Vice President reports.

SECTION 10. ***General Counsel***. The General Counsel shall be the chief legal officer of the Corporation and the head of its legal department. He shall, in general, perform the duties incident to the office of General Counsel and all such other duties as may be assigned to him from time to time by the Chief Executive Officer.

SECTION 11. ***Treasurer***. The Treasurer shall have charge and custody of all funds and securities of the Corporation, shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation, shall deposit all funds of the Corporation in such depositaries as may be designated pursuant to these By-laws, shall receive, and give receipts for, moneys due and payable to the Corporation from any source whatsoever, shall disburse the funds of the Corporation and shall render to all regular meetings of the Board, or whenever the Board may require, an account of all his transactions as Treasurer. He shall, in general, perform all the duties incident to the office of Treasurer and all such other duties as may be assigned to him from time to time by the Chief Executive Officer or such other officer to whom the Treasurer reports.

SECTION 12. ***Secretary***. The Secretary shall, if present, act as secretary of all meetings of the Board, the Executive Committee and other committees of the Board and the Stockholders and shall have the duty to record the proceedings of such meetings in one or more books provided for that purpose. He shall see that all notices are duly given in accordance with these By-laws and as required by law, shall be custodian of the seal of the Corporation and shall affix and attest the seal to all documents to be executed on behalf of the Corporation under its seal. He shall, in general, perform all the duties incident to the office of

Secretary and all such other duties as may be assigned to him from time to time by the Chief Executive Officer or such other officer to whom the Secretary reports.

SECTION 13. ***Controller***. The Controller shall have control of all the books of account of the Corporation, shall keep a true and accurate record of all property owned by it, its debts and of its revenues and expenses, shall keep all accounting records of the Corporation (other than the accounts of receipts and disbursements and those relating to the deposit or custody of funds and securities of the Corporation, which shall be kept by the Treasurer) and shall render to the Board, whenever the Board may require, an account of the financial condition of the Corporation. He shall, in general, perform all the duties incident to the office of Controller and all such other duties as may be assigned to him from time to time by the Chief Executive Officer or such other officer to whom the Controller reports.

SECTION 14. ***Bonds of Officers***. If required by the Board, any officer of the Corporation shall give a bond for the faithful discharge of his duties in such amount and with such surety or sureties as the Board may require.

SECTION 15. ***Compensation***. The salaries of the officers shall be fixed from time to time by the Board; provided, however, that the Chief Executive Officer may fix or delegate to others the authority to fix the salaries of any agents appointed by the Chief Executive Officer.

SECTION 16. ***Officers of Operating Companies or Divisions***. The Chief Executive Officer shall have the power to appoint, prescribe the terms of office, the responsibilities and duties and salaries of, and remove, the officers of the operating companies or divisions other than those who are officers of the Corporation.

ARTICLE VI
CONTRACTS, CHECKS, LOANS, DEPOSITS, ETC.

SECTION 1. ***Contracts***. The Board may authorize any officer or officers, agent or agents, in the name and on behalf of the Corporation, to enter into any contract or to execute and deliver any instrument, which authorization may be general or confined to specific instances; and, unless so authorized by the Board, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable pecuniarily for any purpose or for any amount.

SECTION 2. ***Checks, etc***. All checks, drafts, bills of exchange or other orders for the payment of money out of the funds of the Corporation, and all notes or other evidences of indebtedness of the Corporation, shall be signed in the name and on behalf of the Corporation in such manner as shall from time to time be authorized by the Board, which authorization may be general or confined to specific instances.

SECTION 3. ***Loans***. No loan shall be contracted on behalf of the Corporation, and no negotiable paper shall be issued in its name, unless authorized by the Board, which authorization may be general or confined to specific instances. All bonds, debentures, notes and other obligations or evidences of indebtedness of the Corporation issued for such loans

shall be made, executed and delivered as the Board shall authorize, which authorization may be general or confined to specific instances.

SECTION 4. ***Deposits***. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositaries as may be selected by or in the manner designated by the Board. The Board or its designees may make such special rules and regulations with respect to such bank accounts, not inconsistent with the provisions of these By-laws, as may be deemed expedient.

ARTICLE VII
CAPITAL STOCK

SECTION 1. ***Stock Certificates and Uncertificated Shares***. The shares of the Corporation may be represented by certificates or may be uncertificated. Each Stockholder shall be entitled to have, in such form as shall be approved by the Board, a certificate or certificates signed by the Chairman of the Board or the Vice Chairman of the Board or the President or a Vice President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary representing the number of shares of capital stock of the Corporation owned by such Stockholder. Any or all of the signatures on any such certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon any such certificate shall have ceased to be such before such certificate is issued, such certificate may be issued by the Corporation with the same effect as if such officer, transfer agent or registrar had been such at the date of its issue. Absent a specific request for such a certificate by the registered owner or transferee thereof, all shares may be uncertificated upon the original issuance thereof by the Corporation or upon surrender of the certificate representing such shares to the Corporation or its transfer agent.

SECTION 2. ***List of Stockholders Entitled to Vote***. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare or cause to have prepared, at least 10 days before every meeting of Stockholders, a complete list of the Stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each Stockholder and the number of shares registered in the name of each Stockholder. Such list shall be open to the examination of any Stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any Stockholder of the Corporation who is present.

SECTION 3. ***Stock Ledger***. The stock ledger of the Corporation shall be the only evidence as to who are the Stockholders entitled to examine the stock ledger, the list required by Section 2 of this Article VII or the books of the Corporation, or to vote in person or by proxy at any meeting of Stockholders.

SECTION 4. ***Transfers of Capital Stock***. Transfers of shares of capital stock of the Corporation shall be registered on the stock record of the Corporation, and if requested by the

registered owner or transferee thereof, a new certificate shall be issued to the person entitled thereto, upon presentation and surrender, with a request to register transfer, of the certificate or certificates representing the shares properly endorsed by the holder of record or accompanied by a separate document signed by the holder of record containing an assignment or transfer of the shares or a power to assign or transfer the shares or upon presentation of proper transfer instructions from the holder of record of uncertificated shares. The Board may make such additional rules and regulations as it may deem expedient concerning the issue and transfer of certificates representing shares of the capital stock of the Corporation.

SECTION 5. ***Lost Certificates***. The Corporation may issue uncertificated shares, or if requested by the registered owner, a new certificate or cause a new certificate to be issued, in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed. The Corporation may require the owner of such lost, stolen or destroyed certificate, or his legal representative, to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

SECTION 6. ***Fixing of Record Date.*** In order that the Corporation may determine the Stockholders entitled to notice of or to vote at any meeting of Stockholders or any adjournment thereof, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board and which record date shall not be more than 60 nor less than 10 days before the date of such meeting. A determination of Stockholders of record entitled to notice of or to vote at a meeting of Stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting. In order that the Corporation may determine the Stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the Stockholders entitled to exercise any rights in respect of any change, conversion or exchange of capital stock or for the purpose of any other lawful action, the Board may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action.

SECTION 7. ***Registered Owners***. Prior to due presentment for registration of transfer of a certificate representing shares of capital stock of the Corporation or of proper transfer instructions with respect to uncertificated shares, the Corporation may treat the registered owner of such shares as the person exclusively entitled to vote, to receive dividends, to receive notifications, and otherwise to exercise all the rights and powers of an owner of such shares, except as otherwise provided by law.

ARTICLE VIII
FISCAL YEAR

The Corporation's fiscal year shall coincide with the calendar year.

ARTICLE IX
SEAL

The Corporation's seal shall be circular in form and shall include the words "Honeywell International Inc., Delaware, 1985, Seal."

ARTICLE X
WAIVER OF NOTICE

Whenever any notice is required by law, the Certificate of Incorporation or these By-laws, to be given to any director, member of a committee or Stockholder, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Stockholders, directors, or members of a committee of directors need be specified in any written waiver of notice.

ARTICLE XI
AMENDMENTS

These By-laws or any of them may be amended or supplemented in any respect at any time, either (a) at any meeting of Stockholders, provided that any amendment or supplement proposed to be acted upon at any such meeting shall have been described or referred to in the notice of such meeting, or (b) at any meeting of the Board, provided that any amendment or supplement proposed to be acted upon at any such meeting shall have been described or referred to in the notice of such meeting or an announcement with respect thereto shall have been made at the last previous Board meeting.

ARTICLE XII
EMERGENCY BY-LAWS

SECTION 1. ***Emergency Board of Directors***. In case of an attack on the United States or on a locality in which the Corporation conducts its business or customarily holds meetings of the Board or the Stockholders, or during any nuclear or atomic disaster, or during the existence of any catastrophe, or other similar emergency condition, as a result of which a quorum of the Board or a committee thereof cannot readily be convened for action in accordance with the provisions of the By-laws, the business and affairs of the Corporation shall be managed by or under the direction of an Emergency Board of Directors (hereinafter called the Emergency Board) established in accordance with Section 2 of this Article XII.

SECTION 2. ***Membership of Emergency Board of Directors***. The Emergency Board shall consist of at least three of the following persons present or available at the Emergency Corporate Headquarters determined according to Section 5 of this Article XII: (i) those persons who were directors at the time of the attack or other event mentioned in Section 1 of this Article XII, and (ii) any other persons appointed by such directors to the extent required

to provide a quorum at any meeting of the Board. If there are no such directors present or available at the Emergency Corporate Headquarters, the Emergency Board shall consist of the three highest-ranking officers or employees of the Corporation present or available and any other persons appointed by them.

SECTION 3. ***Powers of the Emergency Board***. The Emergency Board will have the same powers as those granted to the Board in these By-laws, but will not be bound by any requirement of these By-laws which a majority of the Emergency Board believes impracticable under the circumstances.

SECTION 4. ***Stockholders' Meeting***. At such time as it is practicable to do so the Emergency Board shall call a meeting of Stockholders for the purpose of electing directors. Such meeting will be held at a time and place to be fixed by the Emergency Board and pursuant to such notice to Stockholders as it is deemed practicable to give. The Stockholders entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum.

SECTION 5. ***Emergency Corporate Headquarters***. Emergency Corporate Headquarters shall be at such location as the Board or the Chief Executive Officer shall determine prior to the attack or other event, or if not so determined, at such place as the Emergency Board may determine.

SECTION 6. ***Limitation of Liability***. No officer, director or employee acting in accordance with the provisions of this Article XII shall be liable except for willful misconduct.

Exhibit 10.2

AMENDMENT TO THE
DEFERRED COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS
OF HONEYWELL INTERNATIONAL INC.

WITNESSETH

The Deferred Compensation Plan for Non-Employee Directors of Honeywell International Inc. (the "Plan") is hereby amended as indicated below:

1. Effective January 1, 2006, the second sentence of clause 6(a)(iv) is hereby replaced in its entirety with the following sentence:

"Effective January 1, 2006, the Non-Elective Deferrals for the calendar year an individual first becomes a Director shall be paid in a lump sum on the first business day of the calendar year immediately following the year in which the Director ceases to be a Director of the Corporation."

2. Effective for deferrals attributable to years beginning on or after January 1, 2005, Sections 6(d), 6(e) and 9, relating to new distribution elections, accelerated distribution elections and hardship withdrawals, shall not apply.

3. Effective for deferrals attributable to years beginning on or after January 1, 2005, the following new Section 7(e) shall immediately be added following the current Section 7(d):

"e. Special Provisions for Years Beginning on or after January 1, 2005. Notwithstanding the foregoing provisions of this Section 7, for the year beginning January 1, 2005, Change in Control' has the meaning ascribed to the phrase Change in the Ownership or Effective Control of a Corporation or in the Ownership of a Substantial Portion of the Assets of a Corporation' under Treasury Department Proposed Regulation 1.409A-3(g)(5), as revised from time to time in either subsequent proposed or final regulations, and in the event that such regulations are withdrawn or such phrase (or a substantially similar phrase) ceases to be defined, as determined by the Committee. For years beginning on or after January 1, 2006, the provisions of Section 7(c) shall be disregarded and a Director's original distribution election shall be followed."

This Amendment is executed this 13th day of February 2006.

Thomas Weidenkopf
Honeywell International Inc.
Senior Vice President – Human Resources and Communications

Exhibit 10.21

2003 Stock Incentive Plan
for Employees
of Honeywell International Inc. and its Affiliates

RESTRICTED UNIT AGREEMENT

RESTRICTED UNIT AGREEMENT made in Morris Township, New Jersey, as of the _____ (the "Date of Grant"), between Honeywell International Inc. (the "Company") and _____(the "Employee").

1. **Grant of Award.** The Company has granted you _____ Restricted Units, subject to the provisions of this Agreement. The Company will hold the Restricted Units in a bookkeeping account on your behalf until they become payable or0are forfeited or cancelled.

2. **Payment Amount.** Each Restricted Unit represents one (1) Share of Common Stock. Except as otherwise determined by the Management Development and Compensation Committee (the "Committee"), in its sole discretion, you will be paid a Dividend Equivalent in an amount equal to any cash or stock dividends paid by the Company upon one Share of Common Stock for each Restricted Unit credited to your account.

3. **Vesting.** Except in the event of your Full Retirement, death, Disability, or a Change in Control, or as otherwise provided in this Agreement, the restrictions on the Restricted Units will lapse incrementally as follows: (vesting schedule within seven-year period). Your vested right will be calculated on the relevant anniversary of the Date of Grant or upon your Termination of Employment, other than by reason of your Full Retirement, death, Disability, or a Change in Control if earlier. No partial credit will be given for partial years of employment.

4. **Form of Payment.** Vested Restricted Units will be redeemed solely for Shares. Dividend Equivalents will always be paid in cash.

5. **Deferral of Payment.** If you would like to defer payment on the Restricted Units, 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 will be made as provided in paragraph 4.

6. **Termination of Employment.** Any Restricted Units that have not vested as of your Termination of Employment, other than by reason of your Full Retirement, death, Disability, or a Change in Control, will immediately be forfeited, and your rights with respect to these Restricted Units will end.

7. **Retirement, Death or Disability.** If your employment with the Company terminates because of your Full Retirement, death or Disability, any remaining restrictions on Restricted Units will lapse, and payment on the Award will be made as soon as practicable. If you are deceased, the Company will make a payment to your estate only after the Committee has determined that the payee is the duly appointed executor or administrator of your estate.

8. **Change in Control.** In the event of a Change in Control, any restrictions on Restricted Units that have not lapsed or terminated as of the date of Change in Control will immediately lapse. No later than 90 days after the date of Change in Control, you will receive for the Restricted Units a single payment in cash equal to the product of the number of outstanding Restricted Units as of the date of Change in Control (including any Restricted Units whose restrictions have terminated pursuant to this paragraph 8) and a multiplication factor, as set forth in the Plan. If you elected to defer payment of any portion of the Award, then the Restricted Units will continue to be deferred in accordance with paragraph 5.

9. **Withholdings.** The Company will have the right, prior to any issuance or delivery of Shares on Restricted Units, to withhold or require from you the amount necessary to satisfy applicable tax requirements, as determined by the Committee.

10. **Transfer of Award.** You may not transfer any interest in Restricted Units except by will or the laws of descent and distribution. Any other attempt to dispose of your interest in Restricted Units will be null and void.

11. **Forfeiture of Awards.**

    (a) By accepting the Award, you expressly agree and acknowledge that the forfeiture provisions of subparagraph (b) will apply if, from the Date of Grant of these Restricted Units 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 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 will immediately be rescinded, and you will forfeit any rights you have with respect to these Restricted Units 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 amount of any Restricted Units you received payment for during the period beginning six (6) months prior to your Termination of Employment and ending on the date of the Committee's determination.

12. **Restrictions on Payment of Shares.** Payment of Shares for your Restricted Units is subject to the conditions that, to the extent required at the time of exercise, (a) the Shares underlying the Restricted Units will be duly listed, upon official notice of redemption, upon the NYSE, and (b) a Registration Statement under the Securities Act of 1933 with respect to the Shares will be effective. The Company will 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.

13. **Adjustments.** In the event of any stock split, reverse stock split, dividend or other distribution (whether in the form of cash, Shares, other securities or other property), extraordinary cash dividend, recapitalization, merger, consolidation, split-up, spin-off, reorganization, combination, repurchase or exchange of Shares or other securities, the issuance of warrants or other rights to purchase Shares or other securities, or other similar corporate transaction or event, the Committee may, in its sole discretion, adjust the number and kind of Shares covered by the Restricted Units and other relevant provisions to the extent necessary to prevent dilution or enlargement of the benefits or potential benefits intended to be provided by the Restricted Units. Any such determinations and adjustments made by the Committee will be binding on all persons.

14. **Disposition of Securities.** By accepting the Award, you acknowledge that you have read and understand 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. The Company will have the right to recover, or receive reimbursement for, any compensation or profit you realize on the disposition of Shares received for Restricted Units to the extent that the Company has a right of recovery or reimbursement under applicable securities laws.

15. **Plan Terms Govern.** The vesting and redemption of Restricted Units, the disposition of any Shares received for Restricted Units, and the treatment of gain on the disposition of these 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 will control. By accepting the Award, you acknowledge receipt of the Plan and the prospectus, as in effect on the date of this Agreement.

16. 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 and/or its Subsidiaries and 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 will transfer Data to the Company and/or its Subsidiaries and Affiliates among themselves as necessary for the purposes of implementation, administration, and management of the your participation in the Plan, and that the Company and/or its Subsidiaries and 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 and/or its Subsidiaries and 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 and/or its Subsidiaries and Affiliates, as well as 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 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.

17. 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. 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 that United States law will govern all Restricted Units granted under the Plan.

(c) That 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 hereunder, and any future grant of Restricted Units under the Plan, is entirely voluntary, and at the complete discretion of the Company. Neither the grant of the Restricted Units nor any future grant of any Restricted Units by the Company shall be deemed to create any obligation to grant any further Restricted Units, 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. The Company shall not incur any liability of any kind to you as 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.

18. **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 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 until Shares are actually delivered to you.

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

20. **Severability.** The invalidity or unenforceability of any provision of this Agreement will not affect the validity or enforceability of the other provisions of the Agreement, which will remain in full force and effect. Moreover, if any provision is found to be excessively broad in duration,

scope or covered activity, the provision will be construed so as to be enforceable to the maximum extent compatible with applicable law.

21. **Agreement Changes.** The Company reserves the right to change the terms of this Agreement and the Stock 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.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by the facsimile signature of its Chairman of the Board and Chief Executive Officer as of the day and year first above written. By consenting to 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 and the Plan; and (ii) you understand and agree that this Agreement and the Plan constitute the entire understanding between you and the Company regarding the Award, and that any prior agreements, commitments or negotiations concerning the Restricted Units are replaced and superseded. You will 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 of this Agreement.

Honeywell International Inc.

By: David M. Cote
Chairman of the Board and
Chief Executive Officer

I Accept

Signature Date

Exhibit 10.22

2003 Stock Incentive Plan
for Employees
of Honeywell International Inc. and its Affiliates

GROWTH PLAN AGREEMENT

GROWTH PLAN AGREEMENT made in Morris Township, New Jersey, United States of America, as of the _____ day of _____ between Honeywell International Inc. (which together with its subsidiaries and affiliates, when the context so indicates, is hereinafter referred to as the "Company") and _____ (the "Employee").

1. **Grant of Awards.** The Company has granted to you _____ Growth Plan Units, subject to the terms of this Agreement and the terms of the 2003 Stock Incentive Plan for Employees of Honeywell International Inc. and its Affiliates (the "Stock Plan").

2. **Target and Actual Award.** The number of Growth Plan Units awarded to you represents a target award for the Performance Cycle (as defined below). Each Growth Plan Unit has a target value of $100 ("Target Value"). Your actual award value (the "Actual Award") is equal to the product of (i) the Target Value, (ii) the Plan Payout Percentage, and (iii) the number of Growth Plan Units awarded to you under this Agreement. For purposes of this Agreement, the "Plan Payout Percentage" shall be based on the achievement of the Performance Measures described in Section 3 below and may range from zero to a maximum of 200%.

3. **Performance Measures.** The Plan Payout Percentage shall be determined based on revenue growth and return on investment (collectively the "Performance Measures") for the Performance Cycle. Performance Measures shall be determined at the Company level for eligible employees not assigned to one of the Company's four strategic business groups ("SBG"), and at both the Company and SBG level for other eligible employees. For purposes of this determination, if you transfer from one of the Company's businesses during the Performance Cycle, your award will be prorated for the number of days actively employed in that business.

   Notwithstanding anything in this Agreement to the contrary, except in the event of a Change in Control (as defined in the Stock Plan), no Growth Plan Unit awards will be paid unless the Company attains a minimum level of earnings per share growth during the Performance Cycle. The minimum level of earnings per share growth shall be a 3% compound annual growth rate over the Performance Cycle. In determining earnings per share for this purpose, the Management Development and Compensation Committee of the Company's Board of Directors (the "Committee") shall exclude from its calculations unusual, infrequently occurring, and extraordinary items.

4. **Performance Cycles.** The ____year performance cycle to which this Agreement applies commences on _____ and ends on _____ (the "Performance Cycle").

5. **Timing of Payments.** The payment of Growth Plan Unit awards is contingent upon (i) the achievement of the performance criteria outlined in Section 3 above, and (ii) you remaining actively employed by the Company on the applicable payment dates. Thus, for example, if you are receiving pay from the Company but not actively performing services therefore (including, but not limited to, severance periods, notice periods, grandfathered vacation periods, short or long-term disability periods), you will not be considered "active" for purposes of the payment of Growth Plan Unit awards. To the extent a Growth Plan Unit award is earned, you will receive it in two installments (subject, of course, to the active employment criteria described herein). One-half of your Actual Award will be paid in _____; the second half of your Actual Award will be paid in _____ provided, however, that in no event will a payment be made later than two and one-half months from the end of the year in which the payment vests.

6. **Form of Payment.** Growth Plan Units may be paid out in either cash or shares of the Company's common stock ("Shares"), at the discretion of the Committee. Payment shall be made in the same currency as your pay ("Local Currency"). In the event you receive pay in more than one currency, the currency used for payment will be at the discretion of the party responsible for payment. The Company will normalize your award value for any fluctuation in exchange rates between U.S. dollars and your Local Currency. The exchange rate used will be that which is in effect for compensation planning at the beginning of this Performance Cycle. Your award will be expressed in U.S. dollars. If your Actual Award is paid in Shares, the number of Shares shall be determined by dividing the Actual Award by the Fair Market Value (as defined in the Stock Plan) of the Shares as of the date the Committee determines the amount of your Actual Award. Fractional Shares will always be paid in cash. No payment amounts will be credited with interest, and you may not defer the payment of any awards hereunder.

7. **Termination of Employment.** If your employment with the Company is terminated for any reason other than death or Disability prior to the date a Growth Plan Unit payment is to be made pursuant to Section 5 above, any unpaid amounts shall be forfeited and your rights with respect to any Growth Plan Units will terminate unless the Committee, or its designee, determines otherwise in its sole and absolute discretion.

8. **Death or Disability.** If your employment with the Company terminates because of death or Disability (as defined in the Stock Plan) prior to the first installment payment of your Actual Award, you or your estate will receive the prorated value of your Actual Award. The prorated value of the Actual Award shall be determined by multiplying the Actual Award by a fraction, the numerator of which is the number of days you were actively employed by the Company during the Performance Cycle prior to your death or Disability, and the denominator of which is 730. Such prorated Actual Award shall be payable in a single lump sum at the time the first installment payment is paid to other Growth Plan grantees. If your death or Disability occurs after the first installment payment of your Actual Award has been made but before the second installment payment has been made, the Company shall pay the second installment payment in a lump sum as soon as practicable after the date of death or Disability.

9. **Change in Control.** In the event of a Change in Control (as defined in the Stock Plan), you will be deemed to have earned an Actual Award at a Performance Payout Percentage

of 100%. In such case, you shall receive both installments of your Actual Award 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 may be in cash or Shares, as determined by the Committee.

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

11. **Transfer of Awards.** You may not transfer any interest in your Growth Plan Units. Any attempt to dispose of your interest in your Growth Plan Units shall be null and void.

12. **Personal Data.** By accepting the Growth Plan Unit award under this Agreement, you hereby consent to the Company's use, dissemination and disclosure of any information pertaining to you that the Company determines to be necessary or desirable for the implementation, administration, and management of the Stock Plan.

13. **Discretionary Nature and Acceptance of Award.** By accepting this Growth Plan Unit award, you agree to be bound by the terms of this Agreement and acknowledge that:

a) The benefits and rights provided under the Stock Plan are not to be considered part of your salary or compensation with the Company for purposes of calculating any (i) severance, resignation, redundancy or termination related payments, (ii) vacation amounts, (iii) bonus amounts, (iv) long-term service awards, (v) pension or retirement benefits, or (vi) any other payments, benefits or rights of any kind. You hereby waive any and all rights to compensation or damages as a result of the termination of your employment with the Company for any reason whatsoever insofar as those rights result, or may result, from the loss or diminution in value of such rights under the Stock Plan or your ceasing to have any rights under, or ceasing to be entitled to any rights under, the Stock Plan as a result of such termination.

b) The grant of Growth Plan Units hereunder, and any future grant of Growth Plan Units under the Stock Plan, is entirely voluntary and at the complete and sole discretion of the Company. Neither the grant of these Growth Plan Units nor any future grant of Growth Plan Units by the Company shall be deemed to create any obligation to grant any further Growth Plan Units, whether or not such a reservation is explicitly stated at the time of such grant. The Company has the right, at any time and for any reason, to amend, suspend or terminate the Stock Plan; provided, however, that no such amendment, suspension, or termination shall adversely affect your rights hereunder.

14. **Limitations.** Nothing in this Agreement or the Stock Plan gives you any right to continue in the employ of the Company or to interfere in any way with the right of the Company to terminate your employment at any time.

15. **Agreement Changes.** The Company reserves the right to change the terms of this Agreement and the Stock 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.

IN WITNESS WHEREOF, the Company has caused this Agreement to be duly executed by the facsimile signature of its Chairman of the Board and Chief Executive Officer as of the day and year first above written. By consenting to this Agreement, you agree that (i) you have carefully read, fully understand and agree to all of the terms and conditions described in this Agreement and the Stock Plan; and (ii) you understand and agree that this Agreement and the Stock Plan constitute the entire understanding between you and the Company regarding your award of Growth Plan Units, and that any prior agreements, commitments or negotiations concerning such Growth Plan Units are hereby replaced and superseded. You will be deemed to consent to the application of the terms and conditions set forth in this Agreement and the Stock 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 of this Agreement.

HONEYWELL INTERNATIONAL INC.

By: David M. Cote
Chairman of the Board and
Chief Executive Officer

Participant's signature

This Agreement and the underlying Stock Plan represent the entire agreement between the Company and you regarding your Growth Plan Units. This Agreement and the Stock Plan should be reading conjunction so that they are not in conflict. Nevertheless, in the event this Agreement and the Stock Plan cannot be harmonized with each other, the terms of the Stock Plan shall control. You should consult the Stock Plan for additional information with respect to your rights, responsibilities and entitlements.

The Company reserves the right to amend, modify or terminate the Stock Plan at its sole and absolute discretion, subject to shareowner approval if required.

This Agreement does not guarantee your eligibility for any Stock Plan benefit now or in the future. Please keep in mind that neither the Stock Plan nor this Agreement, or any amendments thereto, constitute a contract of employment with the Company or otherwise give you the right to be retained in the employment of the Company.

Exhibit 10.24

364-DAY CREDIT AGREEMENT

Dated as of September 9, 2005

HONEYWELL INTERNATIONAL INC., a Delaware corporation (the "Company"), HONEYWELL ASCA INC., a nationally formed corporation in Canada ("ASCA"), HONEYWELL LIMITED/HONEYWELL LIMITEE, a nationally formed corporation in Canada ("Limited") and HONEYWELL AEROSPATIALE INC., a nationally formed corporation in Canada ("Aerospatiale, and together with ASCA and Limited, the "Borrowers"), the banks, financial institutions and other institutional lenders (the "Initial Lenders") listed on the signature pages hereof, and CITIBANK, N.A., CANADIAN BRANCH ("Citibank"), as administrative agent (the "Agent") for the Lenders (as hereinafter defined), and CITIGROUP GLOBAL MARKETS INC. and ROYAL BANK OF CANADA, as joint lead arrangers and co-book managers, hereby agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Certain Defined Terms.

As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Advance" means an advance by a Lender to a Borrower or the acceptance of a Draft or purchase of a Bankers' Acceptance by a Lender for the account of a Borrower as part of a Borrowing and refers to a Base Rate Advance, Prime Rate Advance, a Eurodollar Rate Advance or a BA Advance (each of which shall be a "Type" of Advance).

"Affiliate" means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director or officer of such Person. For purposes of this definition, the term "control" (including the terms "controlling", "controlled by" and "under common control with") of a Person means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of Voting Stock, by contract or otherwise.

"Agent's Account" means the account of the Agent with Citibank at is office at 123 Front Street West, Suite 1000, Toronto, Ontario, Canada, Account No. 2070035009, Attention: CIG Western Hemisphere Agency.

"Applicable Lending Office" means, with respect to each Lender, such Lender's Domestic Lending Office in the case of a Base Rate Advance or a Prime Rate Advance, such Lender's Eurodollar Lending Office in the case of a Eurodollar Rate Advance and such Lender's BA Lending Office in the case of a Drawing.

"Applicable Margin" means (a) for Base Rate Advances, 0% per annum, (b) for Prime Rate Advances, 0% per annum and (c) for Eurodollar Rate Advances and BA Advances, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Margin for Eurodollar Rate Advances and BA Advances Prior to Term Loan Conversion Date	Applicable Margin for Eurodollar Rate Advances and BA Advances On and After Term Loan Conversion Date
Level 1 A+ or A1 or above	0.200%	0.550%
Level 2 Lower than Level 1 but at least A or A2	0.240%	0.600%
Level 3 Lower than Level 2 but at least A- or A3	0.280%	0.700%
Level 4 Lower than Level 3 but at least BBB+ or Baa1	0.400%	0.87.5%
Level 5 Lower than Level 4	0.630%	1.375%

"Applicable Percentage" means, as of any date prior to the Term Loan Conversion Date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Percentage
Level 1 A+ or A1 or above	0.050%
Level 2 Lower than Level 1 but at least A or A2	0.060%
Level 3 Lower than Level 2 but at least A- or A3	0.070%
Level 4 Lower than Level 3 but at least BBB+ or Baa1	0.100%
Level 5 Lower than Level 4	0.12.5%

"Applicable Utilization Fee" means, as of any date prior to the Term Loan Conversion Date that the sum of the aggregate principal amount of the Advances plus the aggregate outstanding Face Amount of all Bankers' Acceptances exceeds 50% of the aggregate Commitments, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

Public Debt Rating S&P/Moody's	Applicable Utilization Fee
Level 1 A+ or A1 or above	0.050%
Level 2 Lower than Level 1 but at least A or A2	0.050%
Level 3 Lower than Level 2 but at least A- or A3	0.100%
Level 4 Lower than Level 3 but at least BBB+ or Baa1	0.125%
Level 5 Lower than Level 4	0.125%

"Assignment and Acceptance" means an assignment and acceptance entered into by a Lender and an Eligible Assignee, and accepted by the Agent, in substantially the form of Exhibit C hereto.

"BA Advance" means the acceptance of a Draft or the purchase of a Bankers' Acceptance by a Lender for the account of a Borrower.

"BA Lending Office" means, in the case of each Lender, the office of such Lender set forth as its "BA Lending Office" opposite its name on Schedule I hereto or in the Assumption Agreement or the Assignment and Acceptance pursuant to which it became a Lender or such other office of such Lender in Canada as such Lender may from time to time specify to the Company and the Agent for such purpose.

"BA Rate" means, for all Bankers' Acceptances comprising part of the same Drawing to be purchased by (a) a Lender named on Schedule I to the Bank Act (Canada), the average rate (calculated on an annual basis of a year of 365 days and rounded up to the nearest multiple of 1/4 of 1%, if such average is not such a multiple) for Canadian Dollar Bankers' Acceptances having a comparable term that appears on the Reuters Screen CDOR Page (or such other page as is a replacement page for such bankers' acceptances) at 10:00 A.M. (Toronto time) or, if such rate is not available at such time, the BA Rate in respect of such Bankers' Acceptances shall be the arithmetic average of the discount rates (calculated on an annual basis of a year of 365 days) and rounded up to the nearest multiple of 1/4 of 1%, if such average is not such a multiple, quoted by each

Canadian Reference Lender at 9:30 a.m. (Toronto time) on the date of such Drawing as the discount rate at which such Reference Lender would purchase, on such date, its own bankers' acceptances having an aggregate Face Amount equal to and with a term to maturity the same as the Bankers' Acceptances to be acquired by such Lender as part of such Drawing, or (b) a Lender other than a Lender named on Schedule I to the Bank Act (Canada), the lesser of (i) the rate advised by such Lender to the Agent as being the discount rate of such Lender (calculated on an annual basis of a year of 365 days) at 10:00 A.M. (Toronto time) on the applicable purchase date for bankers' acceptances of such Lender having a comparable face amount and identical maturity date to the face amount and maturity date of such Bankers' Acceptance, and (ii) the rate determined by the Agent in accordance with (a) above plus 0.10% per annum. The BA Rate for each Bankers' Acceptance comprising part of the same Drawing shall be determined by the Agent on the basis of applicable rates furnished to and received by the Agent from the Canadian Reference Lenders on the date of the applicable Drawing, subject, however, to the provisions of Section 2.08.

"Banker's Acceptance" has the meaning specified in Section 2.01(b).

"Base Rate" means a fluctuating interest rate per annum in effect from time to time, which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by Citibank, N.A. in New York, New York, from time to time, as Citibank, N.A.'s base rate;

(b) the sum (adjusted to the nearest 1/32 of 1% or, if there is no nearest 1/32 of 1%, to the next higher 1/32 of 1%) of (i) 1/2 of 1% per annum, plus (ii) the rate obtained by dividing (A) the latest three-week moving average of secondary market morning offering rates in the United States for three-month certificates of deposit of major United States money market banks, such three-week moving average (adjusted to the basis of a year of 360 days) being determined weekly on each Monday (or, if such day is not a Business Day, on the next succeeding Business Day) for the three-week period ending on the previous Friday by Citibank, N.A. on the basis of such rates reported by certificate of deposit dealers to and published by the Federal Reserve Bank of New York or, if such publication shall be suspended or terminated, on the basis of quotations for such rates received by Citibank, N.A. from three New York certificate of deposit dealers of recognized standing selected by Citibank, N.A., by (B) a percentage equal to 100% minus the average of the daily percentages specified during such three-week period by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, but not limited to, any emergency, supplemental or other marginal reserve requirement) for Citibank, N.A. with respect to liabilities consisting of or including (among other liabilities) three-month US Dollar non-personal time deposits in the United States, plus (iii) the average during such three-week period of the annual assessment rates estimated by Citibank, N.A. for determining the then current annual assessment payable by Citibank, N.A. to the Federal Deposit

Insurance Corporation (or any successor) for insuring US Dollar deposits of Citibank, N.A. in the United States; and

(c) 1/2 of one percent per annum above the Federal Funds Rate.

"Base Rate Advance" means an Advance denominated in US Dollars that bears interest as provided in Section 2.07(a)(i).

"Borrowers" has the meaning specified in the recital or parties to this Agreement.

"Borrowing" means a borrowing consisting of simultaneous Advances of the same Type made by each of the Lenders pursuant to Section 2.01.

"Borrowing Minimum" means, in respect of Advances denominated in US Dollars, US$10,000,000 and, in respect of Advances denominated in Canadian Dollars, CN$10,000,000.

"Borrowing Multiple" means, in respect of Advances denominated in US Dollars, US$1,000,000 and, in respect of Advances denominated in Canadian Dollars, CN$1,000,000.

"Business Day" means a day of the year on which banks are not required or authorized by law to close in Toronto, Ontario, Canada and New York City and, if the applicable Business Day relates to any Eurodollar Rate Advances, on which dealings are carried on in the London interbank market.

"Canadian Dollars" and the "CN$" sign each means the lawful currency of Canada.

"Canadian Interbank Rate" means the interest rate, expressed as a percentage per annum, which is customarily used by the Agent when calculating interest due by it or owing to it from or in connection with correction of errors between it and other Canadian chartered banks.

"Canadian Reference Lenders" means Citibank and Royal Bank of Canada; provided that, if any of the foregoing shall cease to be a Lender, the term "Canadian Reference Lenders" shall no longer include such Lender and shall thereafter include such Lender as the Agent shall designate as a replacement Canadian Reference Lender, which designation shall be made with the consent of such replacement Canadian Reference Lender and the Company, which consent shall not be unreasonably withheld or delayed and provided, further, that if any Lenders are banks set forth in Schedule I of the Bank Act (Canada), at least one of the Canadian Reference Lenders will be such a Schedule I bank.

"Cash Collateral Account" means an interest bearing cash collateral account to be established and maintained by the Agent, over which the Agent shall have sole dominion and control, upon terms as may be satisfactory to the Agent.

"Change of Control" means that (i) any Person or group of Persons (within the meaning of Section 13 or 14 of the Securities Exchange Act of 1934, as amended (the "Act")) (other than the Company, any Subsidiary of the Company or any savings, pension or other benefit plan for the benefit of employees of the Company or its Subsidiaries) which theretofore beneficially owned less than 30% of the Voting Stock of the Company then outstanding shall have acquired beneficial ownership (within the meaning of Rule 13d-3 promulgated by the Securities and Exchange Commission under the Act) of 30% or more in voting power of the outstanding Voting Stock of the Company or (ii) during any period of twelve consecutive calendar months commencing at the Effective Date, individuals who at the beginning of such twelve-month period were directors of the Company shall cease to constitute a majority of the Board of Directors of the Company.

"Commitment" means as to any Lender (i) the Canadian Dollar amount set forth opposite its name on the signature pages hereof under the caption "Commitment" or (ii) if such Lender has entered into any Assignment and Acceptance, the Canadian Dollar amount set forth for such Lender in the Register maintained by the Agent pursuant to Section 9.06(d) as such Lender's Commitment, in each case as the same may be terminated or reduced, as the case may be, pursuant to Section 2.05.

"Consolidated" refers to the consolidation of accounts in accordance with GAAP.

"Consolidated Subsidiary" means, at any time, any Subsidiary the accounts of which are required at that time to be included on a Consolidated basis in the Consolidated financial statements of the Company, assuming that such financial statements are prepared in accordance with GAAP.

"Convert", "Conversion" and "Converted" each refers to a conversion of Advances of one Type into Advances of the other Type pursuant to Section 2.08, 2.11 or 2.12.

"Debt" means, with respect to any Person: (i) indebtedness of such Person, which is not limited as to recourse to such Person, for borrowed money (whether by loan or the issuance and sale of debt securities) or for the deferred (for 90 days or more) purchase or acquisition price of property or services; (ii) indebtedness or obligations of others which such Person has assumed or guaranteed; (iii) indebtedness or obligations of others secured by a lien, charge or encumbrance on property of such Person whether or not such Person shall have assumed such indebtedness or obligations; (iv) obligations of such Person in respect of letters of credit (other than performance letters of credit, except to the extent backing an obligation of any Person which would be Debt of such Person), acceptance facilities, or drafts or similar instruments issued or accepted by banks and other financial institutions for the account of such Person; and (v) obligations of such Person under leases which are required to be capitalized on a balance sheet of such Person in accordance with GAAP.

"Default" means any Event of Default or any event that would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

"Disclosed Litigation" has the meaning specified in Section 3.01(b).

"Domestic Lending Office" means, with respect to any Initial Lender, the office of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule I hereto and, with respect to any other Lender, the office of such Lender specified as its "Domestic Lending Office" in the Assignment and Acceptance pursuant to which it became a Lender, or such other office of such Lender as such Lender may from time to time specify to the Company and the Agent.

"Draft" means a blank bill of exchange, within the meaning of the Bills of Exchange Act (Canada), drawn by a Borrower on any Lender, in substantially the form of Exhibit A-2, and which, except as otherwise provided herein, has not been completed or accepted by such Lender.

"Drawing" means the simultaneous acceptance of Drafts and purchase of Bankers' Acceptances by the Lenders, in accordance with Section 2.03(a).

"Drawing Fee" means, with respect to each Bankers' Acceptance, an amount equal to (a) the sum of (x) the Applicable Margin in effect on the date of the Drawing or renewal, as the case may be, of such Bankers' Acceptance plus (y) the Applicable Utilization Fee, if any, in effect on the date of the Drawing or renewal, as the case may be, of such Bankers' Acceptance multiplied by (b) the Face Amount of such Bankers' Acceptance, calculated on the basis of the term to maturity of such Bankers' Acceptance and a year of 365 days.

"Drawing Purchase Price" means, with respect to each Bankers' Acceptance to be purchased and/or accepted by any Lender at any time, the amount (adjusted to the nearest whole cent or, if there is no nearest whole cent, the next higher whole cent) obtained by dividing (i) the aggregate Face Amount of such Bankers' Acceptance, by (ii) the sum of (A) one and (B) the product of (1) the BA Rate in effect at such time (expressed as a decimal fraction) multiplied by (2) a fraction the numerator of which is the number of days in the term to maturity of such Bankers' Acceptance and the denominator of which is 365 days.

"Effective Date" has the meaning specified in Section 3.01.

"Eligible Assignee" means (a) a Lender; (b) an Affiliate of a Lender; (c) any Person approved by the Agent and, unless a Default has occurred and is continuing at the time any assignment is effected pursuant to Section 8.07, the Company, such approval not to be unreasonably withheld or delayed, provided that each Eligible Assignee is not a non-resident of Canada for the purposes of Part XIII of the Income Tax Act (Canada), provided, further, that neither the Company nor any Affiliate of the Company shall qualify as an Eligible Assignee under this definition.

"Environmental Action" means any action, suit, demand, demand letter, claim, notice of non-compliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, Environmental Permit or Hazardous Materials or arising from

alleged injury or threat of injury to health, safety or the environment, including, without limitation, (a) by any governmental or regulatory authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any governmental or regulatory authority or any third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

"Environmental Law" means any federal, state, local or foreign statute, law, ordinance, rule, regulation, code, order, judgment, decree or judicial or agency interpretation, policy or guidance relating to pollution or protection of the environment, health, safety or natural resources, including, without limitation, those relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

"Environmental Permit" means any permit, approval, identification number, license or other authorization required under any Environmental Law.

"Equivalent" in US Dollars of Canadian Dollars on any date of determination means the equivalent thereof determined by using the quoted spot rate at which Citibank's principal office in Toronto, Ontario offers to exchange US Dollars for Canadian Dollars in Toronto, Ontario at 11:00 a.m. (Toronto time) on such date and (b) in Canadian Dollars of US Dollars on any date of determination means the equivalent thereof determined by using the quoted spot rate at which Citibank, N.A.'s principal office in New York City, New York offers to exchange Canadian Dollars for US Dollars in New York City, New York at 11:00 a.m. (New York City time) on such date.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"ERISA Affiliate" of any Person means any other Person that for purposes of Title IV of ERISA is a member of such Person's controlled group, or under common control with such Person, within the meaning of Section 414 of the Internal Revenue Code.

"ERISA Event" with respect to any Person means (a) (i) the occurrence of a reportable event, within the meaning of Section 4043 of ERISA, with respect to any Plan of such Person or any of its ERISA Affiliates unless the 30-day notice requirement with respect to such event has been waived by the PBGC, or (ii) an event described in paragraph (9), (10), (11), (12) or (13) of Section 4043(c) of ERISA is reasonably expected to occur with respect to a Plan of such Person or any of its ERISA Affiliates within the following 30 days, and the contributing sponsor, as defined in Section 4001(a)(13) of ERISA, of such Plan is required under Section 4043(b)(3) of ERISA (taking into account Section 4043(b)(2) of ERISA) to notify the PBGC that the event is about to occur; (b) the application for a minimum funding waiver with respect to a Plan of such Person or any of its ERISA Affiliates; (c) the provision by the administrator of any Plan of such Person or any of its ERISA Affiliates of a notice of intent to terminate such Plan in a distress termination pursuant to Section 4041(a)(2) of ERISA (including

any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA); (d) the cessation of operations at a facility of such Person or any of its ERISA Affiliates in the circumstances described in Section 4062(e) of ERISA; (e) the withdrawal by such Person or any of its ERISA Affiliates from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (f) the conditions for the imposition of a lien under Section 302(f) of ERISA shall have been met with respect to any Plan of such Person or any of its ERISA Affiliates; (g) the adoption of an amendment to a Plan of such Person or any of its ERISA Affiliates requiring the provision of security to such Plan pursuant to Section 307 of ERISA; or (h) the institution by the PBGC of proceedings to terminate a Plan of such Person or any of its ERISA Affiliates pursuant to Section 4042 of ERISA, or the occurrence of any event or condition described in Section 4042 of ERISA that constitutes grounds for the termination of, or the appointment of a trustee to administer, such Plan.

"Escrow" means an escrow established with an independent escrow agent pursuant to an escrow agreement reasonably satisfactory in form and substance to the Person or Persons asserting the obligation of one or more Borrowers to make a payment to it or them hereunder.

"Eurocurrency Liabilities" has the meaning assigned to that term in Regulation D of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Eurodollar Lending Office" means, with respect to any Initial Lender, the office of such Lender specified as its "Eurodollar Lending Office" opposite its name on Schedule I hereto and, with respect to any other Lender, the office of such Lender specified as its "Eurodollar Lending Office" in the Assignment and Acceptance pursuant to which it became a Lender (or, if no such office is specified, its Domestic Lending Office), or such other office of such Lender as such Lender may from time to time specify to the Company and the Agent.

"Eurodollar Rate" means, for any Interest Period for each Eurodollar Rate Advance comprising part of the same Borrowing, an interest rate per annum equal to the rate per annum obtained by dividing (a) the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on the applicable Telerate Page as the London interbank offered rate for deposits in US Dollars at approximately 11:00 A.M. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period or, if for any reason such rate is not available, the average (rounded upward to the nearest whole multiple of 1/32 of 1% per annum, if such average is not such a multiple) of the rate per annum at which deposits in US Dollars are offered by the principal office of each of the Reference Banks (or an Affiliate of such Reference Bank) in London, England to prime banks in the London interbank market at 11:00 A.M. (London time) two Business Days before the first day of such Interest Period in an amount substantially equal to such Reference Bank's Eurodollar Rate Advance comprising part of such Borrowing to be outstanding during such Interest Period and for a period equal to such Interest Period by (b) a percentage equal to 100% minus the Eurodollar Rate Reserve Percentage for such Interest Period. If the Telerate Page is unavailable, the Eurodollar Rate for any Interest Period for each Eurodollar Rate

Advance comprising part of the same Borrowing shall be determined by the Agent on the basis of applicable rates furnished to and received by the Agent from the Reference Banks two Business Days before the first day of such Interest Period, subject, however, to the provisions of Section 2.08.

"Eurodollar Rate Advance" means an Advance denominated in US Dollars that bears interest as provided in Section 2.07(a)(iii).

"Eurodollar Rate Reserve Percentage" for any Interest Period for all Eurodollar Rate Advances comprising part of the same Borrowing means the reserve percentage applicable two Business Days before the first day of such Interest Period under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including, without limitation, any emergency, supplemental or other marginal reserve requirement) for a member bank of the Federal Reserve System in New York City with respect to liabilities or assets consisting of or including Eurocurrency Liabilities (or with respect to any other category of liabilities that includes deposits by reference to which the interest rate on Eurodollar Rate Advances is determined) having a term equal to such Interest Period.

"Events of Default" has the meaning specified in Section 6.01.

"Face Amount" means, with respect to any Bankers' Acceptance, the amount payable to the holder of such Bankers' Acceptance on its then existing Maturity Date.

"Federal Funds Rate" means, for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by it.

"Final Maturity Date" means the earlier of (a) the first anniversary of the Termination Date and (b) the date of termination in whole of the aggregate Commitments pursuant to Section 2.05 or 6.01.

"GAAP" has the meaning specified in Section 1.03.

"Hazardous Materials" means (a) petroleum and petroleum products, byproducts or breakdown products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls and radon gas and (b) any other chemicals, materials or substances designated, classified or regulated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

"Insufficiency" means, with respect to any Plan, the amount, if any, of its unfunded benefit liabilities, as defined in Section 4001(a)(18) of ERISA.

"Interest Period" means, for each Eurodollar Rate Advance comprising part of the same Borrowing, the period commencing on the date of such Eurodollar Rate Advance or the date of the Conversion of any Base Rate Advance into such Eurodollar Rate Advance and ending on the last day of the period selected by the Borrower requesting such Borrowing pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by such Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three or six months and, if available to all Lenders, nine months, as the Borrower requesting the Borrowing may, upon notice received by the Agent not later than 11:00 A.M. (Toronto time) on the third Business Day prior to the first day of such Interest Period, select; provided, however, that:

(i) such Borrower may not select any Interest Period that ends after the scheduled Termination Date or, if the Revolving Credit Advances have been converted to a term loan pursuant to Section 2.06(a) prior to such selection, that ends after the Final Maturity Date;

(ii) Interest Periods commencing on the same date for Eurodollar Rate Advances comprising part of the same Borrowing shall be of the same duration;

(iii) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided, however, that, if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(iv) whenever the first day of any Interest Period occurs on a day of an initial calendar month for which there is no numerically corresponding day in the calendar month that succeeds such initial calendar month by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Business Day of such succeeding calendar month.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"Lenders" means, collectively, (i) Initial Lenders and (ii) each Eligible Assignee that shall become a party hereto pursuant to Section 9.06(a), (b) and (c).

"Lien" means any lien, mortgage, pledge, security interest or other charge or encumbrance of any kind.

"Majority Lenders" means at any time Lenders holding at least 51% of the then aggregate principal amount (based on the Equivalent in Canadian Dollars at such time) of the Advances owing to Lenders, or, if no such principal amount is then outstanding, Lenders having at least 51% of the Commitments.

"Material Adverse Change" means any material adverse change in the financial condition or results of operations of the Company and its Consolidated Subsidiaries taken as a whole.

"Material Adverse Effect" means a material adverse effect on (a) the financial condition or results of operations of the Company and its Consolidated Subsidiaries taken as a whole, (b) the rights and remedies of the Agent or any Lender under this Agreement or any Note or (c) the ability of the Borrowers to perform their obligations under this Agreement or any Note.

"Maturity Date" means, for each Bankers' Acceptance comprising part of the same Drawing, the date on which the Face Amount for such Bankers' Acceptance becomes due and payable in accordance with the provisions set forth below, which shall be a Business Day occurring one, two or three months or, subject to clause (c) of this definition, six months after the date on which such Bankers' Acceptance is purchased and/or accepted as part of any Drawing, as the applicable Borrower may select upon notice received by the Agent not later than 10:00 a.m. (Toronto time) on the third Business Day prior to the date on which such Bankers' Acceptance is to be accepted and purchased (whether as a new Drawing, by renewal or by Conversion); provided, however, that:

(a) no Borrower may select any Maturity Date for any Bankers' Acceptance that occurs after the then scheduled Termination Date;

(b) the Maturity Date for all Bankers' Acceptances comprising part of the same Drawing shall occur on the same date;

(c) in the case of any such Drawing, such Borrower shall not be entitled to select an Maturity Date of six months unless, by 2:00 P.M. (Toronto time) on the third Business Day to the date on which such Bankers' Acceptance is purchased and/or accepted, each Lender notifies the Agent that such Lender will be purchasing and/or accepting such Drawing with such Maturity Date (the failure of any Lender to so respond by such time being deemed for all purposes of this Agreement as an objection by such Lender to such requested Maturity Date); provided that, if any or all of the Lenders object to the requested Maturity Date, the Maturity Date for such Drawing shall be one, two or three months, as specified by the Borrower requesting such Drawing in the applicable Notice of Drawing as the desired alternative to such requested Maturity Date; and

(d) whenever the Maturity Date for any Bankers' Acceptance would otherwise occur on a day other than a Business Day, such Maturity Date shall be extended to occur on the next succeeding Business Day.

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" of any Person means a multiemployer plan, as defined in Section 4001(a)(3) of ERISA, to which such Person or any of its ERISA Affiliates is

making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

"Multiple Employer Plan" of any Person means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of such Person or any of its ERISA Affiliates and at least one Person other than such Person or any of its ERISA Affiliates or (b) was so maintained and in respect of which such Person or any of its ERISA Affiliates could have liability under Section 4064 or 4069 of ERISA in the event such plan has been or were to be terminated.

"Net Tangible Assets of the Company and its Consolidated Subsidiaries", as at any particular date of determination, means the total amount of assets (less applicable reserves and other properly deductible items) after deducting therefrom (a) all current liabilities (excluding any thereof which are by their terms extendible or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed) and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets, as set forth in the most recent balance sheet of the Company and its Consolidated Subsidiaries and computed in accordance with GAAP.

"Note" means a promissory note of any Borrower payable to the order of any Lender, delivered pursuant to a request made under Section 2.17 in substantially the form of Exhibit A-1 hereto, evidencing the aggregate indebtedness of such Borrower to such Lender resulting from the Advances made by such Lender to such Borrower.

"Notice of Borrowing" has the meaning specified in Section 2.02(a).

"Notice of Drawing" has the meaning specified in Section 2.03(a).

"Obligations" has the meaning specified in Section 7.01(b).

"PBGC" means the Pension Benefit Guaranty Corporation (or any successor).

"Person" means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

"Plan" means a Single Employer Plan or a Multiple Employer Plan.

"Prime Rate" means a fluctuating interest rate per annum in effect from time to time, which rate per annum shall at all times be equal to the higher of:

(a) the rate which the principal office of Citibank (or its Affiliate) in Toronto, Ontario announces publicly from time to time as its prime rate for determining rates of interest on commercial loans in Canadian Dollars made by it in Canada; and

(b) 1/2 of 1% per annum above the rate quoted for 30-day Canadian Dollar bankers' acceptances of Citibank that appears on the Reuters Screen CDOR Page (or any replacement page) as of 10:00 a.m. (Toronto time) on the date of determination.

"Prime Rate Advance" means an Advance made in Canadian Dollars that bears interest as provided in Section 2.07(b)(ii).

"Process Agent" has the meaning specified in Section 9.11(a).

"Public Debt Rating" means, as of any date, the highest rating that has been most recently announced by either S&P or Moody's, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by the Company. For purposes of the foregoing, (a) if only one of S&P and Moody's shall have in effect a Public Debt Rating, the Applicable Margin, the Applicable Utilization Fee and the Applicable Percentage shall be determined by reference to the available rating; (b) if neither S&P nor Moody's shall have in effect a Public Debt Rating, the Applicable Margin, the Applicable Utilization Fee and the Applicable Percentage will be set in accordance with Level 5 under the definition of "Applicable Margin", "Applicable Utilization Fee" or "Applicable Percentage", as the case may be; (c) if the ratings established by S&P and Moody's shall fall within different levels, the Applicable Margin, the Applicable Utilization Fee and the Applicable Percentage shall be based upon the higher rating, provided that if the lower of such ratings is more than one level below the higher of such ratings, the Applicable Margin, the Applicable Utilization Fee and the Applicable Percentage shall be determined by reference to the level that is one level above such lower rating; (d) if any rating established by S&P or Moody's shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; and (e) if S&P or Moody's shall change the basis on which ratings are established, each reference to the Public Debt Rating announced by S&P or Moody's, as the case may be, shall refer to the then equivalent rating by S&P or Moody's, as the case may be.

"Ratable Share" of any amount means, with respect to any Lender at any time, the product of (a) a fraction the numerator of which is the amount of such Lender's Commitment at such time and the denominator of which is the aggregate Commitments at such time and (b) such amount.

"Reference Banks" means Citibank and Royal Bank of Canada.

"Register" has the meaning specified in Section 9.06(d).

"Restricted Property" means (a) any property of the Company located within the United States of America that, in the opinion of the Company's Board of Directors, is a principal manufacturing property or (b) any shares of capital stock or Debt of any Subsidiary owning any such property.

"Sale and Leaseback Transaction" means any arrangement with any Person (other than the Company or a Subsidiary of the Company), or to which any such Person is a

party, providing for the leasing to the Company or to a Subsidiary of the Company owning Restricted Property for a period of more than three years of any Restricted Property that has been or is to be sold or transferred by the Company or such Subsidiary to such Person, or to any other Person (other than the Company or a Subsidiary of the Company) to which funds have been or are to be advanced by such Person on the security of the leased property. It is understood that arrangements pursuant to Section 168(f)(8) of the Internal Revenue Code of 1954, as amended, or any successor provision having similar effect, are not included within this definition of "Sale and Leaseback Transaction".

"Single Employer Plan" of any Person means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of such Person or any of its ERISA Affiliates and no Person other than such Person and its ERISA Affiliates or (b) was so maintained and in respect of which such Person or any of its ERISA Affiliates could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"S&P" means Standard & Poor's Ratings Group, a division of The McGraw Hill Companies, Inc.

"Subsidiary" of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (a) the issued and outstanding capital stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether at the time capital stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (b) the interest in the capital or profits of such limited liability company, partnership or joint venture or (c) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person's other Subsidiaries.

"Telerate Page" means, as applicable, page 3750 (or any successor page) of Moneyline Telerate Service.

"Term Loan Conversion Date" means the Termination Date on which all Revolving Credit Advances outstanding on such date are converted into a term loan pursuant to Section 2.06(a).

"Term Loan Election" has the meaning specified in Section 2.06(a).

"Termination Date" means the earlier of (a) September 8, 2006 and (b) the date of termination in whole of the Commitments pursuant to Section 2.05(a) or Section 6.01 or, if all Lenders elect to terminate their Commitments as provided therein, Section 2.05(b).

"Threatened" means, with respect to any action, suit, investigation, litigation or proceeding, a written communication to the Company or a Borrower, as the case may be, expressing an intention to immediately bring such action, suit, investigation, litigation or proceeding.

"Unused Commitment" means, with respect to any Lender at any time, (a) such Lender's Commitment at such time minus (b) the aggregate principal of all Advances (including the aggregate Face Amount of all BA Advances owing to such Lender and outstanding at such time), determined for Advances or Bankers' Acceptances denominated in Canadian Dollars by reference to the Equivalent thereof in US Dollars.

"US Dollars" and the "US$" sign each mean lawful money of the United States of America.

"Voting Stock" means capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

"Withdrawal Liability" has the meaning specified in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding".

SECTION 1.03. Accounting Terms. All accounting terms not specifically defined herein shall be construed, and all financial computations and determinations pursuant hereto shall be made, in accordance with generally accepted accounting principles consistent with those applied in the preparation of the financial statements referred to in Section 4.01(e) ("GAAP"); provided, however, that, if any changes in accounting principles from those used in the preparation of such financial statements have been required by the rules, regulations, pronouncements or opinions of the Financial Accounting Standards Board or the American Institute of Certified Public Accountants (or successors thereto or agencies with similar functions) and have been adopted by the Company with the agreement of its independent certified public accountants, the Lenders agree to consider a request by the Company to amend this Agreement to take account of such changes.

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES

SECTION 2.01. The Advances. (a) Advances. Each Lender severally agrees, on the terms and conditions hereinafter set forth, to make Advances in either US Dollars or Canadian Dollars to any Borrower from time to time on any Business Day during the period from the Effective Date until the Termination Date in an amount for each such Advance (based in respect of any Advance denominated in US Dollars on the Equivalent in Canadian Dollars determined on the date of delivery of the applicable Notice of Borrowing), not to exceed such Lender's Unused Commitment. Each Borrowing shall be in an aggregate amount not less than the Borrowing Minimum or the Borrowing Multiple in excess thereof and shall consist of Advances of the same Type made on the same day by the Lenders ratably according to their respective Commitments. Within the limits of each Lender's Commitment, any Borrower may

borrow under this Section 2.01(a), prepay pursuant to Section 2.09 and reborrow under this Section 2.01(a).

(b) Drawings. Each Lender severally agrees, on the terms and conditions hereinafter set forth, to accept Drafts (each Draft so accepted, a "Bankers' Acceptance") for the account of any Borrower, and to purchase such Bankers' Acceptances from time to time on any Business Day during the period from the date hereof until the Termination Date having a Face Amount for all such Bankers' Acceptances purchased by such Lender at the time of such Drawing not to exceed such Lender's Unused Commitment at such time. Each Drawing shall be comprised solely of Canadian Dollars, shall be in an aggregate Face Amount not less than the Borrowing Minimum or the Borrowing Multiple in excess thereof and shall consist of the creation and purchase of Bankers' Acceptances at or about the same time by the Lenders ratably in accordance with their respective Commitments. Within the limits of each Lender's Unused Commitment in effect from time to time, amounts drawn by the Borrowers under this Section 2.01(b) and repaid or prepaid from time to time may be redrawn by the Borrowers under this Section 2.01(b).

SECTION 2.02. Making the Advances. (a) Each Borrowing shall be made on notice, given not later than (x) 11:00 A.M. (Toronto time) on the third Business Day prior to the date of the proposed Borrowing in the case of a Borrowing consisting of Eurodollar Rate Advances or (y) 9:00 A.M. (Toronto time) on the day of the proposed Borrowing in the case of a Borrowing consisting of Base Rate Advances or Prime Rate Advances, by any Borrower to the Agent, which shall give to each Lender prompt notice thereof by telecopier. Each such notice of a Borrowing (a "Notice of Borrowing") shall be by telephone, confirmed immediately in writing, or telecopier in substantially the form of Exhibit B-1 hereto, specifying therein the requested (i) date of such Borrowing, (ii) Type and currency of Advances comprising such Borrowing, (iii) aggregate amount of such Borrowing, and (iv) in the case of a Borrowing consisting of Eurodollar Rate Advances, initial Interest Period and currency for each such Advance. Each Lender shall, before 11:00 A.M. (Toronto time) on the date of such Borrowing, make available for the account of its Applicable Lending Office to the Agent at the Agent's account, in same day funds, such Lender's ratable portion (as determined in accordance with Section 2.01) of such Borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the Borrower requesting the Borrowing at the Agent's aforesaid address.

(b) Anything in subsection (a) above to the contrary notwithstanding, a Borrower may not select Eurodollar Rate Advances for any proposed Borrowing if the obligation of the Lenders to make Eurodollar Rate Advances shall then be suspended pursuant to Section 2.08 or 2.11.

(c) Each Notice of Borrowing of any Borrower shall be irrevocable and binding on such Borrower. In the case of any Borrowing that the related Notice of Borrowing specifies is to be comprised of Eurodollar Rate Advances, the Borrower requesting such Borrowing shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure by such Borrower to fulfill on or before the date specified in such Notice of Borrowing for such Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (including loss of anticipated profits), cost or expense

incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Advance to be made by such Lender as part of such Borrowing when such Advance, as a result of such failure, is not made on such date.

(d) Unless the Agent shall have received notice from a Lender prior to the time of any Borrowing that such Lender will not make available to the Agent such Lender's ratable portion of such Borrowing, the Agent may assume that such Lender has made such portion available to the Agent on the date of such Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the Borrower proposing such Borrowing on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Agent, such Lender and such Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to such Borrower until the date such amount is repaid to the Agent, at (i) in the case of such Borrower, the interest rate applicable at the time to Advances comprising such Borrowing and (ii) in the case of such Lender, (A) the Federal Funds Rate in the case of Advances denominated in US Dollars or (B) the Canadian Interbank Rate in the case of Advances denominated in Canadian Dollars. If such Lender shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Lender's Advance as part of such Borrowing for purposes of this Agreement.

(e) The failure of any Lender to make the Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Advance on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender on the date of any Borrowing.

SECTION 2.03. Drawings of Bankers' Acceptances. (a) Request for Drawing. Each Drawing shall be made on notice, given not later than 12:00 noon (Toronto time) on a Business Day at least two Business Days prior to the date of the proposed Drawing, by a Borrower to the Agent, which shall give each Lender prompt notice thereof by telecopier. Each notice of a Drawing (a "Notice of Drawing") shall be in writing (including by telecopier), in substantially the form of Exhibit B-2 hereto, and shall be confirmed by telephone immediately by the applicable Borrower, specifying therein the requested (i) date of such Drawing (which shall be a Business Day), (ii) aggregate Face Amount of such Drawing and (iii) initial Maturity Date for each Bankers' Acceptance comprising part of such Drawing; provided, however, that, if the Agent determines in good faith (which determination shall be conclusive and binding upon the applicable Borrower) that the Drafts to be accepted and purchased as part of any Drawing cannot, due solely to the requested aggregate Face Amount thereof, be accepted and/or purchased ratably by the Lenders in accordance with Section 2.01(b), then the aggregate Face Amount of such Drawing (or the Face Amount of Bankers' Acceptances to be created by any Lender) shall be reduced to such lesser amount as the Agent determines will permit such Drafts comprising part of such Drawing to be so accepted and purchased and, unless the applicable Borrower shall have given written notice to the contrary to the Agent, each Lender shall fund the difference between such Lender's ratable portion of the original aggregate Face Amount of such Drawing and the Face Amount of the Bankers' Acceptances to be created by such Lender after giving effect to such reduction in the form of a Prime Rate Advance, which shall be deemed for

all purposes hereof to be an Advance made pursuant to Section 2.01(a). The Agent agrees that it will, as promptly as practicable, notify the applicable Borrower of the unavailability of Bankers' Acceptances and, if applicable, of the date and the amount of each Prime Rate Advance to be made or actually made in accordance with the immediately preceding sentence. Each Draft in connection with any requested Drawing (A) shall be in a minimum amount of CN $100,000 or an integral multiple of CN$100,000 in excess thereof, and (B) shall be dated the date of the proposed Drawing. If the Agent receives from a Borrower a Notice of Drawing requesting a BA Advance, the Agent shall notify each of the Lenders, prior to 11:00 a.m. on the first Business Day prior to the date of such Advance, of such request and each Lender's Ratable Share of such Advance except that, if the face amount of a draft Bankers' Acceptance that would otherwise be accepted by a Lender would not be CN$ 100,000, or an integral multiple thereof, such face amount shall be increased or reduced by the Paying Agent in its sole and unfettered discretion to the nearest integral multiple of CN$100,000. On the date specified in a Notice of Drawing on which Bankers' Acceptances are to be accepted, the Agent shall advise the relevant Borrower and the Lenders as to the Agent's determination of the BA Rate. Each Lender shall, before 1:00 p.m. (Toronto time) on the date of each Drawing, complete one or more Drafts in accordance with the related Notice of Drawing, accept such Drafts and purchase the Bankers' Acceptances created thereby for the Drawing Purchase Price and shall, before 1:00 p.m. (Toronto time) on such date, make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, the Drawing Purchase Price payable by such Lender for such Drawing less the Drawing Fee payable to such Lender with respect thereto under Section 2.04(b). Upon the fulfillment of the applicable conditions set forth in Article III, the Agent will make the funds it has received from the Lenders available to the applicable Borrower at the Agent's Account.

(b) Limitations on Drawings. Anything in Section 2.03(a) to the contrary notwithstanding, the Borrowers may not select a Drawing if the obligation of the Lenders to purchase and accept Bankers' Acceptances shall then be suspended pursuant to Section 2.03(d) or 2.12.

(c) Binding Effect of Notices of Drawing. Each Notice of Drawing shall be irrevocable and binding on the Borrower giving such notice. In the case of any proposed Drawing, the applicable Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in the Notice of Drawing for such Drawing the applicable conditions set forth in Article III, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Drawing Purchase Price to be paid by such Lender as part of such Drawing when, as a result of such failure, such Drawing is not made on such date.

(d) Circumstances Making Bankers' Acceptances Unavailable. (i) If, with respect to any proposed Drawing, the Agent determines in good faith that circumstances affecting the money markets at the time any related Notice of Drawing is delivered or is outstanding will result in no market for the Bankers' Acceptances to be created in connection with such Drawing or an insufficient demand for such Bankers' Acceptances to allow the Lenders creating such Bankers' Acceptances to sell or trade the Bankers' Acceptances to be created and purchased or discounted by them hereunder in connection with such Drawing, then,

upon notice to the applicable Borrower and the Lenders, (A) the Notice of Drawing with respect to such proposed Drawing shall be cancelled and the Drawing requested therein shall not be made and (B) the right of the Borrowers to request a Drawing shall be suspended until the Agent shall notify the Company that the circumstances causing such suspension no longer exist. In the case of any such cancellation of a Notice of Drawing, unless the applicable Borrower shall give written notice to the contrary to the Agent, the cancellation of any such Notice of Drawing shall be deemed to be the giving by the such Borrower of a Notice of Borrowing for Advances consisting of Prime Rate Advances in an aggregate principal amount equal to the aggregate Face Amount of such proposed Drawing and the Lenders shall, subject to the terms and conditions hereof applicable to the making of Advances, make such Advances available to the applicable Borrower, if practicable, on the same Business Day, and otherwise on the next Business Day. The Agent agrees that it will, as promptly as practicable, notify the Company and the applicable Borrower of the unavailability of Bankers' Acceptances and, if applicable, of the date and the amount of each Prime Rate Advance to be made or actually made in accordance with the immediately preceding sentence.

(ii) Upon the occurrence and during the continuance of any Default, the obligation of the Lenders to purchase and/or accept Bankers' Acceptances shall be suspended.

(e) Assumptions of the Agent. Unless the Agent shall have received notice from a Lender prior to the date of any Drawing that such Lender will not make available to it such Lender's ratable share of such Drawing in accordance with Section 2.03(a), the Agent may assume that such Lender has made such ratable share available to it on the date of such Drawing in accordance with Section 2.03(a) and the Agent may, in reliance upon such assumption, make available to the applicable Borrower on such date a corresponding amount. If and to the extent that any such Lender shall not have so made such ratable share available to the Agent, such Lender and the applicable Borrower severally agree to repay or pay to the Agent forthwith on demand such corresponding amount, together with interest thereon, for each day from the date such amount is made available to such Borrower until the date such amount is repaid or paid to the Agent, at (i) in the case of such Borrower, a rate per annum equal to the BA Rate used in calculating the Drawing Purchase Price with respect to such Drawing, and (ii) in the case of such Lender, the Canadian Interbank Rate. If such Lender shall pay to the Agent such corresponding amount, such amount so paid shall constitute such Lender's Bankers' Acceptance as part of such Drawing for all purposes under this Agreement.

(f) Power of Attorney. To enable the Lenders to create Bankers' Acceptances in accordance with Section 2.01(c) and this Section 2.03, (i) each Borrower hereby irrevocably appoints each Lender as its attorney to sign and endorse on its behalf, manually or by facsimile or mechanical signature, any Draft necessary to enable each Lender to create Bankers' Acceptances, provided that the aggregate amount of Bankers' Acceptances created by each Lender in connection with any Drawing shall not exceed such Lender's Ratable Share of the such Drawing. All Drafts signed or endorsed on a Borrower's behalf by a Lender shall be binding on such Borrower, all as if duly signed or endorsed by such Borrower. Each Lender shall (i) maintain a record with respect to any Draft completed in accordance with this Section 2.03(f), voided by it for any reason, accepted and purchased or purchased pursuant to this Section 2.03(f), and cancelled at its respective maturity; and (ii) retain such records in the manner and for

the statutory periods provided by laws which apply to such Lender and make such records available to each Borrower acting reasonably. On request by any Borrower, a Lender shall cancel and return to the possession of such Borrower all Drafts which have been pre-signed or pre-endorsed on behalf of such Borrower and which are held by such Lender and are not required to make Bankers' Acceptances in accordance with this Article II.

(g) Distribution of Bankers' Acceptances. Bankers' Acceptances purchased by a Lender in accordance with the terms of Section 2.01(b) and this Section 2.03 may, in such Lender's sole discretion, be held by such Lender for its own account until the applicable Maturity Date or sold, rediscounted or otherwise disposed of by it at any time prior thereto in any relevant market therefor.

(h) Failure to Fund in Respect of Drawings. The failure of any Lender to fund the Drawing Purchase Price to be funded by it as part of any Drawing shall not relieve any other Lender of its obligation hereunder to fund its Drawing Purchase Price on the date of such Drawing, but no Lender shall be responsible for the failure of any other Lender to fund the Drawing Purchase Price to be funded by such other Lender on the date of any Drawing.

SECTION 2.04. Fees. (a) Facility Fee. The Company agrees to pay to the Agent for the account of each Lender a facility fee on the aggregate amount of such Lender's Commitment from the date hereof in the case of each Initial Lender and from the effective date specified in the Assignment and Acceptance pursuant to which it became a Lender in the case of each other Lender until the Termination Date at a rate per annum equal to the Applicable Percentage in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December, commencing December 31, 2005, and on the Termination Date.

(b) Drawing Fees. The applicable Borrower shall, on the date of each Drawing and on the date of each renewal of any outstanding Bankers' Acceptances, pay to the Agent for the ratable account of the Lenders accepting Drafts and purchasing Bankers' Acceptances, the Drawing Fee with respect to such Bankers' Acceptances. Each Borrower irrevocably authorizes each such Lender to deduct the Drawing Fee payable with respect to each Bankers' Acceptance of such Lender from the Drawing Purchase Price payable by such Lender in respect of such Bankers' Acceptance in accordance with Section 2.03 and to apply such amount so withheld to the payment of such Drawing Fee for the account of such Borrower and, to the extent such Drawing Fee is so withheld and legally permitted to be so applied, such Borrower's obligations under the preceding sentence in respect of such Drawing Fee shall be satisfied.

(c) Agent's Fees. The Company shall pay to the Agent for its own account such fees, and at such times, as the Company and the Agent may separately agree.

SECTION 2.05. Termination or Reduction of the Commitments. (a) Optional Ratable Termination or Reduction. The Company shall have the right, upon at least three Business Days' notice to the Agent, to terminate in whole or permanently reduce ratably in part the Unused Commitments of the Lenders, provided that each partial reduction shall be in an aggregate amount not less than US$10,000,000 or an integral multiple of US$1,000,000 in

excess thereof. The aggregate amount of the Commitments, once reduced as provided in this Section 2.05(a), may not be reinstated.

(b) Termination by a Lender. In the event that a Change of Control occurs, each Lender may, by notice to the Company and the Agent given not later than 50 calendar days after such Change of Control, terminate its Commitment, which Commitments shall be terminated effective as of the latest of (i) the date that is 60 calendar days after such Change of Control, (ii) the end of the Interest Period for any Eurodollar Rate Advance outstanding at the time of such Change of Control or for any Eurodollar Rate Advance made pursuant to the next sentence of this Section 2.05(b) or (iii) the Maturity Date of any Bankers' Acceptance outstanding at the time of such Change of Control or for any Bankers' Acceptance made pursuant to the next sentence of this Section 2.05(b). Upon the occurrence of a Change of Control, each Borrower's right to make a Borrowing under this Agreement shall be suspended for a period of 60 calendar days, except for Base Rate Advances, Prime Rate Advances, Eurodollar Rate Advances having an Interest Period ending not later than 90 calendar days after such Change of Control or Bankers' Acceptances having a Maturity Date not later than 90 calendar days after such Change of Control. A notice of termination pursuant to this Section 2.05(b) shall not have the effect of accelerating any outstanding Advance of such Lender.

(c) Term Loan Election. On the Termination Date, if the Company has made the Term Loan Election in accordance with Section 2.06(a) prior to such date, and from time to time thereafter upon each prepayment of the Advances, the Commitments of the Lenders shall be automatically and permanently reduced on a pro rata basis by an amount equal to the amount by which (i) the aggregate Commitments immediately prior to such reduction exceeds (ii) the aggregate unpaid principal amount of all Advances outstanding at such time.

SECTION 2.06. Repayment of Advances. (a) Advances. Each Borrower shall, subject to the next succeeding sentence, repay to the Agent for the ratable account of the Lenders on the Termination Date the aggregate principal amount of the Advances then outstanding. The Company may, upon not less than 15 days' notice to the Agent, elect (the "Term Loan Election") to convert all of the Advances outstanding on the Termination Date in effect at such time into a term loan which the Borrowers shall repay in full ratably to the Lenders on the Final Maturity Date; provided that the Term Loan Election may not be exercised unless the applicable conditions in Article III are satisfied on the date of notice of the Term Loan Election and on the date on which the Term Loan Election is to be effected. All Advances converted into a term loan pursuant to this Section 2.06 shall continue to constitute Advances except that the Borrowers may not reborrow pursuant to Section 2.01 after all or any portion of such Advances have been prepaid pursuant to Section 2.09.

(b) Bankers' Acceptances. Each Borrower shall, subject to Section 2.12(a), pay to the Agent for the ratable account of the Lenders on the Maturity Date of any Bankers' Acceptances issued by it an amount equal to the aggregate Face Amount of all such Bankers' Acceptances maturing on such date. Any payment by the Borrower of any Bankers' Acceptances in accordance with this Section 2.06(b) shall, to the extent of such payment, satisfy the obligations of such Borrower under the Bankers' Acceptances to which it relates and, in the case of a Bankers' Acceptance, the Lender that has accepted such Bankers' Acceptance shall, to the extent of such payment to such Lender, thereafter be solely responsible for the payment thereof.

SECTION 2.07. Interest on Advances. (a) Scheduled Interest. Each Borrower shall pay interest on the unpaid principal amount of each Advance owing by such Borrower to each Lender from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(i) Base Rate Advances. During such periods as such Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of (x) the Base Rate in effect from time to time plus (y) the Applicable Margin in effect from time to time plus (z) the Applicable Utilization Fee, if any, in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December during such periods and on the date such Base Rate Advance shall be paid in full.

(ii) Prime Rate Advances. During such periods as such Advance is a Prime Rate Advance, a rate per annum equal at all times to the sum of (x) the Prime Rate in effect from time to time plus (y) the Applicable Margin in effect from time to time plus (z) the Applicable Utilization Fee, if any, in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December during such periods and on the date such Prime Rate Advance shall be Converted or paid in full.

(iii) Eurodollar Rate Advances. During such periods as such Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such Advance to the sum of (x) the Eurodollar Rate for such Interest Period for such Advance plus (y) the Applicable Margin in effect from time to time plus (z) the Applicable Utilization Fee, if any, in effect from time to time, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and on the date such Eurodollar Rate Advance shall be Converted or paid in full.

(b) Default Interest. Upon the occurrence and during the continuance of an Event of Default under Section 6.01(a), each Borrower shall pay interest on (i) the unpaid principal amount of each Advance owing by such Borrower to each Lender, payable in arrears on the dates referred to in clause (a) above, at a rate per annum equal at all times to 1% per annum above the rate per annum required to be paid on such Advance pursuant to clause (a) above and (ii) to the fullest extent permitted by law, the amount of any interest, fee or other amount payable hereunder by such Borrower that is not paid when due, from the date such amount shall be due until such amount shall be paid in full, payable in arrears on the date such amount shall be paid in full and on demand, at a rate per annum equal at all times to 1% per annum above the rate per annum required to be paid on such Advance pursuant to clause (a) above.

SECTION 2.08. Interest Rate Determination. (a) (i) Each Reference Bank agrees to furnish to the Agent timely information for the purpose of determining each Eurodollar Rate if the Telerate Page is unavailable. If any one or more of the Reference Banks shall not furnish such timely information to the Agent for the purpose of determining any such interest rate, the Agent shall determine such interest rate on the basis of timely information furnished by the remaining Reference Banks. (ii) Each Canadian Reference Bank agrees to furnish to the Agent timely information for the purpose of determining each BA Rate if the Reuters Screen CDOR

Page is unavailable. If any one or more of the Canadian Reference Banks shall not furnish such timely information to the Agent for the purpose of determining any such interest rate, the Agent shall determine such interest rate on the basis of timely information furnished by the remaining Canadian Reference Banks. (iii) The Agent shall give prompt notice to the Company and the Lenders of the applicable interest rate determined by the Agent for purposes of Section 2.07(a), and the rate, if any, furnished by each Reference Bank for the purpose of determining the interest rate under Section 2.07(a)(iii).

(b) If, with respect to any Eurodollar Rate Advances, the Majority Lenders notify the Agent that (i) they are unable to obtain matching deposits in the London interbank market at or about 11:00 A.M. (London time) on the second Business Day before the making of a Borrowing in sufficient amounts to fund their respective Advances as part of such Borrowing during its Interest Period or (ii) the Eurodollar Rate for any Interest Period for such Advances will not adequately reflect the cost to such Majority Lenders of making, funding or maintaining their respective Eurodollar Rate Advances for such Interest Period, the Agent shall forthwith so notify each Borrower and the Lenders, whereupon (A) the Borrower will, on the last day of the then existing Interest Period therefor, either (x) prepay such Advances or (y) Convert such Advances into Base Rate Advances and (B) the obligation of the Lenders to make Eurodollar Rate Advances shall be suspended until the Agent shall notify each Borrower and the Lenders that the circumstances causing such suspension no longer exist.

(c) If any Borrower, in requesting a Borrowing comprised of Eurodollar Rate Advances, shall fail to select the duration of the Interest Period for such Eurodollar Rate Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Agent will forthwith so notify the Borrower and the Lenders and such Advances will (to the extent such Eurodollar Rate Advances remain outstanding on such day) automatically, on the last day of the then existing Interest Period therefor, Convert into Base Rate Advances.

(d) Upon the occurrence and during the continuance of any Event of Default under Section 6.01(a), (i) each Eurodollar Rate Advance will (to the extent such Eurodollar Rate Advance remains outstanding on such day) automatically, on the last day of the then existing Interest Period therefor, be Converted into a Base Rate Advance and (ii) the obligation of the Lenders to make Eurodollar Rate Advances shall be suspended.

(e) (i) If the Telerate Page is unavailable and fewer than two Reference Banks furnish timely information to the Agent for determining the Eurodollar Rate for any Eurodollar Rate Advances,

(A) the Agent shall forthwith notify the relevant Borrower and the Lenders that the interest rate cannot be determined for such Eurodollar Rate Advances,

(B) with respect to Eurodollar Rate Advances, each such Advance will (to the extent such Eurodollar Rate Advance remains outstanding on such day), on the last day of the then existing Interest Period therefor, be prepaid by the applicable Borrower or be automatically Converted into a Base Rate Advance (or if such Advance is then a Base Rate Advance, will continue as a Base Rate Advance), and

(C) the obligation of the Lenders to make Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrowers and the Lenders that the circumstances causing such suspension no longer exist.

(ii) If the Reuters Screen CDOR Page is not available for the timely determination of the BA Rate, and fewer than two Canadian Reference Lenders are able to furnish timely information to the Agent for determining the BA Rate for any Bankers' Acceptances,

(A) the Agent shall forthwith notify the Borrowers and the Lenders that the interest rate cannot be determined for such Bankers' Acceptances, and

(B) the obligation of the Lenders to make, or to renew, Bankers' Acceptances shall be suspended until the Agent shall notify the Borrowers and the Lenders that the circumstances causing such suspension no longer exist.

(f) Interest Act (Canada). Whenever a rate of interest hereunder is calculated on the basis of a year (the "deemed year") which contains fewer days than the actual number of days in the calendar year of calculation, such rate of interest shall be expressed as a yearly rate for purposes of the Interest Act (Canada) by multiplying such rate of interest by the actual number of days in the calendar year of calculation and dividing it by the number of days in the deemed year.

(g) Nominal Rates; No Deemed Reinvestment. The principle of deemed reinvestment of interest shall not apply to any interest calculation under this Agreement; all interest payments to be made hereunder shall be paid without allowance or deduction for reinvestment or otherwise, before and after maturity, default and judgment. The rates of interest specified in this Agreement are intended to be nominal rates and not effective rates. Interest calculated hereunder shall be calculated using the nominal rate method and not the effective rate method of calculation.

(h) Interest Paid by the Borrowers. Notwithstanding any provision of this Agreement, in no event shall the aggregate "interest" (as defined in Section 347 of the Criminal Code (Canada)) payable by any Borrower under this Agreement exceed the effective annual rate of interest on the "credit advanced" (as defined in the Section) under this Agreement lawfully permitted by that Section and, if any payment, collection or demand pursuant to this Agreement in respect of "interest" (as defined in that Section) is determined to be contrary to the provisions of that Section, such payment, collection or demand shall be deemed to have been made by mutual mistake of such Borrower and the Lenders and the amount of such payment or collection shall be refunded to such Borrower. For the purposes of this Agreement, the effective annual rate of interest shall be determined in accordance with generally accepted actuarial practices and principles over the relevant term and, in the event of a dispute, a certificate of a Fellow of the Canadian Institute of Actuaries appointed by the Lenders will be prima facie evidence of such rate.

SECTION 2.09. Prepayments of Advances. (a) Optional Prepayments. Each Borrower may, upon notice to the Agent stating the proposed date and aggregate principal

amount of the prepayment, given not later than 11:00 A.M. (Toronto time) on the second Business Day prior to the date of such proposed prepayment, in the case of Eurodollar Rate Advances, and not later than 11:00 A.M. (Toronto time) on the day of such proposed prepayment, in the case of Base Rate Advances or Prime Rate Advances, and, if such notice is given, such Borrower shall, prepay the outstanding principal amount of the Advances comprising part of the same Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that (x) each partial prepayment shall be in an aggregate principal amount not less than the Borrowing Minimum or the Borrowing Multiple in excess thereof and (y) in the event of any such prepayment of a Eurodollar Rate Advance other than on the last day of the Interest Period therefor, such Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 9.04(c). Each notice of prepayment by a Borrower shall be given to the Agent through the Company.

(b) Mandatory Prepayments. (i) If, on any date, the sum of (A) the aggregate principal amount of all Advances denominated in Canadian Dollar then outstanding plus (B) the Equivalent in Canadian Dollar (determined on the third Business Day prior to such date) of the aggregate principal amount of all Advances denominated in US Dollars then outstanding exceeds 103% of the aggregate Commitments of the Lenders on such date, the Borrowers shall thereupon promptly prepay the outstanding principal amount of any Advances owing by such Borrower in an aggregate amount sufficient to reduce such sum to an amount not to exceed 100% of the aggregate Commitments of the Lenders on such date, together with any interest accrued to the date of such prepayment on the principal amounts prepaid and, in the case of any prepayment of a Eurodollar Rate Advance on a date other than the last day of an Interest Period or at its maturity, any additional amounts which such Borrower shall be obligated to reimburse to the Lenders in respect thereof pursuant to Section 9.04(c). The Agent shall give prompt notice of any prepayment required under this Section 2.09(b)(i) to the Borrowers and the Lenders.

SECTION 2.10. Increased Costs. (a) If, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation or (ii) the compliance with any guideline or request from any central bank or other governmental authority (whether or not having the force of law), there shall be (A) any increase in the cost to any Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Advances, (B) any increase in the cost to any Lender of agreeing to perform or of performing its obligations under this Agreement under or in respect of Bankers' Acceptances or (C) any reduction in any amount payable to, or any increase in any payment required to be made by, or any forgiveness or reduction of effective return to, any Lender under this Agreement under or in respect of Bankers' Acceptances (excluding for purposes of this Section 2.10 any such increased costs resulting from (i) Taxes or Other Taxes (as to which Section 2.14 shall govern) and (ii) changes in the basis of taxation of overall net income or overall gross income by the United States or by the foreign jurisdiction or state under the laws of which such Lender is organized or has its Applicable Lending Office or any political subdivision thereof), then the Borrower of such Advances shall from time to time, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender additional amounts sufficient to compensate such Lender for such increased cost. A certificate as to the amount of such increased cost, submitted to such Borrower and the Agent by such Lender, shall be conclusive and binding for all purposes, absent manifest error.

(b) If any Lender determines that compliance with any law or regulation or any guideline or request from any central bank or other governmental authority (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and that the amount of such capital is increased by or based upon the existence of such Lender's commitment to lend or to accept, purchase and/or discount Bankers' Acceptances hereunder and other commitments of such type or the purchase and/or acceptance and maintenance of Bankers' Acceptances, then, upon demand by such Lender (with a copy of such demand to the Agent), the Company shall pay to the Agent for the account of such Lender, from time to time as specified by such Lender, additional amounts sufficient to compensate such Lender or such corporation in the light of such circumstances, to the extent that such Lender reasonably determines such increase in capital to be allocable to the existence of such Lender's commitment to lend or to accept, purchase and/or discount Bankers' Acceptances or to the purchase and/or acceptance and maintenance of Bankers' Acceptances hereunder. A certificate as to such amounts submitted to the Company and the Agent by such Lender shall be conclusive and binding for all purposes, absent manifest error.

(c) Any Lender claiming any additional amounts payable pursuant to this Section 2.10 shall, upon the written request of the Company delivered to such Lender and the Agent, assign, pursuant to and in accordance with the provisions of Section 9.06, all of its rights and obligations under this Agreement and under the Notes to an Eligible Assignee selected by the Company; provided, however, that (i) no Default shall have occurred and be continuing at the time of such request and at the time of such assignment; (ii) the assignee shall have paid to the assigning Lender the aggregate principal amount of, and any interest accrued and unpaid to the date of such assignment on, the Advances of such Lender; (iii) the Company shall have paid to the assigning Lender any and all facility fees and other fees payable to such Lender and all other accrued and unpaid amounts owing to such Lender under any provision of this Agreement (including, but not limited to, any increased costs or other additional amounts owing under this Section 2.10, and any indemnification for Taxes under Section 2.14) as of the effective date of such assignment and (iv) if the assignee selected by the Company is not an existing Lender, such assignee or the Company shall have paid the processing and recordation fee required under Section 9.06(a) for such assignment; provided further that the assigning Lender's rights under Sections 2.10, 2.14 and 9.04, and its obligations under Section 8.05, shall survive such assignment as to matters occurring prior to the date of assignment.

SECTION 2.11. Illegality. (a) Notwithstanding any other provision of this Agreement, if any Lender shall notify the Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or any central bank or other governmental authority asserts that it is unlawful, for any Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances hereunder, (a) each such Eurodollar Rate Advance will automatically, upon such demand, be Converted into a Base Rate Advance and (b) the obligation of the Lenders to make such Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist.

(b) Notwithstanding any other provision of this Agreement, if the introduction of or any change in the interpretation of any law or regulation (including, without limitation, any change in acceptance limits imposed on any Lender) shall make it unlawful, or any central bank or other governmental authority shall assert that it is unlawful, for any Lender or any of their respective BA Lending Offices to perform its obligations hereunder to complete and accept Drafts, to purchase Bankers' Acceptances or to continue to fund or maintain Bankers' Acceptances hereunder, then, upon notice thereof and demand therefor by such Lender to the Borrowers through the Agent (i) an amount equal to the aggregate Face Amount of all Bankers' Acceptances outstanding at such time shall, upon such demand (which shall only be made if deemed necessary by the applicable Lender to comply with applicable law), be deposited by the Borrowers into the Cash Collateral Account until the Maturity Date of each such Bankers' Acceptance, (ii) upon the Maturity Date of any Bankers' Acceptance in respect of which any such deposit has been made, the Agent shall be, and hereby is, authorized (without notice to or any further action by any Borrower) to apply, or to direct the Agent to apply, such amount (or the applicable portion thereof) to the reimbursement of such Bankers' Acceptance and (iii) the obligation of the Lenders to complete and accept Drafts and/or to purchase Bankers' Acceptances shall be suspended until the Agent shall notify the Borrowers that such Lender has determined that the circumstances causing such suspension no longer exist.

SECTION 2.12. Renewal and Conversion of Bankers' Acceptances. (a) Optional Renewal or Conversion. Each Borrower may on any Business Day, upon notice given to the Agent not later than 12:00 noon (Toronto time) on a Business Day at least two Business Days prior to the date of the proposed renewal or Conversion and subject to the provisions of Section 2.11, renew all or any portion of the Bankers' Acceptances comprising part of the same Drawing made by such Borrower or Convert all or any portion of the Bankers' Acceptances comprising part of the same Drawing made by such Borrower to a Borrowing comprised of Prime Rate Advances; provided, however, that:

(i) any renewal or Conversion of Bankers' Acceptances shall be made only on the then existing Maturity Date for such Bankers' Acceptances;

(ii) each renewal or Conversion of Bankers' Acceptances comprising part of the same Drawing shall be made ratably among the Lenders holding such Bankers' Acceptances in accordance with the respective amount of such Bankers' Acceptances so held;

(iii) no renewal of any Bankers' Acceptance may be made at any time that a Default has occurred and is continuing, and

(iv) no Conversion may be made if the amount of the Advance to be made by any Lender in connection with such Conversion would exceed such Lender's Unused Commitment in effect at the time of such Conversion.

Each such notice of renewal or Conversion shall, within the restrictions set forth above, specify (A) the date of such renewal or Conversion (which shall be the then existing Maturity Date of such Bankers' Acceptances and shall be a Business Day), (B) the Bankers' Acceptances to be renewed or Converted, (C) if less than all of the Bankers' Acceptances comprising part of any

Drawing are to be renewed or Converted, the aggregate Face Amount for such renewal or Conversion and (D) in the case of a renewal, the term to maturity of the renewed Bankers' Acceptances (which shall comply with the definition of "Maturity Date" in Section 1.01); provided, however, that, if the Agent determines in good faith (which determination shall be conclusive and binding upon each Borrower) that the Bankers' Acceptances cannot, due solely to the requested aggregate Face Amount thereof, be renewed ratably by the Lenders, the aggregate Face Amount of such renewal (or the Face Amount of Bankers' Acceptances to be created by any Lender) shall be reduced to such lesser amount as the Agent determines will permit such renewal to be so made and each Lender shall fund the difference between such Lender's ratable portion of the original aggregate Face Amount of such renewal and the Face Amount of the Bankers' Acceptances to be created by such Lender after giving effect to such reduction in the form of a Prime Rate Advance, which shall be deemed for all purposes hereof to be an Advance made pursuant to Section 2.01(a). Each notice of renewal or Conversion under this Section 2.12 shall be irrevocable and binding on the Borrower giving such notice. Upon any renewal of Bankers' Acceptances comprising part of any Drawing in accordance with this Section 2.12(a), the Lenders holding the Bankers' Acceptances to be renewed shall exchange such maturing Bankers' Acceptances for new Bankers' Acceptances containing the terms set forth in the applicable notice of renewal, and the Drawing Purchase Price payable for each such renewal shall be applied, together with other funds, if necessary, available to the applicable Borrower, to reimburse the Bankers' Acceptances otherwise maturing on such date in accordance with Section 2.06(b). Each Borrower hereby irrevocably authorizes and directs each Lender to apply the proceeds of each renewed Bankers' Acceptance owing to it to the reimbursement, in accordance with this Section 2.12(a), of the Bankers' Acceptances owing to such Lender by such Borrower and maturing on such date. Upon any Conversion of Bankers' Acceptances comprising part of the same Drawing in accordance with this Section 2.12(a), the obligation of the Borrower requesting such Conversion to reimburse the Lenders under Section 2.06 in respect of the Bankers' Acceptances otherwise maturing on such date shall, to the extent of such conversion, be Converted to an obligation to reimburse the Lenders making the Advances made in respect of such maturing Bankers' Acceptances on such date ratably in accordance with the amount of the Advances held by such Lender at the time of reimbursement. Each Borrower hereby irrevocably authorizes and directs each Lender to apply the net proceeds of each Prime Rate Advance made by such Lender pursuant to this Section 2.12(a) to the reimbursement of the Bankers' Acceptances owing to such Lender and maturing on such date.

(b) Mandatory Conversion. If any Default shall have occurred and be continuing or if any Borrower shall fail (i) to deliver a properly completed notice of renewal or a properly completed notice of Conversion under Section 2.12(a) indicating its intention to renew or to Convert any maturing Bankers' Acceptances or (ii) to reimburse the Lenders for any Bankers' Acceptances comprising part of the same Drawing pursuant to Section 2.06, the Agent will forthwith so notify such Borrower and the Lenders, whereupon each such Bankers' Acceptance will automatically, on the then existing Maturity Date of such Bankers' Acceptances, Convert into a Prime Rate Advance.

SECTION 2.13. Payments and Computations. (a) Each Borrower shall make each payment hereunder and under any Notes, except with respect to principal of, interest on, and other amounts relating to, Advances denominated in a Canadian Dollars, not later than 11:00 A.M. (Toronto time) on the day when due in US Dollars to the Agent at the Agent's

Account in same day funds without set-off, counterclaim or deduction of any kind. Each Borrower shall make each payment hereunder and under any Notes with respect to principal of, interest on, and other amounts relating to Advances denominated in Canadian Dollars not later than 12:00 Noon on the day when due in Canadian Dollars to the Agent in same day funds by deposit of such funds to the Agent's Account without set-off, counterclaim or deduction of any kind. The Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal, interest, facility fees ratably (other than amounts payable pursuant to Section 2.10, 2.14 or 9.04(c)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 9.06(c), from and after the effective date specified in such Assignment and Acceptance, the Agent shall make all payments hereunder and under any Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Acceptance shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) All computations of interest based on the Base Rate and of facility fees shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be, all computations of interest based on the Eurodollar Rate or the Federal Funds Rate shall be made by the Agent on the basis of a year of 360 days and all computations of interest based on the BA Rate shall be made by the Agent on the basis of a year of 365 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest or facility fees are payable. Each determination by the Agent of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(c) Whenever any payment hereunder or under the Notes or in respect of Bankers' Acceptances shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or facility fee, as the case may be; provided, however, that, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d) Unless the Agent shall have received notice from any Borrower prior to the date on which any payment is due to the Lenders hereunder that such Borrower will not make such payment in full, the Agent may assume that such Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent such Borrower shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, in the case of amounts denominated in US Dollars, at the Federal Funds Rate or, in the case of amounts denominated in Canadian Dollars, at the Canadian Interbank Rate.

SECTION 2.14. Taxes. (a) Any and all payments by any Borrower (including the Company in its capacity as a guarantor under Article VII hereof) hereunder or under the Notes or in respect of Bankers' Acceptances shall be made, in accordance with Section 2.13, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender and the Agent, net income taxes imposed by the United States or any State thereof and taxes imposed on its overall net income, and franchise taxes imposed on it in lieu of net income taxes, by the jurisdiction under the laws of which such Lender or the Agent (as the case may be) is organized or any political subdivision thereof and, in the case of each Lender, taxes imposed on its overall net income, and franchise taxes imposed on it in lieu of net income taxes, by the jurisdiction of such Lender's Applicable Lending Office or any political subdivision thereof (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities in respect of payments hereunder or under the Notes or in respect of Bankers' Acceptances being hereinafter referred to as "Taxes"). If any Borrower (including the Company in its capacity as a guarantor under Article VII hereof) shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Notes or in respect of any Bankers' Acceptance to any Lender or the Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.14) such Lender or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Borrower shall make such deductions and (iii) such Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, each Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder or under the Notes or in respect of a Bankers' Acceptance or from the execution, delivery or registration of, performing under, or otherwise with respect to, this Agreement or the Notes or in respect of a Bankers' Acceptance (hereinafter referred to as "Other Taxes").

(c) Each Borrower shall indemnify each Lender and the Agent for the full amount of Taxes or Other Taxes (including, without limitation, any taxes imposed by any jurisdiction on amounts payable under this Section 2.14) imposed on or paid by such Lender or the Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto; provided, however, that a Borrower shall not be obligated to pay any amounts in respect of penalties, interest or expenses pursuant to this paragraph that are payable solely as a result of (i) the failure on the part of the pertinent Lender or the Agent to pay over those amounts received from the Borrowers under this clause (c) or (ii) the gross negligence or willful misconduct on the part of the pertinent Lender or the Agent. This indemnification shall be made within 30 days from the date such Lender or the Agent (as the case may be) makes written demand therefor. Each Lender agrees to provide reasonably prompt notice to the Agent, the Company and any Borrower of any imposition of Taxes or Other Taxes against such Lender; provided that failure to give such notice shall not affect such Lender's rights to indemnification hereunder. Each Lender agrees that it will, promptly upon a request by the Company or a Borrower having made an indemnification payment hereunder, furnish to the Company or such Borrower, as the case may be, such evidence as is reasonably available to such Lender as to the payment of the relevant Taxes or Other Taxes, and that it will, if requested by

the Company or such Borrower, cooperate with the Company or such Borrower, as the case may be, in its efforts to obtain a refund or similar relief in respect of such payment.

(d) Within 30 days after the date of any payment of Taxes by a Borrower under subsection (a) above, each Borrower shall furnish to the Agent, at its address referred to in Section 9.02, the original or a certified copy of a receipt evidencing payment thereof. In the case of any payment hereunder or under the Notes or in respect of a Bankers' Acceptance by or on behalf of any Borrower through an account or branch outside the United States and Canada or by or on behalf of any Borrower by a payor that is not a United States person or a corporation organized under the laws of Canada or any political subdivision thereof, if such Borrower determines that no Taxes are payable in respect thereof, such Borrower shall furnish, or shall cause such payor to furnish, to the Agent, at such address, an opinion of counsel acceptable to the Agent stating that such payment is exempt from Taxes. For purposes of this subsection (d) and subsection (e), the terms "United States" and "United States person" shall have the meanings specified in Section 7701 of the Internal Revenue Code.

(e) Each Lender hereby certifies that it is a resident of Canada for purposes of Part XIII of the Income Tax Act (Canada) or that payments of interest to it by any Borrower are otherwise exempt from Canadian withholding taxes. Each Person that becomes a Lender hereafter shall promptly deliver to the Borrowers and the Agent a certificate as to whether such Person is a resident of Canada for purposes of Part XIII of the Income Tax Act (Canada) or that payments of interest to it by the Borrowers are otherwise exempt from Canadian withholding taxes. If any such Lender is not a resident of Canada for purposes of Part XIII of the Income Tax Act (Canada) or otherwise not exempt from the payment of Canadian withholding taxes on interest payments to it, such Lender shall not be entitled to payments hereunder with respect to taxes imposed under Part XIII of the Income Tax Act (Canada) and such interest payments will be net of any applicable withholding taxes required to be withheld and remitted by the payor.

(f) For any period with respect to which a Lender has failed to provide each Borrower with the appropriate certification described in Section 2.14(e) (other than if such failure is due to a change in law occurring subsequent to the date on which a certification originally was required to be provided), such Lender shall not be entitled to indemnification under Section 2.14(a) or (c) with respect to Taxes imposed by Canada by reason of such failure; provided, however, that should a Lender become subject to Taxes because of its failure to deliver a certification required hereunder, each Borrower shall take such steps as such Lender shall reasonably request to assist such Lender to recover such Taxes.

(g) If any Borrower is required to pay any additional amount to any Lender or to the Agent or on behalf of any of them to any taxing authority pursuant to this Section 2.14, such Lender shall, upon the written request of the Company delivered to such Lender and the Agent, assign, pursuant to and in accordance with the provisions of Section 9.06, all of its rights and obligations under this Agreement and under the Notes to an Eligible Assignee selected by the Company; provided, however, that (i) no Default shall have occurred and be continuing at the time of such request and at the time of such assignment; (ii) the assignee shall have paid to the assigning Lender the aggregate principal amount of, and any interest accrued and unpaid to the date of such assignment on, the Advances of such Lender; (iii) the Company shall have paid to the assigning Lender any and all facility fees and other fees payable to such Lender and all other

accrued and unpaid amounts owing to such Lender under any provision of this Agreement (including, but not limited to, any increased costs or other additional amounts owing under Section 2.10, and any indemnification for Taxes under this Section 2.14) as of the effective date of such assignment; and (iv) if the assignee selected by the Company is not an existing Lender, such assignee or the Company shall have paid the processing and recordation fee required under Section 9.06(a) for such assignment; provided further that the assigning Lender's rights under Sections 2.10, 2.14 and 9.04, and its obligations under Section 8.05, shall survive such assignment as to matters occurring prior to the date of assignment.

SECTION 2.15. Sharing of Payments, Etc. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of setoff, if any, or otherwise) on account of the Advances owing to it and under any Bankers' Acceptances (other than pursuant to Section 2.10, 2.14 or 9.04(c)) in excess of its Ratable Share of payments on account of the Advances and under any Bankers' Acceptances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the Advances owing to and the Bankers' Acceptances issued or purchased by them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. Each Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.15 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of setoff, if any) with respect to such participation as fully as if such Lender were the direct creditor of such Borrower in the amount of such participation.

SECTION 2.16. Use of Proceeds. The proceeds of the Advances shall be available (and each Borrower agrees that it shall use such proceeds) for general corporate purposes of such Borrower and its Subsidiaries, including, without limitation, backstop of commercial paper.

SECTION 2.17. Evidence of Debt. (a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of each Borrower to such Lender resulting from each Advance owing to such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder in respect of Advances. Each Borrower agrees that upon request of any Lender to such Borrower (with a copy of such notice to the Agent) that such Lender receive a Note to evidence (whether for purposes of pledge, enforcement or otherwise) the Advances owing to, or to be made by, such Lender, such Borrower shall promptly execute and deliver to such Lender a Note payable to the order of such Lender in a principal amount up to the Commitment of such Lender.

(b) The Register maintained by the Agent pursuant to Section 9.06(d) shall include a control account, and a subsidiary account for each Lender, in which accounts (taken

together) shall be recorded (i) the date and amount of each Borrowing made hereunder, the Type of Advances comprising such Borrowing and, if appropriate, the Interest Period applicable thereto, (ii) the terms of each Assignment and Acceptance delivered to and accepted by it, (iii) the amount of any principal or interest due and payable or to become due and payable from each Borrower to each Lender hereunder and (iv) the amount of any sum received by the Agent from each Borrower hereunder and each Lender's share thereof.

(c) Entries made in good faith by the Agent in the Register pursuant to subsection (b) above, and by each Lender in its account or accounts pursuant to subsection (a) above, shall be prima facie evidence of the amount of principal and interest due and payable or to become due and payable from the Borrowers to, in the case of the Register, each Lender and, in the case of such account or accounts, such Lender, under this Agreement, absent manifest error; provided, however, that the failure of the Agent or such Lender to make an entry, or any finding that an entry is incorrect, in the Register or such account or accounts shall not limit or otherwise affect the obligations of any Borrower under this Agreement.

ARTICLE III

CONDITIONS TO EFFECTIVENESS AND LENDING

SECTION 3.01. Conditions Precedent to Effectiveness of Section 2.01. Section 2.01 of this Agreement shall become effective on and as of the first date (the "Effective Date") on which the following conditions precedent have been satisfied:

(a) There shall have occurred no Material Adverse Change since December 31, 2004, except as otherwise publicly disclosed prior to the date hereof.

(b) There shall exist no action, suit, investigation, litigation or proceeding affecting the Company or any of its Subsidiaries pending or to the knowledge of the Company Threatened before any court, governmental agency or arbitrator that (i) is reasonably likely to have a Material Adverse Effect, other than the matters described on Schedule 3.01(b) hereto (the "Disclosed Litigation") or (ii) purports to affect the legality, validity or enforceability of this Agreement or any Note or the consummation of the transactions contemplated hereby, and there shall have been no adverse change in the status, or financial effect on the Company or any of its Subsidiaries, of the Disclosed Litigation from that described on Schedule 3.01(b) hereto.

(c) The Company shall have paid all accrued fees and expenses of the Agent and the Lenders in respect of this Agreement.

(d) On the Effective Date, the following statements shall be true and the Agent shall have received a certificate signed by a duly authorized officer of the Company, dated the Effective Date, stating that:

(i) The representations and warranties contained in Section 4.01 are correct on and as of the Effective Date, and

(ii) No event has occurred and is continuing that constitutes a Default.

(e) The Agent shall have received on or before the Effective Date the following, each dated such day, in form and substance satisfactory to the Agent:

(i) The Notes of each Borrower to the order of the Lenders to the extent requested by any Lender pursuant to Section 2.17.

(ii) Certified copies of the resolutions of the Board of Directors of the Company and each Borrower approving this Agreement and the Notes of the Company and each Borrower party thereto, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and such Notes.

(iii) A certificate of the Secretary or an Assistant Secretary of the Company and each Borrower certifying the names and true signatures of the officers of the Company and each Borrower authorized to sign this Agreement and any Notes of such Borrower and the other documents to be delivered hereunder.

(iv) A favorable opinion of Gail E. Lehman, Assistant General Counsel of the Company, substantially in the form of Exhibit D hereto and as to such other matters as any Lender through the Agent may reasonably request.

(v) A favorable opinion of Gail E. Lehman, counsel to each of the Borrowers, substantially in the form of Exhibit E hereto and as to such other matters as any Lender through the Agent may reasonably request.

(vi) A favorable opinion of Shearman & Sterling LLP, counsel for the Agent, substantially in the form of Exhibit F hereto.

(vii) Such other approvals, opinions or documents as any Lender, through the Agent, may reasonably request.

(f) The Company shall have paid all accrued fees and expenses of the Agent (including the billed fees and expenses of counsel to the Agent).

SECTION 3.02. Conditions Precedent to Each Borrowing, Drawing and Term Loan Conversion Date. The obligation of each Lender to make an Advance or to purchase, accept or renew a Bankers' Acceptance on the occasion of each Borrowing, and the Term Loan Conversion Date shall be subject to the conditions precedent that the Effective Date shall have occurred and on the date of such Borrowing, Drawing or the Term Loan Conversion Date (a) the following statements shall be true (and each of the giving of the applicable Notice of Borrowing, Notice of Drawing, the Term Loan Election and the acceptance by the Borrower requesting such Borrowing or Drawing of the proceeds of such Borrowing or Drawing shall constitute a representation and warranty by such Borrower that on the date of such Borrowing, such Drawing or the Term Loan Conversion Date such statements are true):

(i) the representations and warranties of the Company contained in Section 4.01 (except, in the case of a Borrowing or a Drawing, the representations set

forth in the last sentence of subsection (e) thereof and in subsections (f), (h)-(l) and (n) thereof) are correct on and as of the date of such Borrowing, Drawing or the Term Loan Conversion Date, before and after giving effect to such Borrowing, such Drawing, the Term Loan Election and to the application of the proceeds therefrom, as though made on and as of such date, and

(ii) no event has occurred and is continuing, or would result from such Borrowing, such Drawing, the Term Loan Election or from the application of the proceeds therefrom, that constitutes a Default;

and (b) the Agent shall have received such other approvals, opinions or documents as any Lender through the Agent may reasonably request.

SECTION 3.03. Determinations Under Section 3.01. For purposes of determining compliance with the conditions specified in Section 3.01, each Lender shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Lenders unless an officer of the Agent responsible for the transactions contemplated by this Agreement shall have received notice from such Lender prior to the date that the Company, by notice to the Lenders, designates as the proposed Effective Date, specifying its objection thereto. The Agent shall promptly notify the Lenders of the occurrence of the Effective Date.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Representations and Warranties of the Company and the Borrowers. The Company and each Borrower represents and warrants as follows:

(a) The Company and each Borrower is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization.

(b) The execution, delivery and performance by the Company and each Borrower of this Agreement and the Notes of such Borrower, and the consummation of the transactions contemplated hereby, are within the Company's and each Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do not and will not cause or constitute a violation of any provision of law or regulation or any provision of the Certificate of Incorporation or By-Laws (or similar organizational documents of the Company or any Borrower or result in the breach of, or constitute a default or require any consent under, or result in the creation of any lien, charge or encumbrance upon any of the properties, revenues, or assets of the Company or any Borrower pursuant to, any indenture or other agreement or instrument to which the Company or such Borrower is a party or by which the Company or such Borrower or its property may be bound or affected.

(c) No authorization, consent, approval (including any exchange control approval), license or other action by, and no notice to or filing or registration with, any governmental authority, administrative agency or regulatory body or any other third party

is required for the due execution, delivery and performance by the Company or any Borrower of this Agreement or the Notes of such Borrower.

(d) This Agreement has been, and each of the Notes when delivered hereunder will have been, duly executed and delivered by the Company and each Borrower party thereto. This Agreement is, and each of the Notes of each Borrower party thereto when delivered hereunder will be, the legal, valid and binding obligation of the Company and such Borrower enforceable against the Company and such Borrower in accordance with their respective terms, except to the extent that such enforcement may be limited by applicable bankruptcy, insolvency and other similar laws affecting creditors' rights generally.

(e) The Consolidated balance sheet of the Company and its Consolidated Subsidiaries as at December 31, 2004, and the related Consolidated statements of income and cash flows of the Company and its Consolidated Subsidiaries for the fiscal year then ended (together with the notes to the financial statements of the Company and its Consolidated Subsidiaries and the Consolidated statements of cash flows of the Company and its Consolidated Subsidiaries), accompanied by an opinion of one or more nationally recognized firms of independent public accountants, and the Consolidated balance sheet of the Company and its Consolidated Subsidiaries as at June 30, 2005, and the related Consolidated statements of income and cash flows of the Company and its Consolidated Subsidiaries for the nine months then ended, duly certified by the principal financial officer of the Company, copies of which have been furnished to each Lender, are materially complete and correct, and fairly present, subject, in the case of said balance sheet as at June 30, 2005, and said statements of income and cash flows for the nine months then ended, to year-end audit adjustments, the Consolidated financial condition of the Company and its Consolidated Subsidiaries as at such dates and the Consolidated results of the operations of the Company and its Consolidated Subsidiaries for the periods ended on such dates, all in accordance with GAAP consistently applied, except as otherwise noted therein; the Company and its Consolidated Subsidiaries do not have on such date any material contingent liabilities, liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments, except as referred to or reflected or provided for in such balance sheet or the notes thereto as at such date. No Material Adverse Change has occurred since December 31, 2004, except as otherwise publicly disclosed prior to the date hereof.

(f) There is no action, suit, investigation, litigation or proceeding, including, without limitation, any Environmental Action, pending or to the knowledge of the Company Threatened affecting the Company or any of its Subsidiaries before any court, governmental agency or arbitrator that (i) is reasonably likely to have a Material Adverse Effect (other than the Disclosed Litigation), or (ii) purports to affect the legality, validity or enforceability of this Agreement or any Note or the consummation of the transactions contemplated hereby, and there has been no adverse change in the status, or financial effect on the Company or any of its Subsidiaries, of the Disclosed Litigation from that described on Schedule 3.01(b) hereto.

(g) Following application of the proceeds of each Advance, not more than 25 percent of the value of the assets (either of the Borrower of such Advance or of such Borrower and its Subsidiaries on a Consolidated basis) subject to the provisions of Section 5.02(a) or subject to any restriction contained in any agreement or instrument between such Borrower and any Lender or any Affiliate of any Lender relating to Debt and within the scope of Section 6.01(e) will be margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System).

(h) The Company and each wholly-owned direct Subsidiary of the Company have, in the aggregate, met their minimum funding requirements under ERISA with respect to their Plans in all material respects and have not incurred any material liability to the PBGC, other than for the payment of premiums, in connection with such Plans.

(i) No ERISA Event has occurred or is reasonably expected to occur with respect to any Plan of the Company or any of its ERISA Affiliates that has resulted in or is reasonably likely to result in a material liability of the Company or any of its ERISA Affiliates.

(j) The Schedules B (Actuarial Information) to the 2004 annual reports (Form 5500 Series) with respect to each Plan of the Company or any of its ERISA Affiliates, copies of which have been filed with the Internal Revenue Service (and which will be furnished to any Lender through the Agent upon the request of such Lender through the Agent to the Company), are complete and accurate in all material respects and fairly present in all material respects the funding status of such Plans at such date, and since the date of each such Schedule B there has been no material adverse change in funding status.

(k) Neither the Company nor any of its ERISA Affiliates has incurred or reasonably expects to incur any Withdrawal Liability to any Multiemployer Plan in an annual amount exceeding 6% of Net Tangible Assets of the Company and its Consolidated Subsidiaries.

(l) Neither the Company nor any of its ERISA Affiliates has been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or has been terminated, within the meaning of Title IV of ERISA. No such Multiemployer Plan is reasonably expected to be in reorganization or to be terminated, within the meaning of Title IV of ERISA, in a reorganization or termination which might reasonably be expected to result in a liability of the Company in an amount in excess of US$5,000,000.

(m) Neither the Company nor any Borrower is, and immediately after the application by the applicable Borrower of the proceeds of each Advance will not be, (a) an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or (b) a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

(n) To the best of the Company's knowledge, the operations and properties of the Company and its Subsidiaries taken as a whole comply in all material respects with all Environmental Laws, all necessary Environmental Permits have been applied for or have been obtained and are in effect for the operations and properties of the Company and its Subsidiaries and the Company and its Subsidiaries are in compliance in all material respects with all such Environmental Permits. To the best of the Company's knowledge no circumstances exist that would be reasonably likely to form the basis of an Environmental Action against the Company or any of its Subsidiaries or any of their properties that could have a Material Adverse Effect.

ARTICLE V

COVENANTS OF THE COMPANY

SECTION 5.01. Affirmative Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, the Company will:

(a) Compliance with Laws, Etc. Comply, and cause each Borrower to comply with all applicable laws, rules, regulations and orders, such compliance to include, without limitation, compliance with ERISA and Environmental Laws as provided in Section 5.01(j), if failure to comply with such requirements would have a Material Adverse Effect.

(b) Payment of Taxes, Etc. Pay and discharge, and cause each Borrower to pay and discharge, all taxes, assessments and governmental charges or levies imposed upon it or on its income or profits or upon any of its property; provided, however, that neither the Company nor any of its Subsidiaries shall be required to pay or discharge any such tax, assessment, charge or claim that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained.

(c) Maintenance of Insurance. Maintain, and cause each Borrower to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Company or such Borrower operates.

(d) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each Borrower to preserve and maintain, its corporate existence and all its material rights (charter and statutory) privileges and franchises; provided, however, that the Company and each Borrower may consummate any merger, consolidation or sale of assets permitted under Section 5.02(b).

(e) Visitation Rights. At any reasonable time and from time to time upon reasonable notice but not more than once a year unless an Event of Default has occurred and is continuing, permit the Agent or any of the Lenders or any agents or representatives thereof, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Company and any Borrower, and to discuss the

affairs, finances and accounts of the Company and any Borrower with any of their officers or directors and with their independent certified public accountants.

(f) Keeping of Books. Keep, and cause each Borrower to keep, proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Company and each Borrower in accordance with generally accepted accounting principles in effect from time to time.

(g) Maintenance of Properties, Etc. Maintain and preserve, and cause each Borrower to maintain and preserve, all of its properties that are used or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted; provided, however, that neither the Company nor any Borrower shall be required to maintain or preserve any property if the failure to maintain or preserve such property shall not have a Material Adverse Effect.

(h) Reporting Requirements. Furnish to the Agent (with a copy for each Lender) and the Agent shall promptly forward the same to the Lenders:

(i) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Company, a Consolidated balance sheet of the Company and its Consolidated Subsidiaries as of the end of such quarter and a Consolidated statement of income and cash flows of the Company and its Consolidated Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, setting forth in each case in comparative form the corresponding figures as of the corresponding date and for the corresponding period of the preceding fiscal year, all in reasonable detail and certified by the principal financial officer, principal accounting officer, the Vice-President and Treasurer or an Assistant Treasurer of the Company, subject, however, to year-end auditing adjustments, which certificate shall include a statement that such officer has no knowledge, except as specifically stated, of any condition, event or act which constitutes a Default;

(ii) as soon as available and in any event within 120 days after the end of each fiscal year of the Company, a Consolidated balance sheet of the Company and its Consolidated Subsidiaries as of the end of such fiscal year and the related Consolidated statements of income and cash flows of the Company and its Consolidated Subsidiaries for such fiscal year setting forth in each case in comparative form the corresponding figures as of the close of and for the preceding fiscal year, all in reasonable detail and accompanied by an opinion of independent public accountants of nationally recognized standing, as to said financial statements and a certificate of the principal financial officer, principal accounting officer, the Vice-President and Treasurer or an Assistant Treasurer of the Company stating that such officer has no knowledge, except as specifically stated, of any condition, event or act which constitutes a Default;

(iii) copies of the Forms 8-K and 10-K reports (or similar reports) which the Company is required to file with the Securities and Exchange Commission of the United States of America, promptly after the filing thereof;

(iv) copies of each annual report, quarterly report, special report or proxy statement mailed to substantially all of the stockholders of the Company, promptly after the mailing thereof to the stockholders;

(v) immediate notice of the occurrence of any Default of which the principal financial officer, principal accounting officer, the Vice-President and Treasurer or an Assistant Treasurer of the Company shall have knowledge;

(vi) as soon as available and in any event within 15 days after the Company or any of its ERISA Affiliates knows or has reason to know that any ERISA Event has occurred, a statement of a senior officer of the Company with responsibility for compliance with the requirements of ERISA describing such ERISA Event and the action, if any, which the Company or such ERISA Affiliate proposes to take with respect thereto;

(vii) at the request of any Lender, promptly after the filing thereof with the Internal Revenue Service, copies of Schedule B (Actuarial Information) to each annual report (Form 5500 series) filed by the Company or any of its ERISA Affiliates with respect to each Plan;

(viii) promptly after receipt thereof by the Company or any of its ERISA Affiliates, copies of each notice from the PBGC stating its intention to terminate any Plan or to have a trustee appointed to administer any Plan;

(ix) promptly after such request, such other documents and information relating to any Plan as any Lender may reasonably request from time to time;

(x) promptly and in any event within five Business Days after receipt thereof by the Company or any of its ERISA Affiliates from the sponsor of a Multiemployer Plan, copies of each notice concerning (A) (x) the imposition of Withdrawal Liability in an amount in excess of US$5,000,000 with respect to any one Multiemployer Plan or in an aggregate amount in excess of US$25,000,000 with respect to all such Multiemployer Plans within any one calendar year or (y) the reorganization or termination, within the meaning of Title IV of ERISA, of any Multiemployer Plan that has resulted or might reasonably be expected to result in Withdrawal Liability in an amount in excess of US $5,000,000 or of all such Multiemployer Plans that has resulted or might reasonably be expected to result in Withdrawal Liability in an aggregate amount in excess of US$25,000,000 within any one calendar year and (B) the amount of liability incurred, or that may be incurred, by the Company or any of its ERISA Affiliates in connection with any event described in such subclause (x) or (y);

(xi) promptly after the commencement thereof, notice of all actions and proceedings before any court, governmental agency or arbitrator affecting the Company or any Borrower of the type described in Section 4.01(f); and

(xii) from time to time such further information respecting the financial condition and operations of the Company and its Subsidiaries as any Lender may from time to time reasonably request.

(i) Authorizations. Obtain, and cause each Borrower to obtain, at any time and from time to time all authorizations, licenses, consents or approvals (including exchange control approvals) as shall now or hereafter be necessary or desirable under applicable law or regulations in connection with its making and performance of this Agreement and, upon the request of any Lender, promptly furnish to such Lender copies thereof.

(j) Compliance with Environmental Laws. Comply, and cause each of its Subsidiaries and all lessees and other Persons operating or occupying its properties to comply, in all material respects, with all applicable Environmental Laws and Environmental Permits; obtain and renew and cause each of its Subsidiaries to obtain and renew all Environmental Permits necessary for its operations and properties; and conduct, and cause each of its Subsidiaries to conduct, any investigation, study, sampling and testing, and undertake any cleanup, removal, remedial or other action necessary to remove and clean up all Hazardous Materials from any of its properties, in accordance with the requirements of all Environmental Laws; provided, however, that neither the Company nor any of its Subsidiaries shall be required to undertake any such cleanup, removal, remedial or other action to the extent that its obligation to do so is being contested in good faith and by proper proceedings and appropriate reserves are being maintained with respect to such circumstances.

(k) Change of Control. If a Change of Control shall occur, within ten calendar days after the occurrence thereof, provide the Agent with notice thereof, describing therein in reasonable detail the facts and circumstances giving rise to such Change in Control.

SECTION 5.02. Negative Covenants. So long as any Advance shall remain unpaid or any Lender shall have any Commitment hereunder, the Company will not:

(a) Liens, Etc. Issue, assume or guarantee, or permit any of its Subsidiaries owning Restricted Property to issue, assume or guarantee, any Debt secured by Liens on or with respect to any Restricted Property without effectively providing that its obligations to the Lenders under this Agreement and any of the Notes shall be secured equally and ratably with such Debt so long as such Debt shall be so secured, except that the foregoing shall not apply to:

(i) Liens affecting property of the Company or any of its Subsidiaries existing on the Effective Date in effect as of the date hereof or of any corporation

existing at the time it becomes a Subsidiary of the Company or at the time it is merged into or consolidated with the Company or a Subsidiary of the Company;

(ii) Liens on property of the Company or its Subsidiaries existing at the time of acquisition thereof or incurred to secure the payment of all or part of the purchase price thereof or to secure Debt incurred prior to, at the time of or within 24 months after acquisition thereof for the purpose of financing all or part of the purchase price thereof;

(iii) Liens on property of the Company or its Subsidiaries (in the case of property that is, in the opinion of the Board of Directors of the Company, substantially unimproved for the use intended by the Company) to secure all or part of the cost of improvement thereof, or to secure Debt incurred to provide funds for any such purpose;

(iv) Liens which secure only Debt owing by a Subsidiary of the Company to the Company or to another Subsidiary of the Company;

(v) Liens in favor of the United States of America, any State, any foreign country, or any department, agency, instrumentality, or political subdivisions of any such jurisdiction, to secure partial, progress, advance or other payments pursuant to any contract or statute or to secure any Debt incurred for the purpose of financing all or any part of the purchase price or cost of constructing or improving the property subject thereto, including, without limitation, Liens to secure Debt of the pollution control or industrial revenue bond type; or

(vi) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing clauses (i) to (v) inclusive of any Debt secured thereby, provided that the principal amount of Debt secured thereby shall not exceed the principal amount of Debt so secured at the time of such extension, renewal or replacement, and that such extension, renewal or replacement Lien shall be limited to all or part of the property which secured the Lien extended, renewed or replaced (plus improvements on such property);

provided, however, that, the Company and any one or more Subsidiaries owning Restricted Property may issue, assume or guarantee Debt secured by Liens which would otherwise be subject to the foregoing restrictions in an aggregate principal amount which, together with the aggregate outstanding principal amount of all other Debt of the Company and its Subsidiaries owning Restricted Property that would otherwise be subject to the foregoing restrictions (not including Debt permitted to be secured under clause (i) through (vi) above) and the aggregate value of the Sale and Leaseback Transactions in existence at such time, does not at any one time exceed 10% of the Net Tangible Assets of the Company and its Consolidated Subsidiaries; and provided further that the following type of transaction, among others, shall not be deemed to create Debt secured by Liens: Liens required by any contract or statute in order to permit the Company or any of its Subsidiaries to perform any contract or subcontract made by it

with or at the request of the United States of America, any foreign country or any department, agency or instrumentality of any of the foregoing jurisdictions.

(b) Mergers, Etc. Merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to, any Person; provided, however, that the Company may merge or consolidate with any other Person so long as the Company is the surviving corporation and so long as no Default shall have occurred and be continuing at the time of such proposed transaction or would result therefrom.

ARTICLE VI

EVENTS OF DEFAULT

SECTION 6.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) Any Borrower shall fail to pay: (i) any principal of any Advance or any portion of any Bankers' Acceptance when the same becomes due and payable; (ii) any facility fees or any interest on any Advance payable under this Agreement or any Note within three Business Days after the same becomes due and payable; or (iii) any other fees or other amounts payable under this Agreement or any Notes within 30 days after the same becomes due and payable other than those fees and amounts the liabilities for which are being contested in good faith by such Borrower and which have been placed in Escrow by such Borrower; or

(b) Any representation or warranty made (or deemed made) by the Company or any Borrower (or any of its officers) in connection with this Agreement shall prove to have been incorrect in any material respect when made (or deemed made); or

(c) The Company shall repudiate its obligations under, or shall default in the due performance or observance of, any term, covenant or agreement contained in Article VII of this Agreement; or

(d) (i) The Company shall fail to perform or observe Section 5.01(h)(v), (ii) the Company shall fail to perform or observe any other term, covenant or agreement contained in Section 5.02(a) and such failure shall remain unremedied for a period of 30 days after any Lender shall have given notice thereof to the Company (through the Agent), or (iii) the Company or any Borrower shall fail to perform or to observe any other term, covenant or agreement contained in this Agreement on its part to be performed or observed and such failure shall remain unremedied for a period of 30 days after any Lender shall have given notice thereof to the Company or the relevant Borrower or, in the case of the Company, any of the principal financial officer, the principal accounting officer, the Vice-President and Treasurer or an Assistant Treasurer of the Company, and in the case of any Borrower, a responsible officer of such Borrower, first has knowledge of such failure; or

(e) (i) The Company or any of its Consolidated Subsidiaries or any Borrower shall fail to pay any principal of or premium or interest on any Debt (other than Debt owed to the Company or its Subsidiaries or Affiliates) that is outstanding in a principal amount of at least US$150,000,000 in the aggregate (but excluding Debt outstanding hereunder and Debt owed by such party to any bank, financial institution or other institutional lender to the extent the Company, any Borrower or any Subsidiary has deposits with such bank, financial institution or other institutional lender sufficient to repay such Debt) of the Company, such Borrower or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt, or (ii) any other event shall occur or condition shall exist under any agreement or instrument relating to any such Debt and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate, or to permit the acceleration of, the maturity of such Debt, or (iii) any such Debt shall be declared to be due and payable, or required to be prepaid or redeemed (other than by a regularly scheduled required prepayment or redemption), purchased or defeased, or an offer to prepay, redeem, purchase or defease such Debt shall be required to be made, in each case prior to the stated maturity thereof; provided, however, that, for purposes of this Section 6.0l(e), in the case of (x) Debt of any Person (other than the Company, a Borrower or one of its Consolidated Subsidiaries) which the Company has guaranteed and (y) Debt of Persons (other than the Company, a Borrower or one of its Consolidated Subsidiaries) the payment of which is secured by a Lien on property of the Company, such Borrower or such Subsidiary, such Debt shall be deemed to have not been paid when due or to have been declared to be due and payable only when the Company, such Borrower or such Subsidiary, as the case may be, shall have failed to pay when due any amount which it shall be obligated to pay with respect to such Debt; provided further, however, that any event or occurrence described in this subsection (e) shall not be an Event of Default if (A) such event or occurrence relates to the Debt of any Subsidiary of the Company located in China, India, the Commonwealth of Independent States or Turkey (collectively, the "Exempt Countries"), (B) such Debt is not guaranteed or supported in any legally enforceable manner by any Borrower or by any Subsidiary or Affiliate of the Company located outside the Exempt Countries, (C) such event or occurrence is due to the direct or indirect action of any government entity or agency in any Exempt Country and (D) as of the last day of the calendar quarter immediately preceding such event or occurrence, the book value of the assets of such Subsidiary does not exceed US$150,000,000 and the aggregate book value of the assets of all Subsidiaries of the Company located in Exempt Countries the Debt of which would cause an Event of Default to occur but for the effect of this proviso does not exceed US$500,000,000; or

(f) The Company or any of its Consolidated Subsidiaries or any Borrower shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Company or any such Subsidiaries seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief

of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 30 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or the Company, any Borrower or any such Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this subsection (f); provided, however, that any event or occurrence described in this subsection (f) shall not be an Event of Default if (A) such event or occurrence relates to any Subsidiary of the Company located in an Exempt Country, (B) the Debt of such Subsidiary is not guaranteed or supported in any legally enforceable manner by any Borrower or by any Subsidiary or Affiliate of the Company located outside the Exempt Countries, (C) such event or occurrence is due to the direct or indirect action of any government entity or agency in any Exempt Country and (D) as of the last day of the calendar quarter immediately preceding such event or occurrence, the book value of the assets of such Subsidiary does not exceed US$150,000,000 and the aggregate book value of the assets of all Subsidiaries of the Company located in Exempt Countries with respect to which the happening of the events or occurrences described in this subsection (f) would cause an Event of Default to occur but for the effect of this proviso does not exceed US $500,000,000; or

(g) Any judgment or order for the payment of money in excess of US$150,000,000 shall be rendered against the Company or any of its Subsidiaries and enforcement proceedings shall have been commenced by any creditor upon such judgment or order and there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; provided, however, that any such judgment or order shall not be an Event of Default under this Section 6.01(g) if (A) such judgment or order is rendered against any Subsidiary of the Company located in an Exempt Country, (B) the Debt of such Subsidiary is not guaranteed or supported in any legally enforceable manner by any Borrower or by any Subsidiary or Affiliate of the Company located outside the Exempt Countries, (C) such judgment or order is due to the direct or indirect action of any government entity or agency in any Exempt Country and (D) as of the last day of the calendar quarter immediately preceding the tenth consecutive day of the stay period referred to above, the book value of the assets of such Subsidiary does not exceed US$150,000,000 and the aggregate book value of the assets of all Subsidiaries of the Company located in Exempt Countries the judgments and orders against which would cause an Event of Default to occur but for the effect of this proviso does not exceed US$500,000,000; or

(h) Any non-monetary judgment or order shall be rendered against the Company or any of its Subsidiaries that is reasonably likely to have a Material Adverse Effect, and enforcement proceedings shall have been commenced by any Person upon such judgment or order and there shall be any period of 10 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(i) Any license, consent, authorization or approval (including exchange control approvals) now or hereafter necessary to enable the Company or any Borrower to comply with its obligations herein or under any Notes of such Borrower shall be modified, revoked, withdrawn, withheld or suspended; or

(j) (i) Any ERISA Event shall have occurred with respect to a Plan of any Borrower or any of its ERISA Affiliates and the sum (determined as of the date of occurrence of such ERISA Event) of the Insufficiency of such Plan and the Insufficiency of any and all other Plans of the Borrowers and their ERISA Affiliates with respect to which an ERISA Event shall have occurred and then exist (or the liability of the Borrowers and their ERISA Affiliates related to such ERISA Event) exceeds US$150,000,000; or (ii) any Borrower or any of its ERISA Affiliates shall be in default, as defined in Section 4219(c)(5) of ERISA, with respect to any payment of Withdrawal Liability and the sum of the outstanding balance of such Withdrawal Liability and the outstanding balance of any other Withdrawal Liability that any Borrower or any of its ERISA Affiliates has incurred exceeds 6% of Net Tangible Assets of the Company and its Consolidated Subsidiaries; or (iii) any Borrower or any of its ERISA Affiliates shall have been notified by the sponsor of a Multiemployer Plan of such Borrower or any of its ERISA Affiliates that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, and as a result of such reorganization or termination the aggregate annual contributions of the Borrowers and their ERISA Affiliates to all Multiemployer Plans that are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the plan years of such Multiemployer Plans immediately preceding the plan year in which such reorganization or termination occurs by an amount exceeding US$150,000,000; or

then, and in any such event (except as provided in clause (ii) below), the Agent (A) shall at the request, or may with the consent, of the Majority Lenders, by notice to the Company and the Borrowers, declare the obligation of each Lender to make Advances to be terminated, whereupon the same shall forthwith terminate, and (B) shall at the request, or may with the consent, of the Majority Lenders, by notice to the Company and the Borrowers, declare the Advances, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Advances, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrowers; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to any Borrower under any bankruptcy, insolvency or reorganization laws, (x) the obligation of each Lender to make Advances shall automatically be terminated and (y) the Advances, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrowers.

SECTION 6.02. Actions in Respect of Bankers' Acceptances upon Default. If any Event of Default shall have occurred and be continuing, the Agent shall at the request, or may with the consent, of the Majority Lenders, irrespective of whether it is taking any of the actions described in Section 6.01 or otherwise make demand upon the Borrowers to, and forthwith upon such demand, the Borrowers will, pay to the Agent on behalf of the Lenders in

same day funds at the Agent's office designated in such demand, for deposit in the Cash Collateral Account, an amount equal to the aggregate Face Amount of all Bankers' Acceptances then outstanding; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to any Borrower under any bankruptcy, insolvency or reorganization laws, the Borrowers shall immediately pay to the Agent on behalf of the Lenders for deposit in the Cash Collateral Account, an amount equal to the aggregate Face Amount of all Bankers' Acceptances then outstanding, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived by the Borrowers. If at any time the Agent determines that any funds held in such Cash Collateral Account are subject to any right or claim of any Person other than the Agent and the Lenders that the total amount of such funds is less than the aggregate Face Amount of all outstanding Bankers' Acceptances, the Borrowers agree to, forthwith upon demand by the Agent, pay to the Agent, as additional funds to be deposited and held in the Cash Collateral Account, an amount equal to the excess of (i) such aggregate Face Amount of all outstanding Bankers' Acceptances over (ii) the total amount of funds, if any, then held in the Cash Collateral Account that the Agent determines to be free and clear of any such right and claim.

ARTICLE VII

GUARANTEE

SECTION 7.01. Unconditional Guarantee. For valuable consideration, receipt whereof is hereby acknowledged, and to induce each Lender to make Advances to the Borrowers and to induce the Agent to act hereunder, the Company hereby unconditionally and irrevocably guarantees to each Lender and the Agent that:

(a) the principal of and interest on each Advance to each Borrower shall be promptly paid in full when due (whether at stated maturity, by acceleration or otherwise) in accordance with the terms hereof, and, in case of any extension of time of payment, in whole or in part, of such Advance, that all such sums shall be promptly paid when due (whether at stated maturity, by acceleration or otherwise) in accordance with the terms of such extension; and

(b) all other amounts payable hereunder by any Borrower to any Lender or the Agent shall be promptly paid in full when due in accordance with the terms hereof (the obligations of the Borrowers under these subsections (a) and (b) of this Section 7.01 being the "Obligations").

In addition, the Company hereby unconditionally and irrevocably agrees that upon default in the payment when due (whether at stated maturity, by acceleration or otherwise) of any principal of, or interest on, any Advance to any Borrower or such other amounts payable by any Borrower to any Lender or the Agent, the Company will forthwith pay the same, without further notice or demand.

SECTION 7.02. Guarantee Absolute. The Company guarantees that the Obligations will be paid strictly in accordance with the terms of this Agreement, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such

terms or the rights of any Lender or the Agent with respect thereto. The liability of the Company under this guarantee shall be absolute and unconditional irrespective of:

(a) any lack of validity or enforceability of this Agreement or any other agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to departure from this Agreement;

(c) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Obligations; or

(d) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Company, any Borrower or a guarantor.

This guarantee shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Obligations is rescinded or must otherwise be returned by any of the Lenders or the Agent upon the insolvency, bankruptcy or reorganization of the Company or any Borrower or otherwise, all as though such payment had not been made.

SECTION 7.03. Waivers. The Company hereby expressly waives diligence, presentment, demand for payment, protest, any requirement that any right or power be exhausted or any action be taken against any Borrower or against any other guarantor of all or any portion of the Advances, and all other notices and demands whatsoever.

SECTION 7.04. Remedies. Each of the Lenders and the Agent may pursue its respective rights and remedies under this Article VII and shall be entitled to payment hereunder notwithstanding any other guarantee of all or any part of the Advances to the Borrowers, and notwithstanding any action taken by any such Lender or the Agent to enforce any of its rights or remedies under such other guarantee, or any payment received thereunder. The Company hereby irrevocably waives any claim or other right that it may now or hereafter acquire against any Borrower that arises from the existence, payment, performance or enforcement of the Company's obligations under this Article VII, including, without limitation, any right of subrogation, reimbursement, exoneration, contribution or indemnification and any right to participate in any claim or remedy of the Agent or the Lenders against any Borrower, whether or not such claim, remedy or right arises in equity or under contract, statute or common law, including, without limitation, the right to take or receive from the Borrower, directly or indirectly, in cash or other property or by set-off or in any other manner, payment or security on account of such claim, remedy or right. If any amount shall be paid to the Company in violation of the preceding sentence at any time when all the Obligations shall not have been paid in full, such amount shall be held in trust for the benefit of the Lenders and the Agent and shall forthwith be paid to the Agent for its own account and the accounts of the respective Lenders to be credited and applied to the Obligations, whether matured or unmatured, in accordance with the terms of this Agreement, or to be held as collateral for any Obligations or other amounts payable under this Agreement thereafter arising. The Company acknowledges that it will receive direct and indirect

benefits from the financing arrangements contemplated by this Agreement and that the waiver set forth in this section is knowingly made in contemplation of such benefits.

SECTION 7.05. No Stay. The Company agrees that, as between (a) the Company and (b) the Lenders and the Agent, the Obligations of any Borrower guaranteed by the Company hereunder may be declared to be forthwith due and payable as provided in Article VI hereof for purposes of this Article VII by declaration to the Company as guarantor notwithstanding any stay, injunction or other prohibition preventing such declaration as against such Borrower and that, in the event of such declaration to the Company as guarantor, such Obligations (whether or not due and payable by such Borrower), shall forthwith become due and payable by the Company for purposes of this Article VII.

SECTION 7.06. Survival. This guarantee is a continuing guarantee and shall (a) remain in full force and effect until payment in full (after the Termination Date) of the Obligations and all other amounts payable under this guaranty, (b) be binding upon the Company, its successors and assigns, (c) inure to the benefit of and be enforceable by each Lender (including each assignee Lender pursuant to Section 9.06) and the Agent and their respective successors, transferees and assigns and (d) shall be reinstated if at any time any payment to a Lender or the Agent hereunder is required to be restored by such Lender or the Agent. Without limiting the generality of the foregoing clause (c), each Lender may assign or otherwise transfer its interest in any Advance to any other person or entity, and such other person or entity shall thereupon become vested with all the rights in respect thereof granted to such Lender herein or otherwise.

ARTICLE VIII

THE AGENT

SECTION 8.01. Authorization and Action. Each Lender hereby appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement or collection of the Notes), the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Majority Lenders, and such instructions shall be binding upon all Lenders and all holders of Notes; provided, however, that the Agent shall not be required to take any action that exposes the Agent to personal liability or that is contrary to this Agreement or applicable law. The Agent agrees to give to each Lender prompt notice of each notice given to it by any Borrower pursuant to the terms of this Agreement.

SECTION 8.02. Agent's Reliance, Etc. Neither the Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Agent: (a) may treat the Lender that made any Advance as the holder of the Debt resulting therefrom until the Agent receives and accepts an Assignment and Acceptance entered into by

such Lender, as assignor, and an Eligible Assignee, as assignee, as provided in Section 9.06; (b) may consult with legal counsel (including counsel for the Company), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts; (c) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with this Agreement; (d) shall not have any duty to ascertain or to inquire as to the performance, observance or satisfaction of any of the terms, covenants or conditions of this Agreement on the part of any Borrower or to inspect the property (including the books and records) of any Borrower or the existence at any time of any Default; (e) shall not be responsible to any Lender for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security inertest created or purported to be created under or in connection with, this Agreement or any other instrument or document furnished pursuant hereto; and (f) shall incur no liability under or in respect of this Agreement by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, telegram or telex) believed by it to be genuine and signed or sent by the proper party or parties.

SECTION 8.03. Citibank and Affiliates. With respect to its Commitments, the Advances made by it and the Note issued to it, Citibank shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include Citibank in its individual capacity. Citibank and its Affiliates may accept deposits from, lend money to, act as trustee under indentures of, accept investment banking engagements from and generally engage in any kind of business with, the Company, any of its Subsidiaries and any Person who may do business with or own securities of the Company or any such Subsidiary, all as if Citibank were not the Agent and without any duty to account therefor to the Lenders. The Agent shall have no duty to disclose information obtained or received by it or any of its Affiliates relating to the Company or its Subsidiaries to the extent such information was obtained or received in any capacity other than as Agent.

SECTION 8.04. Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender and based on the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 8.05. Indemnification. (a) Each Lender severally agrees to indemnify the Agent (to the extent not reimbursed by a Borrower), from and against such Lender's Ratable Share of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against the Agent, in its capacity as such, in any way relating to or arising out of this Agreement or any action taken or omitted by the Agent, in its capacity as such, under this Agreement, provided that no Lender shall be liable for any portion of such liabilities,

obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its Ratable Share of any out-of-pocket expenses (including counsel fees) incurred by the Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement, to the extent that the Agent is not reimbursed for such expenses by a Borrower.

(b) The failure of any Lender to reimburse the Agent promptly upon demand for its Ratable Share of any amount required to be paid by the Lenders to the Agent as provided herein shall not relieve any other Lender of its obligation hereunder to reimburse the Agent for its Ratable Share of such amount, but no Lender shall be responsible for the failure of any other Lender to reimburse the Agent for such other Lender's Ratable Share of such amount. Without prejudice to the survival of any other agreement of any Lender hereunder, the agreement and obligations of each Lender contained in this Section 8.05 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the Notes. The Agent agrees to return to the Lenders their respective Ratable Shares of any amounts paid under this Section 8.05 that are subsequently reimbursed by the Company or any Borrower. In the case of any investigation, litigation or proceeding giving rise to any Indemnified Costs, this Section 8.04 applies whether any such investigation, litigation or proceeding is brought by the Agent, any Lender or a third party.

SECTION 8.06. Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and the Company and may be removed at any time with or without cause by the Majority Lenders. The Company may at any time, by notice to the Agent, propose a successor Agent (which shall meet the criteria described below) specified in such notice and request that the Lenders be notified thereof by the Agent with a view to their removal of the Agent and their appointment of such successor Agent; the Agent agrees to forward any such notice to the Lenders promptly upon its receipt by the Agent. Upon any such resignation or removal, the Majority Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Majority Lenders, and shall have accepted such appointment, within 30 days after the retiring Agent's giving of notice of resignation or the Majority Lenders' removal of the retiring Agent, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, which shall be a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least US $500,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, discretion, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Agent's resignation or removal hereunder as Agent, the provisions of this Article VIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

SECTION 8.07. Other Agents. Each Lender hereby acknowledges that none of the syndication agent or any documentation agent nor any other Lender designated as any

"Agent" on the signature pages hereof (other than the Agent) has any liability hereunder other than in its capacity as a Lender.

ARTICLE IX

MISCELLANEOUS

SECTION 9.01. Amendments, Etc. No amendment or waiver of any provision of this Agreement or the Notes, nor consent to any departure by the Company or any Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Majority Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by all the Lenders, do any of the following: (a) increase the Commitments of the Lenders, (b) reduce the principal of, or interest on, the Advances or any fees or other amounts payable hereunder, (c) postpone any date fixed for any payment of principal of, or interest on, the Advances or any fees or other amounts payable hereunder, (d) release the Company from any of its obligations under Article VII, (e) require the duration of an Interest Period to be nine months if such period is not available to all Lenders or (f) amend this Section 9.01; and provided further that no amendment, waiver or consent shall, unless in writing and signed by the Agent in addition to the Lenders required above to take such action, affect the rights or duties of the Agent under this Agreement.

SECTION 9.02. Notices, Etc. (a) All notices and other communications provided for hereunder shall be in writing (including telecopier or telegraphic communication) and mailed (return receipt requested), telecopied, telegraphed or delivered, if to the Company or to any Borrower, at the Company's address at 101 Columbia Road, Morristown, New Jersey 07962-1219, Attention: Assistant Treasurer; if to any Initial Lender, at its Domestic Lending Office specified opposite its name on Schedule I hereto; if to any other Lender, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender; and if to the Agent, at its address at Two Penns Way, New Castle, Delaware 19720, Attention: Bank Loan Syndications with a copy to 388 Greenwich Street, New York, New York 10013, Attention: Diane Pockaj; or, as to the Company or any Borrower or the Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Company and the Agent; provided that materials as may be agreed between the Company and the Agent may be delivered to the Agent in accordance with clause (b) below. All such notices and communications shall, when mailed, telecopied or telegraphed, be effective when deposited in the mails, telecopied or delivered to the telegraph company, respectively, except that notices and communications to the Agent pursuant to Article II, III or VIII shall not be effective until received by the Agent. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Agreement or the Notes or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof.

(b) So long as Citibank or any of its Affiliates is the Agent, such materials required to be delivered pursuant to Section 5.01(h)(i), (ii), (iii) and (iv) as may be agreed between the Company and the Agent may be delivered to the Agent in an electronic

medium in a format acceptable to the Agent and the Lenders by e-mail at oploanswebadmin@citigroup.com. The Company and the Borrowers agree that the Agent may make such materials (the "Communications") available to the Lenders by posting such notices on Intralinks or a substantially similar electronic system (the "Platform"). The Company and the Borrowers acknowledge that (i) the distribution of material through an electronic medium is not necessarily secure and that there are confidentiality and other risks associated with such distribution, (ii) the Platform is provided "as is" and "as available" and (iii) neither the Agent nor any of its Affiliates warrants the accuracy, adequacy or completeness of the Communications or the Platform and each expressly disclaims liability for errors or omissions in the Communications or the Platform. No warranty of any kind, express, implied or statutory, including, without limitation, any warranty of merchantability, fitness for a particular purpose, non-infringement of third party rights or freedom from viruses or other code defects, is made by the Agent or any of its Affiliates in connection with the Platform.

(c) Each Lender agrees that notice to it (as provided in the next sentence) (a "Notice") specifying that any Communications have been posted to the Platform shall constitute effective delivery of such information, documents or other materials to such Lender for purposes of this Agreement; provided that if requested by any Lender the Agent shall deliver a copy of the Communications to such Lender by email or telecopier. Each Lender agrees (i) to notify the Agent in writing of such Lender's e-mail address(es) to which a Notice may be sent by electronic transmission (including by electronic communication) on or before the date such Lender becomes a party to this Agreement (and from time to time thereafter to ensure that the Agent has on record an effective e-mail address for such Lender) and (ii) that any Notice may be sent to such e-mail address(es).

SECTION 9.03. No Waiver; Remedies. No failure on the part of any Lender or the Agent to exercise, and no delay in exercising, any right hereunder or under any Note shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 9.04. Costs and Expenses. (a) The Company agrees to pay on demand all reasonable costs and expenses of the Agent in connection with the administration, modification and amendment of this Agreement, the Notes and the other documents to be delivered hereunder, including, without limitation, (i) all due diligence, syndication (including printing, distribution and bank meetings), transportation, computer, duplication, appraisal, consultant, and audit expenses and (ii) the reasonable fees and expenses of counsel for the Agent with respect thereto. The Company further agrees to pay on demand all costs and expenses of the Agent and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other documents to be delivered hereunder, including, without limitation, reasonable fees and expenses of counsel for the Agent and each Lender in connection with the enforcement of rights under this Section 9.04(a).

(b) The Company and each Borrower agrees to indemnify and hold harmless the Agent and each Lender and each of their Affiliates and their officers, directors, employees, agents and advisors (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of, or in connection with the preparation for a defense of, any investigation, litigation or proceeding arising out of, related to or in connection with the Notes, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Advances whether or not such investigation, litigation or proceeding is brought by the Company, any Borrower, their respective directors, shareholders or creditors or an Indemnified Party or any other Person or any Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated, except to the extent any such claim, damage, loss, liability or expense has resulted from such Indemnified Party's gross negligence or willful misconduct.

The Company and each Borrower also agrees not to assert any claim against any Indemnified Party on any theory of liability for special, indirect, consequential or punitive damages arising out of or otherwise relating to the Notes, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Advances.

(c) If any payment of principal of, or Conversion of, any Eurodollar Rate Advance is made by any Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Advance, as a result of a payment or Conversion pursuant to Section 2.09(a) or (b) or 2.11, acceleration of the maturity of the Notes pursuant to Section 6.01 or for any other reason, such Borrower shall, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses that it may reasonably incur as a result of such payment or Conversion, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Advance.

(d) Without prejudice to the survival of any other agreement of the Company and the Borrowers hereunder, the agreements and obligations of the Borrower contained in Sections 2.10, 2.14 and 9.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the Notes and the termination in whole of any Commitment hereunder.

SECTION 9.05. Binding Effect. This Agreement shall become effective (other than Sections 2.01 and 2.03, which shall only become effective upon satisfaction of the conditions precedent set forth in Section 3.01) when it shall have been executed by the Company and the Agent and when the Agent shall have been notified by each Initial Lender that such Initial Lender has executed it and thereafter shall be binding upon and inure to the benefit of each Borrower, the Agent and each Lender and their respective successors and assigns, except that no Borrower shall have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

SECTION 9.06. Assignments and Participations. (a) Each Lender may at any time, with notice to the Company prior to making any proposal to any potential assignee and with the consent of the Company, which consent shall not be unreasonably withheld (and shall at any time, if requested to do so by the Company pursuant to Section 2.10 or 2.14) assign to one or more Persons all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Advances owing to it and any Note held by it); provided, however, that (i) the Company's consent shall not be required (A) in the case of an assignment of Commitment and Advances to an Affiliate of such Lender, provided that notice thereof shall have been given to the Company and the Agent or (B) in the case of an assignment of the type described in subsection (g) below; (ii) each such assignment shall be of a constant, and not a varying, percentage of the rights and obligations under this Agreement specified in the applicable Assignment and Acceptance; (iii) except in the case of an assignment to a Person that, immediately prior to such assignment, was a Lender or an assignment of all of a Lender's rights and obligations under this Agreement, the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than US$10,000,000 or an integral multiple of US $1,000,000 in excess thereof; (iv) each such assignment shall be to an Eligible Assignee unless the Company and the Agent otherwise agree, (v) each such assignment made as a result of a demand by the Company pursuant to this Section 9.06(a) shall be arranged by the Company after consultation with, and subject to the approval of, the Agent, and shall be either an assignment of all of the rights and obligations of the assigning Lender under this Agreement or an assignment of a portion of such rights and obligations made concurrently with another such assignment or other such assignments that together cover all of the rights and obligations of the assigning Lender under this Agreement, (vi) no Lender shall be obligated to make any such assignment as a result of a demand by the Borrower pursuant to this Section 9.06(a) unless and until such Lender shall have received one or more payments from either the Borrower or one or more Eligible Assignees in an aggregate amount at least equal to the aggregate outstanding principal amount of the Advances owing to such Lender, together with accrued interest thereon to the date of payment of such principal amount and all other amounts payable to such Lender under this Agreement and all of the obligations of the Borrower to such Lender shall have been satisfied; and (vii) the parties to each such assignment shall execute and deliver to the Agent, for its acceptance and recording in the Register, an Assignment and Acceptance, together with a processing and recordation fee of US$3,500 and, if the assigning Lender is not retaining a Commitment hereunder, any Note subject to such assignment. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto, provided, however, that such assigning Lender's rights under Sections 2.10, 2.14 and 9.04, and its obligations under Section 8.05, shall survive such assignment as to matters occurring prior to the effective date of such assignment).

(b) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or any other instrument or document furnished pursuant hereto or the execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security inertest created or purported to be created under or in connection with, this Agreement or any other instrument or document furnished pursuant hereto; (ii) such assigning Lender makes no representation or warranty and assumes no responsibility with respect to the financial condition of any Borrower or the performance or observance by such Borrower of any of its obligations under this Agreement or any other instrument or document furnished pursuant hereto; (iii) such assignee confirms that it has received a copy of this Agreement, together with copies of the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (iv) such assignee will, independently and without reliance upon the Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) such assignee confirms that it is an Eligible Assignee; (vi) such assignee appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement as are delegated to the Agent by the terms hereof, together with such powers and discretion as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as a Lender.

(c) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee, together with any Note subject to such assignment, the Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit C hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the Company and to each Borrower.

(d) The Agent shall maintain at its address referred to in Section 9.02 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Advances owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Company, each Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Company, any Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(e) Each Lender may sell participations to one or more banks or other entities (other than the Company or any of its Affiliates) in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Advances owing to it and any Note held by it); provided, however, that

(i) such Lender's obligations under this Agreement (including, without limitation, its Commitment to the Borrowers hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such Note for all purposes of this Agreement, (iv) the Company, each Borrower, the Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, (v) no participant under any such participation shall have any right to approve any amendment or waiver of any provision of this Agreement or any Note, or any consent to any departure by any Borrower therefrom, except to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation and (vi) within 30 days of the effective date of such participation, such Lender shall provide notice of such participation to the Company.

(f) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 9.06, disclose to the assignee or participant or proposed assignee or participant, any information relating to the Company or any Borrower furnished to such Lender by or on behalf of such Borrower; provided that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree to preserve the confidentiality of any confidential information relating to such Borrower received by it from such Lender.

(g) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time assign or create a security interest in all or any portion of its rights under this Agreement (including, without limitation, the Advances owing to it and any Note held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Board of Governors of the Federal Reserve System.

SECTION 9.07. Confidentiality. Each of the Lenders and the Agent hereby agrees that it will use reasonable efforts (e.g., procedures substantially comparable to those applied by such Lender or the Agent in respect of non-public information as to the business of such Lender or the Agent) to keep confidential any financial reports and other information from time to time supplied to it by the Company hereunder to the extent that such information is not and does not become publicly available and which the Company indicates at the time is to be treated confidentially, provided, however, that nothing herein shall affect the disclosure of any such information (i) by the Agent to any Lender, (ii) to the extent required by law (including statute, rule, regulation or judicial process), (iii) to counsel for any Lender or the Agent or to their respective independent public accountants, (iv) to bank examiners and auditors and appropriate government examining authorities, (v) to the Agent or any other Lender, (vi) in connection with any litigation to which any Lender or the Agent is a party, (vii) to actual or prospective assignees and participants as contemplated by Section 9.06(f), (viii) to any Affiliate of the Agent or any Lender or to such Affiliate's officers, directors, employees, agents and advisors, provided that, prior to any such disclosure, such Affiliate or such Affiliate's officers, directors, employees, agents or advisors, as the case may be, shall agree to preserve the confidentiality of any confidential information relating to the Company received by it or (ix) any

actual or prospective counterparty (or its advisors) to any securitization, swap or derivative transaction relating to the Borrowers, any Subsidiary of the Company, and the Obligations; a determination by a Lender or the Agent as to the application of the circumstances described in the foregoing clauses (i)-(viii) being conclusive if made in good faith; and each of the Lenders and the Agent agrees that it will follow procedures which are intended to put any transferee of such confidential information on notice that such information is confidential.

SECTION 9.08. Mitigation of Yield Protection. Each Lender hereby agrees that, commencing as promptly as practicable after it becomes aware of the occurrence of any event giving rise to the operation of Section 2.10(a), 2.11 or 2.14 with respect to such Lender, such Lender will give notice thereof through the Agent to the respective Borrower. A Borrower may at any time, by notice through the Agent to any Lender, request that such Lender change its Applicable Lending Office as to any Advance or Type of Advance or that it specify a new Applicable Lending Office with respect to its Commitment and any Advance held by it or that it rebook any such Advance with a view to avoiding or mitigating the consequences of an occurrence such as described in the preceding sentence, and such Lender will use reasonable efforts to comply with such request unless, in the opinion of such Lender, such change or specification or rebooking is inadvisable or might have an adverse effect, economic or otherwise, upon it, including its reputation. In addition, each Lender agrees that, except for changes or specifications or rebookings required by law or effected pursuant to the preceding sentence, if the result of any change or change of specification of Applicable Lending Office or rebooking would, but for this sentence, be to impose additional costs or requirements upon the respective Borrower pursuant to Section 2.10(a), Section 2.11 or Section 2.14 (which would not be imposed absent such change or change of specification or rebooking) by reason of legal or regulatory requirements in effect at the time thereof and of which such Lender is aware at such time, then such costs or requirements shall not be imposed upon such Borrower but shall be borne by such Lender. All expenses incurred by any Lender in changing an Applicable Lending Office or specifying another Applicable Lending Office of such Lender or rebooking any Advance in response to a request from a Borrower shall be paid by such Borrower. Nothing in this Section 9.08 (including, without limitation, any failure by a Lender to give any notice contemplated in the first sentence hereof) shall limit, reduce or postpone any obligations of the respective Borrower under Section 2.10(a), Section 2.11 or Section 2.14, including any obligations payable in respect of any period prior to the date of any change or specification of a new Applicable Lending Office or any rebooking of any Advance.

SECTION 9.09. Governing Law. This Agreement and the Notes shall be governed by, and construed in accordance with, the laws of the State of New York.

SECTION 9.10. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.11. Jurisdiction, Etc. (a) Each of the parties hereto hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any

New York State court or federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the Notes, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by law, in such federal court. Each Borrower hereby agrees that service of process in any such action or proceeding brought in the any such New York State court or in such federal court may be made upon Corporation Service Company, 2711 Centerville Road Suite 400, Wilmington, Delaware 19808 (the "Process Agent") and each Borrower hereby irrevocably appoints the Process Agent its authorized agent to accept such service of process, and agrees that the failure of the Process Agent to give any notice of any such service shall not impair or affect the validity of such service or of any judgment rendered in any action or proceeding based thereon. Each Borrower hereby further irrevocably consents to the service of process in any action or proceeding in such courts by the mailing thereof by any parties hereto by registered or certified mail, postage prepaid, to such Borrower at its address specified pursuant to Section 9.02. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that any party may otherwise have to serve legal process in any other manner permitted by law or to bring any action or proceeding relating to this Agreement or the Notes in the courts of any jurisdiction. To the extent that each Borrower has or hereafter may acquire any immunity from jurisdiction of any court or from any legal process (whether through service or notice, attachment prior to judgment, attachment in aid of execution, execution or otherwise) with respect to itself or its property, each Borrower hereby irrevocably waives such immunity in respect of its obligations under this Agreement.

(b) Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the Notes in any New York State or federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

SECTION 9.12. Final Agreement. This written agreement represents the full and final agreement between the parties with respect to the matters addressed herein and supercedes all prior communications, written or oral, with respect thereto. There are no unwritten agreements between the parties.

SECTION 9.13. Judgment. (a) If for the purposes of obtaining judgment in any court it is necessary to convert a sum due hereunder or under the Notes in any currency (the "Original Currency") into another currency (the "Other Currency"), the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Agent could purchase the Original Currency with the Other Currency at 9:00 A.M. (New York City time) on the first Business Day preceding that on which final judgment is given.

(b) The obligation of each Borrower in respect of any sum due in the Original Currency from it to any Lender or the Agent hereunder or under any Note held by such Lender

shall, notwithstanding any judgment in any Other Currency, be discharged only to the extent that on the Business Day following receipt by such Lender or the Agent (as the case may be) of any sum adjudged to be so due in such Other Currency, such Lender or the Agent (as the case may be) may in accordance with normal banking procedures purchase US Dollars with such Other Currency; if the amount of US Dollars so purchased is less than the sum originally due to such Lender or the Agent (as the case may be) in the Original Currency, such Borrower agrees, as a separate obligation and notwithstanding any such judgment, to indemnify such Lender or the Agent (as the case may be) against such loss, and if the amount of the Original Currency so purchased exceeds the sum originally due to any Lender or the Agent (as the case may be) in the Original Currency, such Lender or the Agent (as the case may be) agrees to remit to such Borrower such excess.

SECTION 9.14. Patriot Act Notice. Each Lender hereby notifies the Company that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies each borrower, guarantor or grantor (the "Loan Parties"), which information includes the name and address of each Loan Party and other information that will allow such Lender to identify such Loan Party in accordance with the Act.

SECTION 9.15. Waiver of Jury Trial. Each Borrower, the Agent and each Lender hereby irrevocably waive all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Agreement or the Notes or the actions of the Agent or any Lender in the negotiation, administration, performance or enforcement thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

HONEYWELL INTERNATIONAL INC.

By: /s/ John J. Tus

Title: Vice President & Treasurer

HONEYWELL ASCA INC.

By: /s/ John J. Tus

Title: Vice President & Treasurer

HONEYWELL LIMITED/ HONEYWELL LIMITEE

By: /s/ John J. Tus

Title: Vice President & Treasurer

HONEYWELL AEROSPATIALE INC.

By: /s/ John J. Tus

Title: Vice President & Treasurer

CITIBANK, N.A., CANADIAN BRANCH, as Agent

By: /s/ Niyousha Zarinpour

Title: Authorised Signer

COMMITMENT	ARRANGER AND ADMINISTRATIVE AGENT
CN$60,000,000.00	CITIBANK, N.A., CANADIAN BRANCH
	By: /s/ Niyousha Zarinpour
	Title: Authorised Signer

ARRANGER AND SYNDICATION AGENT

CN$60,000,000.00		ROYAL BANK OF CANADA
		By: /s/ Julita Tyszewicz
		Title: Attorney-in-Fact
CN$60,000,000.00		THE BANK OF NOVA SCOTIA
		By: /s/ Anuj Dhawan
		Title: Director
		By: /s/ Sangeeta Shah
		Title: Associate
CN$60,000,000.00		HSBC BANK USA, NATIONAL ASSOCIATION TORONTO BRANCH
		By: /s/ Judi Wood
		Title: Managing Director
CN$240,000,000	TOTAL OF COMMITMENTS	

Exhibit 10.24

SCHEDULE I
APPLICABLE LENDING OFFICES

NAME OF INITIAL LENDER	DOMESTIC LENDING OFFICE	EURODOLLAR LENDING OFFICE
Citibank, N.A., Canadian Branch	123 Front Street West, suite 1000 Toronto, Ontario M5J 2M3 Attn: Niyousha Zarinpour Phone: (416) 941-5605 Fax: (416) 947-5650	123 Front Street West, suite 1000 Toronto, Ontario M5J 2M3 Attn: Niyousha Zarinpour Phone: (416) 941-5605 Fax: (416) 947-5650
The Bank of Nova Scotia	720 King Street West, 3rd Floor Toronto, Ontario M5V 2T3 Attn: Tamara Mohan Phone: (212) 225-5705 Fax: (212) 225-5709	720 King Street West, 3rd Floor Toronto, Ontario M5V 2T3 Attn: Tamara Mohan Phone: (212) 225-5705 Fax: (212) 225-5709
HSBC Bank USA, National Association Toronto Branch	One HSBC Center Floor 26 Buffalo, NY 14203 Attn: Maria Mendez Tadak Phone: (716) 841-2291 Fax: (716) 841-0269	One HSBC Center Floor 26 Buffalo, NY 14203 Attn: Maria Mendez Tadak Phone: (716) 841-2291 Fax: (716) 841-0269
Royal Bank of Canada	One Liberty Plaza, 3rd Floor New York, NY 10006 Attn: Karim Amr Phone: (212) 428-6369 Fax: (212) 428-2372 with a copy to: Attn: N. Delph Phone: (212) 428-6249 Fax: (212) 428-2319	One Liberty Plaza, 3rd Floor New York, NY 10006 Attn: Karim Amr Phone: (212) 428-6369 Fax: (212) 428-2372 with a copy to: Attn: N. Delph Phone: (212) 428-6249 Fax: (212) 428-2319

Exhibit 10.24

SCHEDULE 3.01(b)

DISCLOSED LITIGATION

While not giving an opinion as to whether any item is "reasonably likely to have a Material Adverse Effect," we hereby disclose the litigation matters as stated in our Form 10-Q for the quarter ended June 30, 2005, as follows.

ERISA Class Action Lawsuit – Honeywell and several of its current and former officers and directors are defendants in a purported class action lawsuit filed in the United States District Court for the District of New Jersey. The complaint principally alleges that the defendants breached their fiduciary duties to participants in the Honeywell Savings and Ownership Plan (the "Savings Plan") by purportedly making false and misleading statements, failing to disclose material information concerning Honeywell's financial performance, and failing to diversify the Savings Plan's assets and monitor the prudence of Honeywell stock as a Savings Plan investment. Honeywell has agreed to settle this matter for $14 million plus an agreement to permit Savings Plan participants greater diversification rights. The settlement will be paid in full by Honeywell's insurers. The settlement was approved by the Court in July 2005.

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

With respect to environmental matters involving site contamination, we continually conduct studies, individually or jointly with other potentially responsible parties, to determine the feasibility of various remedial techniques to address environmental matters. It is our policy to record appropriate liabilities for environmental matters when remedial efforts or damage claim payments are probable and the costs can be reasonably estimated. Such liabilities are based on our best estimate of the undiscounted future costs required to complete the remedial work. The recorded liabilities are adjusted periodically as remediation efforts progress or as additional technical or legal information becomes available. Given the uncertainties regarding the status of laws, regulations, enforcement policies, the impact of other potentially responsible parties, technology and information related to individual sites, we do not believe it is possible to develop an estimate of the range of reasonably possible environmental loss in excess of our accruals. We expect to fund expenditures for these matters from operating cash flow. The timing of cash expenditures depends on a number of factors, including the timing of litigation and settlements of remediation liability, personal injury and property damage claims, regulatory approval of cleanup projects, remedial techniques to be utilized and agreements with other parties.

Although we do not currently possess sufficient information to reasonably estimate the amounts of liabilities to be recorded upon future completion of studies, litigation or settlements, and neither the timing nor the amount of the ultimate costs associated with environmental matters can be determined, they could be material to our consolidated results of operations or operating cash flows in the periods recognized or paid. However, considering our past experience and existing reserves, we do not expect that these environmental matters will have a material adverse effect on our consolidated financial position.

In February 2005, the Third Circuit Court of Appeals upheld the decision of the United States District Court for the District of New Jersey in the matter entitled *Interfaith Community Organization, et al. v. Honeywell International Inc., et al.,* that a predecessor Honeywell site located in Jersey City, New Jersey constituted an imminent and substantial endangerment and ordered Honeywell to conduct the excavation and transport for offsite disposal of approximately one million tons of chromium residue present at the site. Provisions have been made in our financial statements for the cost of implementation of the excavation and offsite removal remedy, which is expected to take place over a five-year period. The cost of implementation is expected to be incurred evenly over that period. We do not expect implementation of the remedy to have a material adverse effect on our future consolidated results of operations, operating cash flows or financial position. The site at issue is one of twenty-one sites located in Jersey City, New Jersey which are the subject of an Administrative Consent Order (ACO) entered into with the New Jersey Department of Environmental Protection (NJDEP) in 1993. Remedial investigations and activities consistent with the ACO are underway at the other sites (the "Honeywell ACO Sites").

On May 3, 2005, NJDEP filed a lawsuit in New Jersey Superior Court against Honeywell and two other companies seeking declaratory and injunctive relief, unspecified damages, and the reimbursement of unspecified total costs relating to sites in New Jersey allegedly contaminated with chrome ore processing residue. The claims against Honeywell relate to the activities of a predecessor company which ceased its New Jersey manufacturing operations in the mid-1950s. While the complaint is not entirely clear, it appears that approximately 100 sites are at issue, including 17 of the Honeywell ACO Sites, approximately 32 sites at which the other two companies have agreed to remediate under separate administrative consent orders, as well as approximately 53 other sites (identified in the complaint as the "Publicly Funded Sites") for which none of the three companies have signed an administrative consent order. In addition to claims specific to each company, NJDEP claims that all three companies should be collectively liable for all the chrome sites based on a "market share" theory. In addition, NJDEP is seeking treble damages for all costs it has incurred or will incur at the Publicly Funded Sites. Honeywell has previously denied responsibility for the Publicly Funded Sites. Honeywell believes that it has no connection with either the sites covered by the other companies' administrative consent orders or the Publicly Funded Sites and, therefore, we have no responsibility for those sites. At the Honeywell ACO Sites, we are conducting remedial investigations and activities consistent with the ACO; thus, we do not believe the lawsuit will significantly change our obligations with respect to the Honeywell ACO Sites.

Although it is not possible at this time to predict the outcome of this matter, we believe that the allegations are without merit and we intend to vigorously defend against this lawsuit. We do not expect this matter to have a material adverse effect on our consolidated financial position. While we expect to prevail, an adverse litigation outcome could have a material adverse impact

on our consolidated results of operations and operating cash flows in the periods recognized or paid.

In accordance with a 1992 consent decree with the State of New York, Honeywell is studying environmental conditions in and around Onondaga Lake (the Lake) in Syracuse, New York. The purpose of the study is to identify, evaluate and propose remedial measures that can be taken to remedy historic industrial contamination in the Lake. A predecessor company to Honeywell operated a chemical plant which is alleged to have contributed mercury and other contaminants to the Lake. In July 2005, the New York State Department of Environmental Conservation (the DEC) issued its Record of Decision with respect to remediation of industrial contamination in the Lake.

The Record of Decision calls for a combined dredging/capping remedy generally in line with the approach recommended in the Feasibility Study submitted by Honeywell in May 2004 (the May 2004 Feasibility Study). Although the Record of Decision calls for additional remediation in certain parts of the Lake, it would not require the most extensive dredging alternatives described in the May 2004 Feasibility Study. The DEC's aggregate cost estimate is based on the high end of the range of potential costs for major elements of the Record of Decision and includes a contingency. The actual cost of the Record of Decision will depend upon, among other things, the resolution of certain technical issues during the design phase of the remediation.

Based on currently available information and analysis performed by our engineering consultants, we have accrued for our estimated cost of implementing the remedy set forth in the Record of Decision. Our estimating process considered a range of possible outcomes and amounts recorded reflect our best estimate at this time. We do not believe that this matter will have a material adverse impact on our consolidated financial position. Given the scope and complexity of this project, it is possible that actual costs could exceed estimated costs by an amount that could have a material adverse impact on our consolidated results of operations and operating cash flows in the periods recognized or paid. At this time, however, we cannot identify any legal, regulatory or technical reason to conclude that a specific alternative outcome is more probable than the outcome for which we have made provisions in our financial statements.

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

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

When we sold the NARCO business in 1986, we agreed to indemnify NARCO with respect to personal injury claims for products that had been discontinued prior to the sale (as defined in the sale agreement). NARCO retained all liability for all other claims. NARCO had resolved approximately 176,000 claims through January 4, 2002, the date NARCO filed for

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

As a result of the NARCO bankruptcy filing, all of the claims pending against NARCO are automatically stayed pending the reorganization of NARCO. Because the claims pending against Honeywell necessarily will impact the liabilities of NARCO, because the insurance policies held by Honeywell are essential to a successful NARCO reorganization, and because Honeywell has offered to commit the value of those policies to the reorganization, the bankruptcy court has temporarily enjoined any claims against Honeywell, current or future, related to NARCO, except one claim which is not material as to which the stay was lifted in August 2003. Although the stay has remained in effect continuously since January 4, 2002, there is no assurance that such stay will remain in effect. In connection with NARCO's bankruptcy filing, we paid NARCO's parent company $40 million and agreed to provide NARCO with up to $20 million in financing. We also agreed to pay $20 million to NARCO's parent company upon the filing of a plan of reorganization for NARCO acceptable to Honeywell, and to pay NARCO's parent company $40 million, and to forgive any outstanding NARCO indebtedness, upon the confirmation and consummation, respectively, of such a plan.

As a result of negotiations with counsel representing NARCO related asbestos claimants regarding settlement of all pending and potential NARCO related asbestos claims against Honeywell, we have reached definitive agreements with approximately 260,000 claimants, which represents in excess of 90 percent of the anticipated current claimants who are expected to file a claim as part of the NARCO reorganization process. We are also in discussions with the NARCO Committee of Asbestos Creditors and the Court-appointed legal representative for future asbestos claimants on Trust Distribution Procedures for NARCO. We believe that, as part of the NARCO plan of reorganization, a trust will be established pursuant to these Trust Distribution Procedures for the benefit of all asbestos claimants, current and future. If the trust is put in place and approved by the Court as fair and equitable, Honeywell as well as NARCO will be entitled to a permanent channeling injunction barring all present and future individual actions in state or federal courts and requiring all asbestos related claims based on exposure to NARCO products to be made against the federally-supervised trust. NARCO has deferred filing its plan of reorganization pending resolution of the bankruptcy proceedings related to one of its sister companies. We now expect the NARCO plan of reorganization and the NARCO trust to be approved by the Court later in 2005 or in early 2006. As part of its ongoing settlement negotiations, Honeywell has reached agreement in principle with the representative for future NARCO claimants and the Asbestos Claimants Committee to cap its annual contributions to the trust with respect to future claims at a level that would not have a material impact on Honeywell's operating cash flows. Given the substantial progress of negotiations between Honeywell and NARCO related asbestos claimants and between Honeywell and the Asbestos Claimants Committee during the fourth quarter of 2002, Honeywell developed an estimated liability for settlement of pending and future asbestos claims and recorded a charge of $1.4

billion for NARCO related asbestos litigation charges, net of insurance recoveries. This charge consisted of the estimated liability to settle current asbestos related claims, the estimated liability related to future asbestos related claims through 2018 and obligations to NARCO's parent, net of insurance recoveries of $1.8 billion. During the six months ended June 30, 2005, we recognized a charge of approximately $52 million to reflect a settlement of certain pending asbestos claims during the period.

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

The liability for future claims estimates the probable value of future asbestos related bodily injury claims expected to be asserted against NARCO through 2018 and obligations to NARCO's parent as discussed above. The estimate is based upon the disease criteria and payment values contained in the NARCO Trust Distribution Procedures negotiated with the NARCO Asbestos Claimants Committee and the NARCO future claimants' representative. In light of the uncertainties inherent in making long-term projections we do not believe that we have a reasonable basis for estimating asbestos claims beyond 2018 under Statement of Financial Accounting Standards No. 5. Honeywell retained the expert services of Hamilton, Rabinovitz and Alschuler, Inc. (HR&A) to project the probable number and value, including trust claim handling costs, of asbestos related future liabilities based upon historical experience with similar trusts. The methodology used to estimate the liability for future claims has been commonly accepted by numerous courts and is the same methodology that is utilized by an expert who is routinely retained by the asbestos claimants committee in asbestos related bankruptcies. The valuation methodology includes an analysis of the population likely to have been exposed to asbestos containing products, epidemiological studies to estimate the number of people likely to develop asbestos related diseases, NARCO claims filing history, the pending inventory of NARCO asbestos related claims and payment rates expected to be established by the NARCO trust.

Honeywell has approximately $1.2 billion in insurance limits remaining that reimburses it for portions of the costs incurred to settle NARCO related claims and court judgments as well as defense costs. This coverage is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. At June 30, 2005, a significant portion of this coverage is with insurance companies with whom we have agreements to pay full policy limits based on corresponding Honeywell claims costs. This includes agreements with a substantial majority of the London-based insurance companies entered into primarily in the first quarter of 2004. We conduct analyses to determine the amount of insurance that we estimate is probable that we will recover in relation to payment of current and projected future claims. While the substantial majority of our insurance carriers are solvent, some of our individual carriers are insolvent, which has been considered in our analysis of probable recoveries. In the second quarter of 2004, based on our ongoing evaluation of our ability to enforce our rights under the various insurance policies, we concluded that we had additional probable insurance recoveries of $47 million, net of solvency reserves, which has been reflected in insurance receivables. We made judgments concerning insurance coverage that we believe are reasonable and consistent with our historical dealings with our insurers, our

knowledge of any pertinent solvency issues surrounding insurers and various judicial determinations relevant to our insurance programs.

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

Friction Products – Honeywell's Bendix Friction Materials (Bendix) business manufactured automotive brake pads that contained chrysotile asbestos in an encapsulated form. There is a group of existing and potential claimants consisting largely of individuals that allege to have performed brake replacements.

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

		Years Ended December 31,	
Claims Activity	**Six Months Ended June 30, 2005**	**2004**	**2003**
Claims Unresolved at the beginning of period	76,348	72,976	50,821
Claims Filed	5,158	10,504	25,765
Claims Resolved	(2,820)	(7,132)	(3,610)
Claims Unresolved at the end of period	78,686	76,348	72,976

		December 31,	
Disease Distribution of Unresolved Claims	**June 30, 2005**	**2004**	**2003**
Mesothelioma and Other Cancer Claims	3,766	3,534	3,277
Other Claims	74,920	72,814	69,699
Total Claims	78,686	76,348	72,976

Approximately 30 percent of the approximately 79,000 pending claims at June 30, 2005 are on the inactive, deferred, or similar dockets established in some jurisdictions for claimants who allege minimal or no impairment. The approximately 79,000 pending claims also include claims

filed in jurisdictions such as Texas, Virginia and Mississippi that historically allowed for consolidated filings. In these jurisdictions, plaintiffs were permitted to file complaints against a pre-determined master list of defendants, regardless of whether they have claims against each individual defendant. Many of these plaintiffs may not actually have claims against Honeywell. Based on state rules and prior experience in these jurisdictions, we anticipate that many of these claims will ultimately be dismissed. Honeywell has experienced average resolution values excluding legal costs as follows:

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

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

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

Honeywell currently has approximately $1.9 billion of insurance coverage remaining with respect to pending and potential future Bendix related asbestos claims. This coverage is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. Insurance receivables are recorded in the financial statements simultaneous with the recording of the liability for the estimated value of the underlying asbestos claims. The amount of the insurance receivable recorded is based on our ongoing analysis of the insurance that we estimate is probable of recovery. This determination is based on our analysis of the underlying insurance policies, our historical experience with our insurers, our ongoing review of the solvency of our insurers, our interpretation of judicial determinations relevant to our insurance programs, and our consideration of the impacts of any settlements reached with our insurers. Insurance receivables are also recorded when structured insurance settlements provide for future fixed payment streams that are not contingent upon future claims or other events. Such amounts are recorded at the net present value of the fixed payment stream.

During the six months ended June 30, 2005, we entered into a structured insurance settlement which converted policies into future fixed, non-contingent payment streams, resulting in a gain of approximately $160 million. Additionally, during the six months ended June 30,

2005, we recognized charges of approximately $131 million for write-offs of certain amounts due from insurance carriers. At June 30, 2005, we had amounts receivable from our insurers of approximately $375 million representing probable reimbursements associated with our liability for pending claims and previously settled and paid claims, and for amounts due under negotiated fixed payment streams.

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

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

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

	June 30, 2005	December 31, 2004
Other current assets	$ 203	$ 150
Insurance recoveries for asbestos related liabilities	1,299	1,412
	$ 1,502	$ 1,562
Accrued liabilities	$ 695	$ 744
Asbestos related liabilities	1,823	2,006
	$ 2,518	$ 2,750

During the six months ended June 30, 2005, we paid $280 million in indemnity and defense costs related to NARCO and Bendix claims and received $99 million of asbestos related insurance recoveries. We also recognized a charge of $84 million for Bendix related asbestos claims filed and defense costs incurred during the first six months of 2005, net of probable insurance recoveries. The asbestos related charge also included the net effect of a settlement of

certain NARCO related pending asbestos claims, a Bendix related structured insurance settlement and write-offs of certain Bendix related insurance receivables. Additionally, we reduced the Bendix related net asbestos liability by $70 million related to an update of expected resolution values with respect to claims pending as of June 30, 2005.

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

The Company's SEC filings are available free of charge on our website, www.honeywell.com, under the heading "Investor Relations" (see "SEC Filings").

Exhibit 10.24

EXHIBIT A-1 - FORM OF
PROMISSORY NOTE

Dated: _____, 200_

FOR VALUE RECEIVED, the undersigned, [NAME OF BORROWER], a _____ corporation (the "Borrower"), HEREBY PROMISES TO PAY to the order of _____ (the "Lender") for the account of its Applicable Lending Office on the Termination Date (each as defined in the Credit Agreement referred to below) the aggregate principal amount of the Advances made by the Lender to the Borrower pursuant to the 364-Day Credit Agreement dated as of September 9, 2005 among Honeywell International Inc., the other Borrowers parties thereto, the Lender and certain other lenders parties thereto, and Citibank, N.A., Canadian Branch, as Agent for the Lender and such other lenders (as amended or modified from time to time, the "Credit Agreement"; the terms defined therein being used herein as therein defined) outstanding on such date.

The Borrower promises to pay interest on the unpaid principal amount of each Advance from the date of such Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest in respect of each Advance (i) in US Dollars are payable in such currency at the Agent's Account in same day funds and (ii) in Canadian Dollars are payable in such currency at the Agent's Account in same day funds. Each Advance owing to the Lender by the Borrower pursuant to the Credit Agreement, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Promissory Note.

This Promissory Note is one of the Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of Advances by the Lender to the Borrower from time to time in an aggregate amount not to exceed at any time outstanding the Canadian Dollar amount first above mentioned or the Equivalent thereof in US Dollars, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Promissory Note, (ii) contains provisions for determining the Canadian Dollar Equivalent of Advances denominated in US Dollars and (iii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

The Borrower hereby waives presentment, demand, protest and notice of any kind. No failure to exercise, and no delay in exercising, any rights hereunder on the part of the holder hereof shall operate as a waiver of such rights.

This promissory note shall be governed by, and construed in accordance with the laws of the State of New York.

[NAME OF BORROWER]

By _____

Name:
Title:

ADVANCES AND PAYMENTS OF PRINCIPAL

Date	Type of Advance	Amount of Advance in Relevant Currency	Interest Rate	Amount of Principal Paid or Prepaid	Unpaid Principal Balance	Notation Made By

Exhibit 10.24

EXHIBIT A-2 - FORM OF DRAFT

DUE_____ No. BA _____
[Toronto, Canada]
_____, 20__

ON_____, (WITHOUT GRACE), FOR VALUE RECEIVED PAY TO THE ORDER OF THE UNDERSIGNED DRAWER THE SUM OF CN$_____
_____ CANADIAN DOLLARS

TO: [NAME OF BANK]

[NAME OF BORROWER]

Per: _____

Exhibit 10.24

EXHIBIT B-1 - FORM OF NOTICE OF BORROWING

Citibank, N.A., Canadian Branch, as Agent
for the Lenders parties
to the Credit Agreement
referred to below
[Address] [Date]
Attention:

Ladies and Gentlemen:

The undersigned, [Name of Borrower], refers to the 364-Day Credit Agreement, dated as of September 9, 2005 (as amended or modified from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among Honeywell International Inc., the undersigned, the other Borrowers parties thereto, certain Lenders parties thereto, and Citibank, N.A., Canadian Branch, as Agent for said Lenders, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests a Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Borrowing (the "Proposed Borrowing") as required by Section 2.02(a) of the Credit Agreement:

(i) The Business Day of the Proposed Borrowing is _____.

(ii) The Type of Advances comprising the Proposed Borrowing is [Base Rate Advances] [Eurodollar Rate Advances].

(iii) The aggregate amount of the Proposed Borrowing is [US$_____] [CN$_____].

[(iv) The initial Interest Period for each Eurodollar Rate Advance made as part of the Proposed Borrowing is _____ month[s].]

The undersigned hereby certifies that the conditions precedent to this Borrowing set forth in Section 3.02 of the Credit Agreement have been satisfied and the applicable statements contained therein are true on the date hereof, and will be true on the date of the Proposed Borrowing.

Very truly yours,

[NAME OF BORROWER]

By _____

Name:
Title:

Exhibit 10.24

EXHIBIT B-2 - FORM OF NOTICE OF DRAWING

Citibank, N.A., Canadian Branch, as Agent
for the Lenders parties
to the Credit Agreement
referred to below
[Address] [Date]
Attention:

Ladies and Gentlemen:

The undersigned, [Name of Borrower], refers to the 364-Day Credit Agreement, dated as of September 9, 2005 (as amended or modified from time to time, the "Credit Agreement", the terms defined therein being used herein as therein defined), among Honeywell International Inc., the undersigned, the other Borrowers parties thereto, certain Lenders parties thereto, and Citibank, N.A., Canadian Branch, as Agent for said Lenders, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests a Drawing under the Credit Agreement, and in that connection sets forth below the information relating to such Drawing (the "Proposed Drawing") as required by Section 2.03(a) of the Credit Agreement:

(i) The Business Day of the Proposed Drawing is _____, 200_.

(ii) The aggregate Face Amount of the Proposed Drawing is CN$_____.

(iii) The initial Maturity Date for each Bankers' Acceptance comprising part of the Proposed Drawing is [thirty][[sixty][ninety][one hundred and eighty] days from the date of the Drawing.

The undersigned hereby certifies that the conditions precedent to this Borrowing set forth in Section 3.02 of the Credit Agreement have been satisfied and the applicable statements contained therein are true on the date hereof, and will be true on the date of the Proposed Drawing.

Very truly yours,

[NAME OF BORROWER]

By: _____

Title:

Exhibit 10.24

EXHIBIT C - FORM OF
ASSIGNMENT AND ACCEPTANCE

Dated: _____

Reference is made to the 364-Day Credit Agreement dated as of September 9, 2005 (as amended or modified from time to time, the "Credit Agreement") among Honeywell International Inc., a Delaware corporation (the "Company"), the Borrowers parties thereto, the Lenders (as defined in the Credit Agreement), and Citibank, N.A., Canadian Branch, as agent (the "Agent") for the Lenders. Terms defined in the Credit Agreement are used herein with the same meaning.

_____ (the "Assignor") and _____ (the "Assignee") agree as follows:

1. The Assignor hereby sells and assigns to the Assignee, and the Assignee hereby purchases and assumes from the Assignor, an interest in and to the Assignor's rights and obligations under the Credit Agreement as of the date hereof equal to the percentage interest specified on Schedule 1 hereto of the outstanding rights and obligations under the Credit Agreement set forth on Schedule 1 hereto. After giving effect to such sale and assignment, the Assignee's Commitment and the amount of the Advances in each relevant currency owing to the Assignee will be as set forth on Schedule 1 hereto.

2. The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claim; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or any other instrument or document furnished pursuant thereto or the execution, legality, validity, enforceability, genuineness, sufficiency or value of, or the perfection or priority of any lien or security interest created or purported to be created under or in connection with, the Credit Agreement or any other instrument or document furnished pursuant thereto; (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Company or any Borrower or the performance or observance by the Company or any Borrower of any of its obligations under the Credit Agreement or any other instrument or document furnished pursuant thereto; [and (iv) attaches the Note held by the Assignor and requests that the Agent obtain from each Borrower a new Note payable to the order of the Assignee with respect to the aggregate principal amount of the Advances assumed by such Assignee pursuant hereto, substantially in the form of Exhibit A-1 to the Credit Agreement].

3. The Assignee (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred to in Section 4.01(e) thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Lender and based

on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) confirms that it is an Eligible Assignee; (iv) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers and discretion under the Credit Agreement as are delegated to the Agent by the terms thereof, together with such powers and discretion as are reasonably incidental thereto; (v) agrees that it will perform in accordance with their terms all of the obligations that by the terms of the Credit Agreement are required to be performed by it as a Lender; and (vi) attaches any U.S. Internal Revenue Service forms required under Section 2.14 of the Credit Agreement.

4. Following the execution of this Assignment and Acceptance, it will be delivered to the Agent for acceptance and recording by the Agent. The effective date for this Assignment and Acceptance (the "Effective Date") shall be the date of acceptance hereof by the Agent, unless otherwise specified on Schedule 1 hereto.

5. Upon such acceptance and recording by the Agent, as of the Effective Date, (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Acceptance, have the rights and obligations of a Lender thereunder and (ii) the Assignor shall, to the extent provided in this Assignment and Acceptance, relinquish its rights and be released from its obligations under the Credit Agreement, provided, however, that the Assignor's rights under Sections 2.10, 2.14 and 9.04 of the Credit Agreement, and its obligations under Section 8.05 of the Credit Agreement, shall survive the assignment pursuant to this Assignment and Acceptance as to matters occurring prior to the Effective Date.

6. Upon such acceptance and recording by the Agent, from and after the Effective Date, the Agent shall make all payments under the Credit Agreement and the Notes in respect of the interest assigned hereby (including, without limitation, all payments of principal, interest and facility fees with respect thereto) to the Assignee. The Assignor and Assignee shall make all appropriate adjustments in payments under the Credit Agreement and any Notes for periods prior to the Effective Date directly between themselves.

7. This Assignment and Acceptance shall be governed by, and construed in accordance with, the laws of the State of New York.

8. This Assignment and Acceptance may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of Schedule 1 to this Assignment and Acceptance by telecopier shall be effective as delivery of a manually executed counterpart of this Assignment and Acceptance.

IN WITNESS WHEREOF, the Assignor and the Assignee have caused Schedule 1 to this Assignment and Acceptance to be executed by their officers thereunto duly authorized as of the date specified thereon.

Schedule 1
to
Assignment and Acceptance

Dated: _____

Section 1.

Percentage interest assigned: _____%

Assignee's Commitment: US$_____

Section 2.

(a) Assigned Advances

Aggregate outstanding principal amount of Advances in US Dollars assigned: US$_____

Aggregate outstanding principal amount of Advances in Canadian Dollars assigned: CN$_____

(b) Retained Advances

Aggregate outstanding principal amount of Advances in US Dollars retained: US$_____

Aggregate outstanding principal amount of Advances in Canadian Dollars retained: CN$_____

Effective Date[1]: _____

[NAME OF ASSIGNOR], as Assignor

By _____

Title:

Dated: _____

[NAME OF ASSIGNEE], as Assignee

By _____

Title:

1 This date should be no earlier than five Business Days after the delivery of this Assignment and Acceptance to the Agent.

Dated: _____

Domestic Lending Office:
[Address]

Eurodollar Lending Office:
[Address]

Consented to this _____ day
of _____

HONEYWELL INTERNATIONAL INC.

By _____]

Name:
Title:

Exhibit 10.24

EXHIBIT D - FORM OF OPINION
OF GAIL E. LEHMAN,
ASSISTANT GENERAL COUNSEL FOR THE COMPANY

To each of the Lenders parties
to the Credit Agreement
(as defined below),
and to Citibank, N.A., Canadian Branch,
as Agent for said Lenders

Honeywell International Inc.

Ladies and Gentlemen:

This opinion is furnished to you pursuant to Section 3.01(e)(iv) of the 364-Day Credit Agreement dated as of September 9, 2005 among Honeywell International Inc. (the "Company"), the Borrowers parties thereto, the Lenders parties thereto, and Citibank, N.A., Canadian Branch, as Agent for said Lenders (the "Credit Agreement"). Terms defined in the Credit Agreement are, unless otherwise defined herein, used herein as therein defined.

I have acted as counsel for the Company and the Borrowers in connection with the preparation, execution and delivery of the Credit Agreement.

In that connection I have examined:

(1) The Credit Agreement.

(2) The documents furnished by the Company pursuant to Article III of the Credit Agreement, including the Certificate of Incorporation of the Company and all amendments thereto (the "Charter") and the By-laws of the Company and all amendments thereto (the "By-laws").

(3) A certificate of the Secretary of State of the State of Delaware, dated August 31, 2005, attesting to the continued corporate existence and good standing of the Company in that State.

I have also examined the originals, or copies certified to my satisfaction, of such corporate records of the Company (including resolutions adopted by the Board of Directors of the Company), certificates of public officials and of officers of the Company, and agreements, instruments and documents, as I have deemed necessary as a basis for the opinions hereinafter expressed. As to questions of fact material to such opinions, I have, when relevant facts were not independently established by me, relied upon certificates of the Company or its officers or of public officials. I have assumed the due execution and delivery, pursuant to due authorization, of the Credit Agreement by the Borrowers, the Initial Lenders and the Agent.

I am qualified to practice law in the State of New Jersey, and I do not purport to be expert in, or to express any opinion herein concerning, any laws other than the laws of the State of New Jersey, State of New York, the General Corporation Law of the State of Delaware and the Federal laws of the United States.

Based upon the foregoing and upon such investigation as I have deemed necessary, I am of the following opinion:

1. The Company (a) is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, (b) is duly qualified as a foreign corporation in each other jurisdiction in which it owns or leases property or in which the conduct of its business requires it to so qualify or be licensed and (c) has all requisite corporate power and authority to own or lease and operate its properties and to carry on its business as now conducted and as proposed to be conducted.

2. The execution, delivery and performance by the Company of the Credit Agreement, and the consummation of the transactions contemplated thereby, are within the Company's corporate powers, have been duly authorized by all necessary corporate action, and do not (i) contravene the Charter or the By-laws or (ii) violate any law (including, without limitation, the Securities Exchange Act of 1934 and the Racketeer Influenced and Corrupt Organizations Chapter of the Organized Crime Control Act of 1970), rule, regulation (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System) or any material order, writ, judgment, decree, determination or award or (iii) conflict with or result in the breach of, or constitute a default under, any material indenture, loan or credit agreement, lease, mortgage, security agreement, bond, note or any similar document. The Credit Agreement and the Notes of the Company have been duly executed and delivered on behalf of the Company.

3. The execution, delivery and performance by the Borrowers of the Credit Agreement and the Notes of each Borrower, and the consummation of the transactions contemplated thereby do not violate any law (including, without limitation, the Securities Exchange Act of 1934 and the Racketeer Influenced and Corrupt Organizations Chapter of the Organized Crime Control Act of 1970), rule, regulation (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System) or any material order, writ, judgment, decree, determination or award.

4. No authorization, approval, or other action by, and no notice to or filing with, any governmental authority, administrative agency or regulatory body, or any third party is required for the due execution, delivery and performance by the Company or any Borrower of the Credit Agreement or the Notes of the Borrowers, or for the consummation of the transactions contemplated thereby.

5. The Credit Agreement is, and each Note of each Borrower when delivered under the Credit Agreement will be, the legal, valid and binding obligation of the Company and each Borrower enforceable against the Company and each Borrower in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization or moratorium or other similar laws relating to the enforcement of creditors' rights generally or by the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), and except that I express no opinion as to (i) the subject matter jurisdiction of the District Courts of the United States of America to adjudicate any controversy relating to the Credit Agreement or the Notes of the

Borrowers or (ii) the effect of the law of any jurisdiction (other than the State of New York) wherein any Lender or Applicable Lending Office may be located or wherein enforcement of the Credit Agreement or the Notes of the Borrowers may be sought which limits rates of interest which may be charged or collected by such Lender.

6. There is no action, suit, investigation, litigation or proceeding against the Company or any of its Subsidiaries before any court, governmental agency or arbitrator now pending or, to the best of my knowledge, Threatened that is reasonably likely to have a Material Adverse Effect (other than the Disclosed Litigation) or that purports to affect the legality, validity or enforceability of the Credit Agreement or any Note of the Borrowers or the consummation of the transactions contemplated thereby, and there has been no adverse change in the status, or financial effect on the Company or any of its Subsidiaries, of the Disclosed Litigation from that described on Schedule 3.01(b) of the Credit Agreement.

7. The Company is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

8. The Company is not a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

In connection with the opinions expressed by me above in paragraph 5, I wish to point out that (i) provisions of the Credit Agreement that permit the Agent or any Lender to take action or make determinations may be subject to a requirement that such action be taken or such determinations be made on a reasonable basis and in good faith, (ii) that a party to whom an advance is owed may, under certain circumstances, be called upon to prove the outstanding amount of the Advances evidenced thereby and (iii) the rights of the Agent and the Lenders provided for in Section 9.04(b) of the Credit Agreement may be limited in certain circumstances.

Very truly yours,

Gail E. Lehman
Assistant General Counsel &
Assistant Secretary

Exhibit 10.24

EXHIBIT E - FORM OF OPINION
OF GAIL E. LEHMAN,
ASSISTANT GENERAL COUNSEL OF THE BORROWERS

September 9, 2005

To each of the Lenders parties
to the Credit Agreement
(as defined below),
and to Citibank, N.A., Canadian Branch,
as Agent for said Lenders

Honeywell International Inc.

Ladies and Gentlemen:

This opinion is furnished to you pursuant to Section 3.01(e)(v) of the 364-Day Credit Agreement dated as of September 9, 2005 among Honeywell International Inc. (the "Company"), Honeywell ASCA Inc. ("ASCA"), Honeywell Limited/Honeywell Limitee, ("Limited") And Honeywell Aerospatiale Inc. ("Aerospatiale", and together with ASCA and Limited, the "Borrowers"),parties thereto, the Lenders parties thereto, and Citibank, N.A., Canadian Branch, as Agent for said Lenders (the "Credit Agreement"). Terms defined in the Credit Agreement are, unless otherwise defined herein, used herein as therein defined.

I have acted as counsel for the Borrowers in connection with the preparation, execution and delivery of the Credit Agreement.

In that connection I have examined:

(1) The Credit Agreement.

(2) The documents furnished by each Borrower pursuant to Article III of the Credit Agreement, including the Certificate of Incorporation of each Borrower and all amendments thereto (the "Charter") and the By-laws of each Borrower and all amendments thereto (the "By-laws").

(3) A Certificate of Compliance dated September 7, 2005, attesting to the continued corporate existence and good standing of ASCA in that jurisdiction.

(4) A Certificate of Compliance dated September 7, 2005, attesting to the continued corporate existence and good standing of Limited in that jurisdiction.

(5) A Certificate of Compliance dated September 7, 2005, attesting to the continued corporate existence and good standing of Aerospatiale in that jurisdiction.

I have also examined the originals, or copies certified to my satisfaction, of such corporate records of each Borrower (including resolutions adopted by the Board of Directors of such Borrower), certificates of public officials and of officers of the Borrowers, and agreements, instruments and documents, as I have deemed necessary as a basis for the opinions hereinafter expressed. As to questions of fact material to such opinions, I have, when relevant facts were not independently established by me, relied upon certificates of the Company or its officers or of public officials. I have assumed the due execution and delivery, pursuant to due authorization, of the Credit Agreement by the Company, the Initial Lenders and the Agent.

I am qualified to practice law in the State of New Jersey and have conferred with counsel qualified in Canada. I do not purport to be expert in, or to express any opinion herein concerning, any laws other than the laws of the State of New Jersey, and after due inquiry, and the Federal laws of Canada.

Based upon the foregoing and upon such investigation as I have deemed necessary, I am of the following opinion:

1. Each Borrower (a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its formation, (b) is duly qualified as a foreign corporation in each other jurisdiction in which it owns or leases property or in which the conduct of its business requires it to so qualify or be licensed and (c) has all requisite corporate power and authority to own or lease and operate its properties and to carry on its business as now conducted and as proposed to be conducted.

2. The execution, delivery and performance by each Borrower of the Credit Agreement, and the consummation of the transactions contemplated thereby, are within such Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do not (i) contravene the Charter or the By-laws of such Borrower or (ii) violate any law, rule, regulation (including, without limitation, Regulation X of the Board of Governors of the Federal Reserve System) or any material order, writ, judgment, decree, determination or award or (iii) conflict with or result in the breach of, or constitute a default under, any material indenture, loan or credit agreement, lease, mortgage, security agreement, bond, note or any similar document. The Credit Agreement and the Notes of each Borrower have been duly executed and delivered on behalf of such Borrower.

4. No authorization, approval, or other action by, and no notice to or filing with, any governmental authority, administrative agency or regulatory body, or any third party is required for the due execution, delivery and performance by the Company or any Borrower of the Credit Agreement or the Notes of the Borrowers, or for the consummation of the transactions contemplated thereby.

5. An action to enforce the Credit Agreement and the Notes against each Borrower could be commenced by a Lender in a court of competent jurisdiction in the Province of Ontario (an "Ontario Court") in which event an Ontario Court would recognize the choice of New York law as a valid choice of law to govern the Credit Agreement and the Notes and would apply New

York law to all issues that an Ontario Court characterized as substantive under the conflict of laws' rules of Ontario law.

6. Any judgment (a "New York Judgment") obtained by a Lender against a Borrower in any action taken in the courts of the State of New York (the "New York Court") to enforce a payment obligation of such Borrower under the Credit Agreement or the Notes would be recognized and enforced by an Ontario Court in a separate Ontario action without re-examination of the merits of the New York Judgment.

7. The express submission by each Borrower to the nonexclusive jurisdiction of a New York Court contained in Section 9.11 of the Credit Agreement would be regarded by an Ontario Court as sufficient under Ontario law to grant personal jurisdiction over such Borrower to a New York Court.

Very truly yours,

Gail E. Lehman
Assistant General Counsel &
Assistant Secretary

EXHIBIT F - FORM OF OPINION
OF SHEARMAN & STERLING LLP,
COUNSEL TO THE AGENT

[S&S LETTERHEAD]

_____ __, 2005

To the Initial Lenders party to the Credit
Agreement referred to below and to
Citibank, N.A., Canadian Branch, as Agent

Honeywell International Inc.

Ladies and Gentlemen:

We have acted as counsel to Citibank, N.A., Canadian Branch, as Agent (the "Agent"), in connection with the Credit Agreement, dated as of September 9, 2005 (the "Credit Agreement"), among Honeywell International Inc., a Delaware corporation (the "Company"), the borrowers parties thereto and each of you. Unless otherwise defined herein, terms defined in the Credit Agreement are used herein as therein defined.

In that connection, we have reviewed originals or copies of the following documents:

(a) The Credit Agreement.

(b) The Notes executed by the Borrowers and delivered on the date hereof.

The documents described in the foregoing clauses (a) and (b) are collectively referred to herein as the "Opinion Documents." The Company and the Borrowers are collectively referred to herein as the "Loan Parties".

We have also reviewed originals or copies of such other agreements and documents as we have deemed necessary as a basis for the opinion expressed below.

In our review of the Opinion Documents and other documents, we have assumed:

(A) The genuineness of all signatures.

(B) The authenticity of the originals of the documents submitted to us.

(C) The conformity to authentic originals of any documents submitted to us as copies.

(D) As to matters of fact, the truthfulness of the representations made in the Credit Agreement.

(E) That each of the Opinion Documents is the legal, valid and binding obligation of each party thereto, other than the Loan Parties, enforceable against each such party in accordance with its terms.

(F) That:

(1) Each Loan Party is an entity duly organized and validly existing under the laws of the jurisdiction of its organization.

(2) Each Loan Party has full power to execute, deliver and perform, and has duly executed and delivered, the Opinion Documents to which it is a party.

(3) The execution, delivery and performance by each Loan Party of the Opinion Documents to which it is a party have been duly authorized by all necessary action (corporate or otherwise) and do not:

(a) contravene its certificate or articles of incorporation, by-laws or other organizational documents;

(b) except with respect to Generally Applicable Law, violate any law, rule or regulation applicable to it; or

(c) result in any conflict with or breach of any agreement or document binding on it.

(4) Except with respect to Generally Applicable Law, no authorization, approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or (to the extent the same is required under any agreement or document binding on it of which an addressee hereof has knowledge, has received notice or has reason to know) any other third party is required for the due execution, delivery or performance by any Loan Party of any Opinion Document to which it is a party or, if any such authorization, approval, action, notice or filing is required, it has been duly obtained, taken, given or made and is in full force and effect.

We have not independently established the validity of the foregoing assumptions.

"Generally Applicable Law" means the federal law of the United States of America, and the law of the State of New York (including the rules or regulations promulgated thereunder or pursuant thereto), that a New York lawyer exercising customary professional diligence would reasonably be expected to recognize as being applicable to the Loan Parties, the Opinion Documents or the transactions governed by the Opinion Documents. Without limiting

the generality of the foregoing definition of Generally Applicable Law, the term "Generally Applicable Law" does not include any law, rule or regulation that is applicable to the Loan Parties, the Opinion Documents or such transactions solely because such law, rule or regulation is part of a regulatory regime applicable to any party to any of the Opinion Documents or any of its affiliates due to the specific assets or business of such party or such affiliate.

Based upon the foregoing and upon such other investigation as we have deemed necessary and subject to the qualifications set forth below, we are of the opinion that each Opinion Document is the legal, valid and binding obligation of each Loan Party that is a party thereto, enforceable against such Loan Party in accordance with its terms.

Our opinion expressed above is subject to the following qualifications:

(a) Our opinion is subject to (i) the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally (including without limitation all laws relating to fraudulent transfers) and (ii) possible judicial action giving effect to governmental actions or foreign laws affecting creditors' rights.

(b) Our opinion is subject to the effect of general principles of equity, including without limitation concepts of materiality, reasonableness, good faith and fair dealing (regardless of whether considered in a proceeding in equity or at law).

(c) We express no opinion with respect to the enforceability of indemnification provisions, or of release or exculpation provisions, contained in the Opinion Documents to the extent that enforcement thereof is contrary to public policy regarding the indemnification against or release or exculpation of criminal violations, intentional harm or violations of securities laws.

(d) We express no opinion with respect to the enforceability of any indemnity against loss in converting into a specified currency the proceeds or amount of a court judgment in another currency.

(e) Our opinion is limited to Generally Applicable Law.

A copy of this opinion letter may be delivered by any of you to any person that becomes a Lender in accordance with the provisions of the Credit Agreement. Any such person may rely on the opinion expressed above as if this opinion letter were addressed and delivered to such person on the date hereof.

This opinion letter is rendered to you in connection with the transactions contemplated by the Opinion Documents. This opinion letter may not be relied upon by you or any person entitled to rely on this opinion pursuant to the preceding paragraph for any other purpose without our prior written consent.

This opinion letter speaks only as of the date hereof. We expressly disclaim any responsibility to advise you of any development or circumstance of any kind, including any

change of law or fact, that may occur after the date of this opinion letter that might affect the opinion expressed herein.

Very truly yours,

WEH:SLH

Exhibit 10.24

EXECUTION COPY

CN$240,000,000

364-DAY CREDIT AGREEMENT

Dated as of September 9, 2005

Among

HONEYWELL INTERNATIONAL INC.,

as Company,

HONEYWELL ASCA INC.
HONEYWELL LIMITED/HONEYWELL LIMITEE
and
HONEYWELL AEROSPATIALE INC.

as Borrowers,

THE INITIAL LENDERS NAMED HEREIN,

as Initial Lenders,

and

CITIBANK, N.A., CANADIAN BRANCH,

as Administrative Agent

and

and

CITIGROUP GLOBAL MARKETS INC.
and
ROYAL BANK OF CANADA

as Joint Lead Arrangers and Co-Book Managers

TABLE OF CONTENTS

	Page
ARTICLE I	
SECTION 1.01. Certain Defined Terms	1
SECTION 1.02. Computation of Time Periods	16
SECTION 1.03. Accounting Terms	16
ARTICLE II	
SECTION 2.01. The Advances	16
SECTION 2.02. Making the Advances	17
SECTION 2.03. Drawings of Bankers' Acceptances	18
SECTION 2.04. Fees	21
SECTION 2.05. Termination or Reduction of the Commitments	21
SECTION 2.06. Repayment of Advances	22
SECTION 2.07. Interest on Advances	23
SECTION 2.08. Interest Rate Determination	23
SECTION 2.09. Prepayments of Advances	25
SECTION 2.10. Increased Costs	26
SECTION 2.11. Illegality	27
SECTION 2.12. Renewal and Conversion of Bankers' Acceptances	28
SECTION 2.13. Payments and Computations	29
SECTION 2.14. Taxes	31
SECTION 2.15. Sharing of Payments, Etc.	33
SECTION 2.16. Use of Proceeds	33
SECTION 2.17. Evidence of Debt	33
ARTICLE III	

SECTION 3.01. Conditions Precedent to Effectiveness of Section 2.01 34
SECTION 3.02. Conditions Precedent to Each Borrowing, Drawing and Term Loan Conversion Date 35
SECTION 3.03. Determinations Under Section 3.01 36
ARTICLE IV
SECTION 4.01. Representations and Warranties of the Company and the Borrowers 36
ARTICLE V
SECTION 5.01. Affirmative Covenants 39
SECTION 5.02. Negative Covenants 42
ARTICLE VI
SECTION 6.01. Events of Default 44
SECTION 6.02. Actions in Respect of Bankers' Acceptances upon Default 47
ARTICLE VII
SECTION 7.01. Unconditional Guarantee 48
SECTION 7.02. Guarantee Absolute 48
SECTION 7.03. Waivers 49
SECTION 7.04. Remedies 49
SECTION 7.05. No Stay 50
SECTION 7.06. Survival 50
ARTICLE VIII
SECTION 8.01. Authorization and Action 50
SECTION 8.02. Agent's Reliance, Etc. 50
SECTION 8.03. Citibank and Affiliates 51
SECTION 8.04. Lender Credit Decision 51
SECTION 8.05. Indemnification 51

SECTION 8.06. Successor Agent 52
SECTION 8.07. Other Agents 52
ARTICLE IX
SECTION 9.01. Amendments, Etc. 53
SECTION 9.02. Notices, Etc. 53
SECTION 9.03. No Waiver; Remedies 54
SECTION 9.04. Costs and Expenses 54
SECTION 9.05. Binding Effect 55
SECTION 9.06. Assignments and Participations 56
SECTION 9.07. Confidentiality 58
SECTION 9.08. Mitigation of Yield Protection 59
SECTION 9.09. Governing Law. 59
SECTION 9.10. Execution in Counterparts 59
SECTION 9.11. Jurisdiction, Etc. 59
SECTION 9.12. Final Agreement 60
SECTION 9.13. Judgment 60
SECTION 9.14. Patriot Act Notice 61
SECTION 9.15. Waiver of Jury Trial 62

SCHEDULES

Schedule I - List of Applicable Lending Offices

Schedule 3.01(b) - Disclosed Litigation

EXHIBITS

Exhibit A-1	-	Form of Note
Exhibit A-2	-	Form of Draft
Exhibit B-1	-	Form of Notice of Borrowing
Exhibit B-2	-	Form of Notice of Drawing
Exhibit C	-	Form of Assignment and Acceptance
Exhibit D	-	Form of Opinion of Gail E. Lehman, Assistant General Counsel of the Company
Exhibit E	-	Form of Opinion of Gail E. Lehman, Assistant General Counsel of the Borrowers
Exhibit F	-	Form of Opinion of Shearman & Sterling LLP, Counsel to the Agent

EXHIBIT 12

HONEYWELL INTERNATIONAL INC.
STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	2005	2004	2003	2002	2001
			(In millions)		
Determination of Earnings:					
Income (loss) from continuing operations before taxes	$ 2,323	$ 1,680	$ 1,640	$ (945)	$ (422)
Add (Deduct):					
Amortization of capitalized interest	22	24	24	24	25
Fixed charges	465	438	440	435	512
Equity income, net of distributions	(30)	(75)	(38)	(42)	199
Total earnings, as defined	$ 2,780	$ 2,067	$ 2,066	$ (528)	$ 314
Fixed Charges:					
Rents(a)	$ 109	$ 107	$ 105	$ 91	$ 107
Interest and other financial charges	356	331	335	344	405
	465	438	440	435	512
Capitalized interest	17	18	15	21	17
Total fixed charges	$ 482	$ 456	$ 455	$ 456	$ 529
Ratio of earnings to fixed charges	5.77	4.53	4.54	(1.16)(b)	0.59(b)

(a) Denotes the equivalent of an appropriate portion of rentals representative of the interest factor on all rentals other than for capitalized leases.
(b) The ratio of earnings to fixed charges was less than 1:1 for the years ended December 31, 2002 and 2001. In order to have achieved a ratio of earnings to fixed charges of 1:1, we would have had to have generated an additional $984 and $215 million of earnings in the years ended December 31, 2002 and 2001, respectively.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Name	Country or State of Incorporation	Securities Owned	
		Class	Percent Ownership
Honeywell Electronic Materials Inc.	Washington	Common Stock	100
Honeywell HomeMed L.L.C.	Delaware	Common Stock	100
Honeywell Nylon L.L.C.	Delaware	Common Stock	100
Honeywell Technology Solutions Inc.	Delaware	Common Stock	100
Honeywell Intellectual Properties Inc.	Arizona	Common Stock	100
Honeywell Specialty Materials, L.L.C.	Delaware	Common Stock	100
Grimes Aerospace Company	Delaware	Common Stock	100
Prestone Products Corporation	Delaware	Common Stock	100

The names of Honeywell's other consolidated subsidiaries, which are primarily totally-held by Honeywell, are not listed because all such subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

EXHIBIT 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 33-14071, 33-55425, 333-22355, 333-49455, 333-68847, 333-74075, 333-34760, 333-86874 and 333-101455), Form S-8 (Nos. 33-09896, 33-51455, 33-55410, 33-58347, 333-57515, 333-57517, 333-57519, 333-83511, 333-34764, 333-49280, 333-57868, 333-91582, 333-91736, 333-105065 and 333-108461), and Form S-4 (No. 333-82049) of Honeywell International Inc. of our report dated March 1, 2006 relating to the financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/S/ PRICEWATERHOUSECOOPERS LLP

Florham Park, New Jersey
March 1, 2006

EXHIBIT 24

POWER OF ATTORNEY

I, David M. Cote, a director of Honeywell International Inc. (the "Company"), a Delaware corporation, hereby appoint David J. Anderson, Peter M. Kreindler, Thomas F. Larkins and John J. Tus, each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 2005,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

/s/ David M. Cote

David M. Cote

Dated: December 9, 2005

POWER OF ATTORNEY

I, David M. Cote, a director of Honeywell International Inc. (the "Company"), a Delaware corporation, hereby appoint David J. Anderson, Peter M. Kreindler, Thomas F. Larkins and John J. Tus, each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact to sign on my behalf in my capacity as a director of the Company one or more registration statements under the Securities Act of 1933, or any amendment or post-effective amendment to any registration statement heretofore or hereafter filed by the Company:

(a) on Form S-8 or other appropriate form for the registration of shares of the Company's Common Stock (or participations where appropriate) to be offered under the savings, stock or other benefit plans of the Company, its affiliates or any predecessor thereof, including the Honeywell Savings and Ownership Plan I, Honeywell Savings and Ownership Plan II, the Honeywell Supplemental Savings Plan, the Honeywell Executive Supplemental Savings Plan, the UK Share Purchase Plan of the Company, the Ireland Employees Share Ownership program of the Company, the Employee Stock Purchase Plan of the Company, the Stock Plan for Non-Employee Directors of the Company, the 1993 Honeywell Stock Plan for Employees of the Company and its Affiliates, the 2003 Stock Incentive Plan of Honeywell International Inc., and any plan which is a successor to such plans or is a validly authorized plan pursuant to which securities of the Corporation are issued to employees, and

(b) on Form S-3 or other appropriate form for the registration of shares of the Company's Common Stock to be offered under the Dividend Reinvestment and Share Purchase Plan of the Company and any plan which is a successor to such plan.

I hereby grant to each such attorney full power and authority to perform every act necessary to be done as fully as I might do in person.

I hereby revoke any or all prior appointments of attorneys-in-fact to sign the above-described documents.

/s/ David M. Cote

David M. Cote

Dated: December 9, 2005

POWER OF ATTORNEY

I, David M. Cote, a director of Honeywell International Inc. (the "Company"), a Delaware corporation, hereby appoint David J. Anderson, Peter M. Kreindler, Thomas F. Larkins and John J. Tus, each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact to sign on my behalf in my capacity as a director of the Company one or more registration statements under the Securities Act of 1933, or any amendment or post-effective amendment to any registration statement heretofore or hereafter filed by the Company on Form S-3 or other appropriate form for the registration of:

(i) debt securities of the Company (which may be convertible into or exchangeable for or accompanied by warrants to purchase debt or equity securities of the Company, its subsidiaries, joint ventures or affiliates or another person or entity, provided the number of shares of the Company's Common Stock into or for which such debt securities may be converted or exchanged or which may be issued upon exercise of such warrants shall not exceed 25,000,000, as adjusted for stock splits and dividends) with aggregate proceeds not to exceed $3 billion (or the equivalent thereof in any foreign currency), including any accompanying warrants and any guarantees by the Company of such debt securities of its subsidiaries, joint ventures or affiliates;

(ii) preferred stock of the Company (which may be convertible into or redeemable or exchangeable for Common Stock or other securities or property of the Company) with proceeds not to exceed $500 million;

(iii) Common Stock of the Company, or warrants to purchase such securities to be issued in exchange for debt or equity securities of the Company, its subsidiaries, joint ventures or affiliates with aggregate proceeds not to exceed $3 billion (or the equivalent thereof in any foreign currency);

(iv) any securities into or for which any of the securities specified in clauses (i), (ii) or (iii) are convertible or exchangeable or which may be issued upon exercise thereof; and

(v) shares of Common Stock of the Company sold or otherwise disposed of to carry out transactions (a) which have been specifically authorized by the Board of Directors, and any warrants to purchase such shares, or (b) not requiring specific authorization by the Board of Directors (not to exceed in any one transaction the lesser of (1) two percent of the Common Stock of the Company issued and outstanding at the end of the preceding fiscal year, as adjusted for stock splits and stock dividends, or (2) shares having a market value of $200,000,000), and any warrants to purchase such shares.

I hereby grant to each such attorney full power and authority to perform every act necessary to be done as fully as I might do in person.

I hereby revoke any or all prior appointments of attorneys-in-fact to the extent that they confer authority to sign the above-described documents.

/s/ David M. Cote

David M. Cote

Dated: December 9, 2005

POWER OF ATTORNEY

Each of the undersigned, as a director of Honeywell International Inc. (the "Company"), a Delaware corporation, hereby appoint David M. Cote, Peter M. Kreindler, David J. Anderson, Thomas F. Larkins and John J. Tus, each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact and agent for me and in my name, place and stead in any and all capacities,

(i) to sign the Company's Annual Report on Form 10-K under the Securities Exchange Act of 1934 for the year ended December 31, 2005,

(ii) to sign any amendment to the Annual Report referred to in (i) above, and

(iii) to file the documents described in (i) and (ii) above and all exhibits thereto and any and all other documents in connection therewith,

granting unto each said attorney and agent full power and authority to do and perform every act and thing requisite, necessary or desirable to be done in connection therewith, as fully to all intents and purposes as I might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

This Power of Attorney may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

/s/ Gordon M. Bethune	/s/ Russell E. Palmer
Gordon M. Bethune, Director	Russell E. Palmer, Director
/s/ Jaime Chico Pardo	/s/ Ivan G. Seidenberg
Jaime Chico Pardo, Director	Ivan G. Seidenberg, Director
/s/ D. Scott Davis	/s/ Bradley T. Sheares
D. Scott Davis, Director	Bradley T. Sheares, Director
/s/ Clive R. Hollick	/s/ Eric K. Shinseki
Clive R. Hollick, Director	Eric K. Shinseki, Director
/s/ James J. Howard	/s/ John R. Stafford
James J. Howard, Director	John R. Stafford, Director
/s/ Bruce Karatz	/s/ Michael W. Wright
Bruce Karatz, Director	Michael W. Wright, Director

Dated: December 9, 2005

POWER OF ATTORNEY

Each of the undersigned, as a director of Honeywell International Inc. (the "Company"), a Delaware corporation, hereby appoint David M. Cote, Peter M. Kreindler, David J. Anderson, Thomas F. Larkins and John J. Tus, each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact to sign on my behalf in my capacity as a director of the Company one or more registration statements under the Securities Act of 1933, or any amendment or post-effective amendment to any registration statement heretofore or hereafter filed by the Company:

(a) on Form S-8 or other appropriate form for the registration of shares of the Company's Common Stock (or participations where appropriate) to be offered under the savings, stock or other benefit plans of the Company, its affiliates or any predecessor thereof, including the Honeywell Savings and Ownership Plan I, Honeywell Savings and Ownership Plan II, the Honeywell Supplemental Savings Plan, the Honeywell Executive Supplemental Savings Plan, the UK Share Purchase Plan of the Company, the Ireland Employees Share Ownership program of the Company, the Employee Stock Purchase Plan of the Company, the Stock Plan for Non-Employee Directors of the Company, the 1993 Honeywell Stock Plan for Employees of the Company and its Affiliates, the 2003 Stock Incentive Plan of Honeywell International Inc., and any plan which is a successor to such plans or is a validly authorized plan pursuant to which securities of the Corporation are issued to employees, and

(b) on Form S-3 or other appropriate form for the registration of shares of the Company's Common Stock to be offered under the Dividend Reinvestment and Share Purchase Plan of the Company and any plan which is a successor to such plan.

I hereby grant to each such attorney full power and authority to perform every act necessary to be done as fully as I might do in person.

I hereby revoke any or all prior appointments of attorneys-in-fact to sign the above-described documents.

This Power of Attorney may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

/s/ Gordon M. Bethune	/s/ Russell E. Palmer
Gordon M. Bethune, Director	Russell E. Palmer, Director
/s/ Jaime Chico Pardo	/s/ Ivan G. Seidenberg
Jaime Chico Pardo, Director	Ivan G. Seidenberg, Director
/s/ D. Scott Davis	/s/ Bradley T. Sheares
D. Scott Davis, Director	Bradley T. Sheares, Director

/s/ Clive R. Hollick	/s/ Eric K. Shinseki
Clive R. Hollick, Director	Eric K. Shinseki, Director
/s/ James J. Howard	/s/ John R. Stafford
James J. Howard, Director	John R. Stafford, Director
/s/ Bruce Karatz	/s/ Michael W. Wright
Bruce Karatz, Director Dated: December 9, 2005	Michael W. Wright, Director

POWER OF ATTORNEY

Each of the undersigned, as a director of Honeywell International Inc. (the "Company"), a Delaware corporation, hereby appoint David M. Cote, Peter M. Kreindler, David J. Anderson, Thomas F. Larkins and John J. Tus, each with power to act without the other and with power of substitution and resubstitution, as my attorney-in-fact to sign on my behalf in my capacity as a director of the Company one or more registration statements under the Securities Act of 1933, or any amendment or post-effective amendment to any registration statement heretofore or hereafter filed by the Company on Form S-3 or other appropriate form for the registration of:

(i) debt securities of the Company (which may be convertible into or exchangeable for or accompanied by warrants to purchase debt or equity securities of the Company, its subsidiaries, joint ventures or affiliates or another person or entity, provided the number of shares of the Company's Common Stock into or for which such debt securities may be converted or exchanged or which may be issued upon exercise of such warrants shall not exceed 25,000,000, as adjusted for stock splits and dividends) with aggregate proceeds not to exceed $3 billion (or the equivalent thereof in any foreign currency), including any accompanying warrants and any guarantees by the Company of such debt securities of its subsidiaries, joint ventures or affiliates;

(ii) preferred stock of the Company (which may be convertible into or redeemable or exchangeable for Common Stock or other securities or property of the Company) with proceeds not to exceed $500 million;

(iii) Common Stock of the Company, or warrants to purchase such securities to be issued in exchange for debt or equity securities of the Company, its subsidiaries, joint ventures or affiliates with aggregate proceeds not to exceed $3 billion (or the equivalent thereof in any foreign currency);

(iv) any securities into or for which any of the securities specified in clauses (i), (ii) or (iii) are convertible or exchangeable or which may be issued upon exercise thereof; and

(v) shares of Common Stock of the Company sold or otherwise disposed of to carry out transactions (a) which have been specifically authorized by the Board of Directors, and any warrants to purchase such shares, or (b) not requiring specific authorization by the Board of Directors (not to exceed in any one transaction the lesser of (1) two percent of the Common Stock of the Company issued and outstanding at the end of the preceding fiscal year, as adjusted for stock splits and stock dividends, or (2) shares having a market value of $200,000,000), and any warrants to purchase such shares.

I hereby grant to each such attorney full power and authority to perform every act necessary to be done as fully as I might do in person.

I hereby revoke any or all prior appointments of attorneys-in-fact to the extent that they confer authority to sign the above-described documents.

This Power of Attorney may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

/s/ Gordon M. Bethune	/s/ Russell E. Palmer
Gordon M. Bethune, Director	Russell E. Palmer, Director
/s/ Jaime Chico Pardo	/s/ Ivan G. Seidenberg
Jaime Chico Pardo, Director	Ivan G. Seidenberg, Director
/s/ D. Scott Davis	/s/ Bradley T. Sheares
D. Scott Davis, Director	Bradley T. Sheares, Director
/s/ Clive R. Hollick	/s/ Eric K. Shinseki
Clive R. Hollick, Director	Eric K. Shinseki, Director
/s/ James J. Howard	/s/ John R. Stafford
James J. Howard, Director	John R. Stafford, Director
/s/ Bruce Karatz	/s/ Michael W. Wright
Bruce Karatz, Director Dated: December 9, 2005	Michael W. Wright, Director

EXHIBIT 31.1

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 Annual Report on Form 10-K 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: March 1, 2006 By: /s/ DAVID M. COTE

David M. Cote
Chief Executive Officer

EXHIBIT 31.2

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 Annual Report on Form 10-K 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: March 1, 2006 By: /s/ DAVID J. ANDERSON

David J. Anderson
Chief Financial Officer

EXHIBIT 32.1

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 Annual Report of Honeywell International Inc. (the Company) on Form 10-K for the year ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, David M. Cote, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DAVID M. COTE

David M. Cote
Chief Executive Officer

March 1, 2006

EXHIBIT 32.2

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 Annual Report of Honeywell International Inc. (the Company) on Form 10-K for the year ending December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, David J. Anderson, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ DAVID J. ANDERSON

David J. Anderson
Chief Financial Officer

March 1, 2006