HONEYWELL INTERNATIONAL INC (HON)

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10-K

Annual report pursuant to section 13 and 15(d)
Filed on 02/16/2007
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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, 2006

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
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 $33.0 billion at June 30, 2006.

There were 799,927,635 shares of Common Stock outstanding at January 31, 2007.

Documents Incorporated by Reference

Part III: Proxy Statement for Annual Meeting of Shareowners to be held April 23, 2007.

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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). In addition, in this Form 10-K, the Company incorporates by reference certain information from parts of its proxy statement for the 2007 Annual Meeting of Stockholders, which we expect to file with the SEC on or about March 12, 2007, and which will also be available free of charge at our website.

Information relating to corporate governance at Honeywell, including 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 and Section 906 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, 31.2, 32.1 and 32.2 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 23, 2006, 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 businesses that are reported as operating segments: Aerospace, Automation and Control Solutions, Specialty Materials and Transportation Systems. Financial information related to our operating segments is included in Note 23 of Notes to Financial Statements in "Item 8. Financial Statements and Supplementary Data."

The major products/services, customers/uses and key competitors of each of our operating 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
	TFE1042 turbofan	Commercial and military helicopters	Rolls Royce/Allison
	ATF3 turbofan	Military vehicles	Turbomeca
	F124 turbofan		Williams
	ALF502 turbofan		
	LF507 turbofan		
	CFE738 turbofan		
	HTF 7000 turbofan		
	T53, T55 turboshaft		
	T800 turboshaft		
	TF40B/50A		
	HTS9000		
	LT101-650/750/850		
	HTF5000		
	AGT1500 turboshaft		
	Repair, overhaul and spare parts		

Product/ Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
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
Environmental control systems	Air management systems: Air conditioning Bleed air Cabin pressure control Air purification and treatment Gas Processing Heat Exchangers Turbo Systems 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: Enhanced Ground Proximity Warning Systems (EGPWS) Traffic Alert and Collision Avoidance Systems (TCAS) Windshear detection systems Flight data and cockpit voice recorders Weather radar Communication, navigation and surveillance systems: Navigation & communication radios Global positioning systems Satellite systems Integrated systems	Commercial, business and general aviation aircraft Government aviation	BAE Boeing/Jeppesen Garmin Goodrich Kaiser L3 Lockheed Martin Northrop Grumman Rockwell Collins Smiths Thales Trimble/Terra Universal Avionics Universal Weather

Product/ Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Avionics systems (continued)	Flight management systems Cockpit display systems 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 and Obstruction lighting	Inset lights Regulators Tower and obstruction lights Interior and exterior aircraft lighting	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 Siemens 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

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) FAA 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 Airport lighting and systems, visual docking guidance systems	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 Airports	Ameresco GroupMac Ingersoll Rand Invensys Johnson Controls Local contractors and utilities Safegate Schneider Siemens Trane Thorn United Technologies
Specialty Materials			
Resins & chemicals	Nylon polymer Caprolactam Ammonium sulfate Cyclohexanone Cyclophexanol (KA Oil)	Nylon for carpet fibers, engineered resins and packaging Fertilizer ingredients Specialty chemicals	BASF DSM
Hydrofluoric acid (HF)	Anhydrous and aqueous hydrofluoric acid	Fluorocarbons Steel Oil refining Chemical intermediates	Ashland E. Merck Hashimoto Norfluor Quimica Fluor
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 Appliances Hospitals Medical equipment manufacturers	Arkema Dupont Solvay-Solexis Ineos

Fluorine specialties	Sulfur hexafluoride (SF_6) Iodine pentafluoride (IF_5) Antimony pentafluoride (SbF_5)	Electric utilities Magnesium gear manufacturers	Air Products Asahi Glass Solvay-Solexis
Nuclear services	UF_6conversion services	Nuclear fuel Electric utilities	Cameco Comurhex Rosatom
Research and fine chemicals	Oxime-based fine chemicals Fluoroaromatics High-purity solvents	Agrichemicals Biotech	Avecia Degussa DSM E. Merck Thermo Fisher Scientific Lonza Sigma-Aldrich
Performance chemicals Imaging chemicals Chemical processing Sealants	HF derivatives Fluoroaromatics Catalysts Oxime-silanes	Diverse by product type	Atotech BASF DSM
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
Specialty films	Cast nylon film Bi-axially oriented nylon film Fluoropolymer film	Food and pharmaceutical packaging	American Biaxis CFP Daikin Kolon Unitika
Specialty additives	Polyethylene waxes Paraffin waxes and blends PVC lubricant systems Processing aids Luminescent pigments	Coatings and inks PVC pipe, siding & profiles Plastics Reflective coatings Safety & security applications	BASF Clariant Eastman

Product/Service Classes	Major Products/Services	Major Customers/Uses	Key Competitors
Electronic chemicals	Ultra high-purity HF Inorganic acids Hi-purity solvents	Semiconductors	Air Products Arch E. Merck
Semiconductor materials and services	Interconnect-dielectrics Interconnect-metals Semiconductor packaging materials Advanced polymers Sapphire substrates Anti-reflective coatings Thermo-couples	Semiconductors Microelectronics Telecommunications	BASF Brewer Dow Corning Foxconn Japan Energy Kyocera Shinko
Catalysts, adsorbents and specialties	Catalysts Molecular sieves Adsorbents Customer catalyst manufacturing	Petroleum, refining, petrochemical, and manufacturing industries	Akzo Nobel Axens BASF Davison Grace Haldor Shell/Criterion Sud Chemie
Process technology and equipment	Design of process units and systems Engineered products Proprietary equipment Technical personnel and training development	Petroleum refining, petrochemical, and gas processing	ABB Lummus Axens Exxon-Mobil Haldor Koch Glitch Phillips Shell/Criterion Stratco
Transportation Systems			
Charge-air systems	Turbochargers for gasoline and diesel engines	Passenger car, truck and off-highway OEMs Engine manufacturers Aftermarket distributors and dealers	Borg-Warner Holset IHI MHI

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 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 Windshield washer fluids Waxes, washes and specialty cleaners	Automotive and heavy vehicle aftermarket channels, OEMs and Original Equipment Service Providers (OES) Auto supply retailers Specialty installers Mass merchandisers	AC Delco Bosch Champion Mann & Hummel NGK Peak/Old World Industries Purolator STP/ArmorAll Turtle Wax 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 Federal-Mogul ITT Galfer JBI TMD

Aerospace Sales

Our sales to aerospace customers were 35 percent of our total sales in 2006 and 38 percent of our total sales in each of 2005 and 2004. Our sales to commercial aerospace original equipment manufacturers were 10, 9 and 8 percent of our total sales in 2006, 2005 and 2004, respectively. In addition, our sales to commercial aftermarket customers of aerospace products and services were 11, 15 and 16 percent of our total sales in 2006, 2005 and 2004, 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 $3,688, $3,719 and $3,464 million in 2006, 2005 and 2004, respectively, which included sales to the U.S. Department of Defense, as a prime contractor and subcontractor, of $3,052, $2,939 and $2,808 million in 2006, 2005 and 2004, respectively. U.S. defense spending increased in 2006 and is also expected to increase in 2007. We do not expect to be significantly affected by any proposed changes in 2007 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, 2006 and 2005 was $10,674 and $9,327 million, respectively. We anticipate that approximately $8,162 million of the 2006 backlog will be filled in 2007. 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 11, 10 and 9 percent of our total sales in 2006, 2005 and 2004, respectively. Foreign manufactured products and services, mainly in Europe, were 37, 35 and 35 percent of our total sales in 2006, 2005 and 2004, respectively.

Approximately 19 percent of total 2006 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, Canada, Asia and Latin America. Foreign manufactured products and systems and performance of services comprised approximately 14 percent of total 2006 Aerospace sales. The principal manufacturing facilities outside the U.S. are in Europe, with less significant operations in Canada and Asia.

Approximately 2 percent of total 2006 sales of Automation and Control Solutions products were exports of U.S. manufactured products. Foreign manufactured products and performance of services accounted for 55 percent of total 2006 sales of Automation and Control Solutions. The principal manufacturing facilities outside the U.S. are in Europe with less significant operations in Asia, Canada and Latin America.

Approximately 25 percent of total 2006 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 22 percent of total 2006 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 2006 sales of Transportation Systems products. Foreign manufactured products accounted for 63 percent of total 2006 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 including net sales and long-lived assets 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 2006. We are not dependent on any one supplier for a material amount of our raw materials, except related to phenol, a raw material used in our Specialty Materials segment. 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, benzene (the key component in phenol) and fluorspar in our Specialty Materials' business, steel and nickel in our Transportation Systems business, and nickel, titanium and other metals in our Aerospace business, were at historically high levels in 2006 and are expected to remain at high price levels. In addition, in 2006 certain large long-term fixed supplier price agreements expired, primarily relating to components used by our Aerospace business, which in the aggregate, subjected us to higher volatility in certain component costs. We will continue to attempt to offset raw material cost increases with formula price agreements, price increases and hedging activities where feasible. We have no reason to believe a shortage of raw materials will cause any material adverse impact during 2007. See "Item 1A. Risk Factors" for further discussion.

Patents, Trademarks, Licenses and Distribution Rights

Our reportable segments 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 and services, including Honeywell, UOP, Prestone, FRAM, Autolite, Bendix, Jurid, Holts, Garrett, Ademco, Fire-Lite, Notifier, System Sensor, MK, Novar, Genetron, Enovate, Spectra, Aclar, Simoniz and Redex.

Research and Development

Our research activities are directed toward the discovery and development of new products, technologies and processes and the development of new uses for existing products. The Company has research and development activities in the U.S., Europe, India and China.

Research and development (R&D) expense totaled $1,411, $1,072 and $917 million in 2006, 2005 and 2004, respectively. The increase in R&D expense in 2006 compared to 2005 of 32 percent was primarily due to the impact of additional R&D expense for UOP in Specialty Materials as well as product, design and development costs in Aerospace and Automation and Control Solutions. The increase in research and development expense in 2005 compared with 2004 of 17 percent 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) R&D activities amounted to an additional $777, $694 and $593 million in 2006, 2005 and 2004, 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 current and former operating sites and 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, including the current status of significant environmental matters and the financial impact incurred for remediation of such environmental matters, if any, 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 118,000 employees at December 31, 2006, of which approximately 56,000 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 the discussion of economic and other factors and areas of focus for 2007 for the Company and/or each of our 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 35 percent of our consolidated revenues in 2006, 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 in other risk factors 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 consolidation, 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 35 percent of our consolidated revenues in 2006, 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, which generated 15 percent of our consolidated revenues in 2006, are impacted by global gross domestic product and capacity utilization for chemical, industrial, refining and petrochemical plants. Transportation Systems' operating results, which generated 15 percent of our consolidated revenues in 2006, are impacted by global production and demand for automobiles and trucks equipped with turbochargers, regulatory changes regarding automobile and truck emissions and consumer spending for automotive aftermarket and car care products.

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 (fluorspar, benzene (the key component in phenol) and natural gas), Transportation Systems (nickel and steel) and Aerospace (nickel, titanium and other metals) segments. Our inability to offset material price inflation through increased prices to customers, long-term fixed price contracts with suppliers, productivity actions or through commodity hedges 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 otherwise 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 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. In 2006, 48 percent of our total sales (including products manufactured in the U.S. and in international locations) were outside of the U.S. including 28 percent in Europe and 10 percent in Asia. Risks related to international operations include exchange control regulations, wage and price controls, employment regulations, foreign investment laws, import and trade restrictions (including embargoes), changes in regulations regarding transactions with state-owned enterprises, nationalization of private enterprises, government instability and our ability to hire and maintain qualified staff in these regions. 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.

As we continue to grow our businesses internationally, our operating results could be effected by the relative strength of the European and Asian economies and the impact of exchange rate fluctuations. We do have a policy to reduce the risk of volatility through hedging activities, but such activities bear a financial cost and may not always be available to us and may not be successful in eliminating such volatility.

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

At December 31, 2006, the net carrying value of long-lived assets (property, plant and equipment, goodwill and other intangible assets) totaled approximately $14.5 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 impairments to goodwill and other long-lived assets. Future impairment charges could significantly affect our results of operations in the periods recognized. Impairment charges would also reduce our consolidated 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 27 and 10 percent of Aerospace and total sales, respectively, for the year ended December 31, 2006. Although U.S. defense spending increased in 2006 and is expected to increase again in 2007, we cannot predict the extent to which funding for individual programs will be included, increased or reduced as part of the 2008 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 fluorocarbons), 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, and divestitures may not occur 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 discovery of unanticipated issues or liabilities, (iii) the failure to integrate acquired businesses into Honeywell on schedule and/or to achieve synergies within the plan and timeframe, and/or (iv) the inability to dispose of non-core assets and businesses on satisfactory terms and conditions and within the expected time frame.

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

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 (including asbestos), prior acquisitions and divestitures, employment, 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 due to the inherent uncertainty in litigation and other proceedings. 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 our 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.

Our expenses include significant costs related to employee health and retiree health and income benefits.

With approximately 118,000 employees, including 56,000 in the U.S, our expenses relating to employee health and retiree health and income benefits are significant. In recent years, we have experienced significant increases in certain of these costs, largely as a result of economic factors beyond our control, in particular, ongoing increases in health care costs well in excess of the rate of inflation. Continued increasing health-care costs, and changes in other assumptions used to calculate retiree health and income benefit expenses, may affect our future profitability.

Additional tax expense or additional tax exposures could affect our future profitability

We are subject to income taxes in both the United States and various foreign jurisdictions, and our domestic and international tax liabilities are dependent upon the distribution of income among these different jurisdictions. In 2006, our tax expense represented 25.7 percent of our income before tax, and includes estimates of additional tax which may be incurred for tax exposures and reflects various estimates and assumptions, including assessments of future earnings of the Company that could effect the valuation of our deferred tax assets. Our future results could be adversely affected by changes in the effective tax rate as a result of a change in the mix of earnings in countries with differing statutory tax rates, changes in the overall profitability of the Company, changes in tax legislation, changes in the valuation of deferred tax assets and liabilities, and continuing assessments of our tax exposures.

Item 1B. Unresolved Staff Comments

Not Applicable

Item 2. Properties

We have approximately 1,300 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

Anniston, AL	South Bend, IN	Albuquerque, NM
Glendale, AZ	Olathe, KS	Urbana, OH
Phoenix, AZ	Minneapolis, MN	Greer, SC
Tempe, AZ	Plymouth, MN	Redmond, WA (leased)
Tucson, AZ	Rocky Mount, NC	Toronto, Canada
Torrance, CA (partially leased)	Teterboro, NJ	Raunheim, Germany
Clearwater, FL		Singapore
		Yeovil, UK

Automation and Control Solutions

Phoenix, AZ	Golden Valley, MN	Chihuahua, Mexico
San Diego, CA (leased)	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	Colonial Heights, VA
Metropolis, IL	Pottsville, PA	Hopewell, VA
Baton Rouge, LA	Orange, TX	Spokane, WA
	Chesterfield, VA	Seelze, Germany
		Chonburi, Thailand

Transportation Systems

Stratford, Canada	Thaon-Les-Vosges, France	Atessa, Italy
	Glinde, Germany	Ansan, Korea (leased)
		Mexicali, Mexico
		Bucharest, Romania

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. The United States Environmental Protection Agency and the United States Department of Justice have conducted investigations of these incidents, including a federal grand jury convened to investigate the employee fatality. As a result of that investigation, we have signed a plea agreement with the U.S. Attorney under which Honeywell will plead guilty to a misdemeanor charge and pay $12 million in combined restitution and fines. The plea agreement has been filed, but the plea and the sentence still are subject to Court acceptance, which we expect to receive. Honeywell has been served with several civil lawsuits regarding these incidents, for which we believe we have adequate insurance coverage to the extent that there is any liability. We are also engaged in discussions with the Louisiana Department of Environmental Quality (LADEQ) to resolve alleged civil environmental violations at our Baton Rouge and Geismar, Louisiana facilities that, in part, overlap with the subject of the federal investigation.

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

Honeywell is a defendant in a lawsuit filed by the Arizona Attorney General's office on behalf of the Arizona Department of Environmental Quality (ADEQ). The complaint alleges failure to make required disclosures, as well as unrelated environmental violations. Honeywell believes that the allegations in this matter are without merit and intends to vigorously defend against this lawsuit. ADEQ's most significant allegations have been dismissed over the course of the proceedings.

In February 2007, ADEQ has demanded penalties for alleged violations by Honeywell of the state's underground storage tank regulations at the aircraft engines plant in Phoenix, Arizona. Negotiations regarding the penalty are ongoing.

In the third quarter of 2006, Honeywell was advised that the State of Arizona intended to seek penalties for alleged failures of a facility located in Kingman, Arizona to comply with various provisions of the Resource Conservation and Recovery Act. We expect to resolve this matter with the State.

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

The State of Illinois has brought a claim against Honeywell for penalties and past costs relating to releases of chlorinated solvents at a facility owned by a third party. The State claims that a predecessor company to Honeywell delivered solvents to the third party from 1969 until 1992; that spills occurred during those deliveries; and that Honeywell should pay a share of the penalties and state response costs connected with those spills. Honeywell believes it has strong defenses to the State's claims (including that the contamination arose primarily from releases unrelated to the predecessor's deliveries). We are engaged in discussions with the State regarding a negotiated resolution of this matter.

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), 54 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.
Adriane M. Brown, 48 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.
Dr. Nance K. Dicciani, 59 2001	President and Chief Executive Officer Specialty Materials since November 2001.
Roger Fradin, 53 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.
Robert J. Gillette, 46 2001	President and Chief Executive Officer Aerospace since January 2005. President and Chief Executive Officer Transportation Systems from July 2001 to December 2004.
David J. Anderson, 57 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, 58 2001	Senior Vice President, Technology and Operations since October 2006. Senior Vice President Administration and Chief Information Officer from August 2001 to October 2006.
Peter M. Kreindler, 61 1992	Senior Vice President and General Counsel since January 1992.
Thomas W. Weidenkopf, 48 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, 2006 was 74,473.

The following table summarizes Honeywell's purchases of its common stock, par value $1 per share, for the quarter ending December 31, 2006, under its previously reported $3 billion authorized share repurchase program. Honeywell purchased a total of 45,440,000 shares of common stock in 2006:

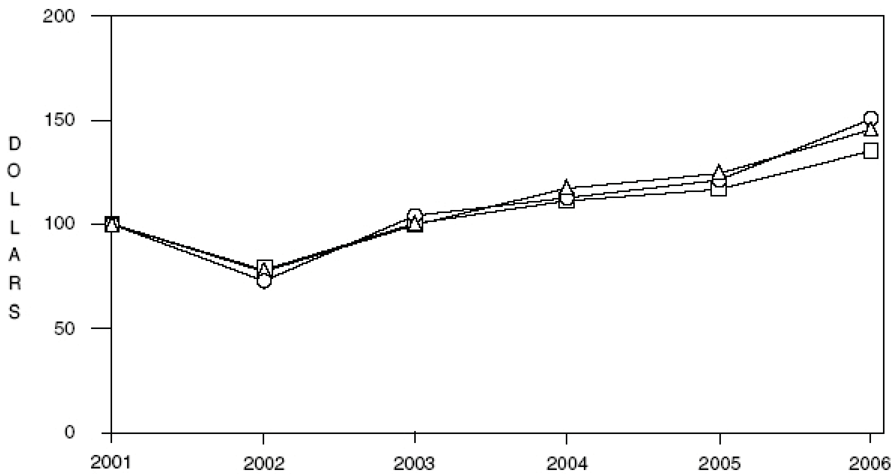
Issuer Purchases of Equity Securities

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) Approximate Dollar Value of Shares that May Yet be Purchased Under Plans or Programs (Dollars in millions)
October 2006	2,000,000	$ 42.70	2,000,000	$ 1,500
November 2006	8,975,000	$ 42.67	8,975,000	$ 1,118
December 2006	9,365,000	$ 43.60	9,365,000	$ 709

In February 2007, the Board of Directors authorized the repurchase of shares of up to $3 billion of Honeywell common stock. Honeywell intends to repurchase outstanding shares from time to time in the open market using cash flow generated by operations. The amount and timing of repurchases may vary depending on market conditions and the level of other investing activities.

Performance Graph

The following graph compares the five-year cumulative total return on our Common Stock to the total returns on the Standard & Poor's 500 Stock Index and a composite of Standard & Poor's Aerospace and Defense and Industrial Conglomerates indices, on an equally weighted basis (the “Composite Index”). The selection and weighting of the Aerospace and Defense component of the Composite Index was deemed appropriate in light of the fact that Honeywell's Aerospace segment has accounted for, on average, approximately 50% of our aggregate segment profits over the past three completed fiscal years. The selection and weighting of the Industrial Conglomerates component of the Composite Index reflects the diverse and distinct range of non-aerospace businesses conducted by Honeywell and their contribution to our overall segment profits. The annual changes for the five-year period shown in the graph are based on the assumption that $100 had been invested in Honeywell stock and each index on December 31, 2001 and that all dividends were reinvested.



	Dec 2001	Dec 2002	Dec 2003	Dec 2004	Dec 2005	Dec 2006
Honeywell	100	72.62	104.03	112.58	121.07	150.33
S&P 500®	100	77.90	100.25	111.15	116.61	135.03
Composite Index	100	77.17	99.54	117.14	124.24	145.22

Item 6. Selected Financial Data

	Years Ended December 31,				
	2006	2005	2004	2003	2002
	(Dollars in millions, except per share amounts)				
Results of Operations					
Net sales	$31,367	$27,652	$25,593	$23,095	$22,261
Income (loss) from continuing operations	2,078	1,564	1,246	1,309	(254)
Per Common Share					
Earnings (loss) from continuing operations:					
Basic	2.53	1.85	1.45	1.52	(0.31)
Assuming dilution	2.51	1.84	1.45	1.52	(0.31)
Dividends	0.9075	0.825	0.75	0.75	0.75
Financial Position at Year-End					
Property, plant and equipment—net	4,797	4,658	4,331	4,295	4,055
Total assets	30,941	31,633	30,570	28,767	27,160
Short-term debt	1,154	2,024	1,204	199	370
Long-term debt	3,909	3,082	4,069	4,961	4,719
Total debt	5,063	5,106	5,273	5,160	5,089
Shareowners' equity(1)	9,720	10,762	10,777	10,289	8,520

(1) For the year ended December 31, 2006 shareowners' equity includes a reduction of $1,512 related to the adoption of SFAS No. 158, “Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans”.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) is intended to help the reader understand the results of operations and financial condition of Honeywell International Inc. (“Honeywell”) for the three years ended December 31, 2006. All references to Notes relate to Notes to the Financial Statements in “Item 8—Financial Statements and Supplementary Data”.

CONSOLIDATED RESULTS OF OPERATIONS

Net Sales

	2006	2005	2004
		(Dollars in millions)	
Net sales	$ 31,367	$ 27,652	$ 25,593
% change compared with prior year	13%	8%	

The change in net sales in 2006 and 2005 is attributable to the following:

	2006 Versus 2005	2005 Versus 2004
Acquisitions	7 %	5 %
Divestitures	(1)	(2)
Price	1	1
Volume	6	4
Foreign Exchange	—	—
	13 %	8 %

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

Cost of Products and Services Sold

	2006	2005	2004
		(Dollars in millions)	
Cost of products and services sold	$ 24,096	$ 21,524	$ 20,752
Gross margin %	23.2%	22.2%	18.9%

Gross margin increased by 1 percentage point in 2006 compared with 2005 due primarily to higher margins in our Specialty Materials segment following our acquisition of full ownership of UOP (1.3 percentage points), and lower pension and other postretirement benefits expense of 0.5 percentage points, partially offset by higher repositioning costs of 0.2 percentage points. Gross margin increased by 3.3 percentage points in 2005 compared with 2004 primarily due to an increase of 1.2 percentage points in gross margin for our reportable segments, lower repositioning and other charges of 0.8 percentage points and lower pension and other postretirement benefits expense of 0.5 percentage points. For further discussion of segment results, see “Review of Business Segments”.

Selling, General and Administrative Expenses

	2006	2005	2004
		(Dollars in millions)	
Selling, general and administrative expenses	$ 4,210	$ 3,707	$ 3,316
Percent of sales	13.4%	13.4%	13.0%

Selling, general and administrative expenses as a percentage of sales was flat in 2006 compared with 2005 due primarily to a reduction in expenses in our Aerospace segment, which reflects the benefit of prior restructuring actions, offsetting higher expenses in Automation and Control Solutions (ACS) and Specialty Materials as a result of acquisitions. A reduction of repositioning and pension costs of 0.2 percentage points offset the 0.2 percentage point increase for expenses of $77 million relating to stock-based compensation expense following the adoption of FAS No. 123R (see Note 20, Stock-Based Compensation Plans). 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.

Pension and Other Postretirement Benefits

	2006	2005	2004
		(Dollars in millions)	
Pension expense	$ 313	$ 404	$ 412
Other postretirement benefits expense	146	157	216
Total pension and other postretirement benefits expense (included in costs of products and services sold and selling, general and administrative expenses)	$ 459	$ 561	$ 628

Pension expense decreased by 23 percent in 2006 compared to 2005 due principally to a decrease in the amortization of net losses, principally in our U.S. plans. Pension expense decreased by 2 percent in 2005 compared with 2004 due principally to a decrease in the amortization of net losses partially offset by pension expense for NOVAR, which was acquired in 2005.

Other postretirement benefits expense decreased by 7 percent in 2006 compared to 2005, due primarily to favorable demographic experience in the plan, and by 27 percent in 2005 compared with 2004, due primarily to the effect of implementing the Medicare Prescription Drug, Improvement and Modernization Act of 2003. See Note 22 to the financial statements for further discussion.

Other (Income)/Expense

	2006	2005	2004
	(Dollars in millions)		
Gain on sale of non-strategic businesses and assets	$ (30)	$ (36)	$ (255)
Equity (income)/loss of affiliated companies	(13)	(134)	(82)
Interest income	(94)	(84)	(100)
Foreign exchange	18	21	28
Other (net)	8	2	(20)
Total	$ (111)	$ (231)	$ (429)

Other income decreased by $120 million, or 52 percent in 2006 compared to 2005 primarily due to a $121 million reduction in equity income of affiliated companies primarily related to UOP, following our acquisition of full ownership of UOP in November 2005. In 2005, other income decreased by $198 million compared to 2004, or 46 percent compared to 2004 primarily as a result of pretax gains on the sales of our Security Monitoring and VCSEL Optical Products businesses of $215 and $36 million, respectively, and recognition of a gain of $27 million related to the favorable settlement of a patent infringement lawsuit.

Interest and Other Financial Charges

	2006	2005	2004
	(Dollars in millions)		
Interest and other financial charges	$ 374	$ 356	$ 331
% change compared with prior year	5%	8%	

Interest and other financial charges increased by 5 percent in 2006 compared with 2005 due to higher debt balances and higher borrowing costs, and increased by 8 percent in 2005 compared with 2004 due to both higher average short-term debt outstanding and higher interest rates in 2005.

Tax Expense

	2006	2005	2004
	(Dollars in millions)		
Tax expense	$ 720	$ 732	$ 377
Effective tax rate	25.7%	31.9%	23.2%

The effective tax rate decreased by 6.2 percentage points in 2006 compared with 2005, due principally to the absence of the 2005 one-time tax charge of $155 million for the repatriation of foreign earnings under the American Jobs Creation Act of 2004, offset, in part, by $64 million of tax benefits associated with the 2005 sale of our Industrial Wax business which had a higher tax basis than book basis. In addition, in 2006, there were benefits recognized from the favorable resolution of certain tax audits offset by a tax charge for an up-front licensing of certain in-process research and development. The effective tax rate was lower than the statutory rate of 35 percent due in part to tax benefits derived from export sales, lower foreign taxes, and benefits from tax planning strategies. The effective tax rate increased by 8.7 percentage points in 2005 compared with 2004 due principally to the tax impact of the repatriation of approximately $2.7 billion of foreign earnings, of which $2.2 billion was subject to a significantly reduced tax under the American Jobs Creation Act of 2004, offset in part by the higher effective tax benefit rate for repositioning and other charges that were incurred in 2004. See Note 6 to the financial statements for further information on taxes including a detailed effective tax rate reconciliation.

In 2007, the effective tax rate could change based upon the Company's operating results and the outcome of tax positions taken regarding previously filed tax returns currently under audit by various Federal, State and foreign tax authorities, several of which may be finalized in the foreseeable future. The Company believes that it has adequate reserves for these matters, the outcome of which could materially impact the results of operations and operating cash flows in the period that they are resolved.

Income From Continuing Operations

	2006	2005	2004
	(Dollars in millions, except per share amounts)		
Income from continuing operations	$ 2,078	$ 1,564	$ 1,246
Earnings per share of common stock—assuming dilution	$ 2.51	$ 1.84	$ 1.45

The increase of $0.67 in earnings (diluted) per share for continuing operations in 2006 compared with 2005 primarily relates to an increase in segment profit in Aerospace and Automation and Control Solutions and income generated from our acquisition of full ownership of UOP in Specialty Materials, reduced repositioning and pension costs and a reduction in the number of shares outstanding due to the previously announced stock repurchase program, offset by the impact of adopting FAS No. 123R ("Share-Based Payment") for stock-based compensation expense of $77 million in 2006. In addition, in 2005 there was a one-time tax charge of $155 million for the repatriation of foreign earnings under the American Jobs Creation Act of 2004, which decreased earnings and earnings per share in 2005. The increase of $0.39 earnings (diluted) per share for continuing operations in 2005 compared with 2004 relates primarily to an increase in segment profit for our reportable segments. For further discussion of segment results, see "Review of Business Segments".

Income From Discontinued Operations

Income from discontinued operations of $5 million, or $0.01 earnings per share (diluted) in 2006 relates to the operating results of the Indalex business which was sold in February 2006 to Sun Capital Partners, Inc. Income from discontinued operations of $95 million, or $0.11 earnings per share, in 2005 relates to the operating results of the Indalex and Security Printing businesses, that were part of our NOVAR acquisition that were subsequently divested. In December 2005, the Security Printing business was sold to M&F Worldwide Corp. See Note 2 to the financial statements for further discussion of these sales.

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, a discussion of each segment's results for the three years ended December 31, 2006 and the areas of focus for 2007 for the Company and each of its operating segments. Each of these segments is comprised of various product and service classes that serve multiple end markets. See Note 23 to the financial statements for further information on our reportable segments and our definition of segment profit.

Areas of Focus for 2007

The areas of focus for 2007, which are generally applicable to each of our operating segments, include:

- Driving profitable growth by building innovative products that address customer needs;
- Achieving sales growth, technological excellence and manufacturing capability through global expansion, especially focused on emerging regions in China, India and the Middle East;
- Continuing to grow through disciplined acquisition and rigorous integration processes;
- Proactively managing raw material cost increases with formula price agreements, price increases and hedging activities, where feasible;
- Driving free cash flow through increased net income and effective working capital management enabling continued investment in our businesses, strategic acquisitions, returning value to shareholders through share repurchases and increased dividend payments;
- Utilizing our enablers Honeywell Operating System (HOS), Functional Transformation and Velocity Product Development (VPD)™to standardize the way we work, increase quality and reduce the costs of product manufacturing, reduce costs and enhance the quality of our

administrative functions and improve business operations through investments in systems and process improvements; and

- Managing Corporate costs, including costs incurred for asbestos and environmental matters, pension and other post-retirement expenses and our tax expense.

Review of Business Segments

	2006	2005	2004
	(Dollars in millions)		
Net Sales			
Aerospace	$ 11,124	$ 10,496	$ 9,740
Automation and Control Solutions	11,020	9,416	8,031
Specialty Materials	4,631	3,234	3,497
Transportation Systems	4,592	4,505	4,323
Corporate	—	1	2
	$ 31,367	$ 27,652	$ 25,593
Segment Profit			
Aerospace	$ 1,892	$ 1,676	$ 1,422
Automation and Control Solutions	1,223	1,065	894
Specialty Materials	568	257	184
Transportation Systems	574	557	575
Corporate	(177)	(173)	(158)
	$ 4,080	$ 3,382	$ 2,917

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

	2006	2005	2004
	(Dollars in millions)		
Segment profit	$ 4,080	$ 3,382	$ 2,917
Other income (expense)	111	231	429
Interest and other financial charges	(374)	(356)	(331)
Stock option expense(1)	(77)	—	—
Pension and other postretirement benefits (expense)(1)	(459)	(561)	(628)
Repositioning and other charges(1)	(483)	(400)	(764)
Income from continuing operations before taxes	$ 2,798	$ 2,296	$ 1,623

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

Aerospace

Overview

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, flight safety, communications, navigation, radar and surveillance systems, aircraft lighting, management and technical services, advanced systems and instruments, aircraft wheels and brakes and repair and overhaul services. Aerospace sells its products to original equipment (OE) manufacturers in the air transport, regional, business and general aviation 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 operating results are principally driven by:

- 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, regional jet, business and general aviation OE manufacturers, as well as global flying hours and airline profitability;
- The level and mix of U.S. Government appropriations for defense and space programs and military activity; and
- Pricing, volatility in pricing and availability of raw materials.

Results of Operations

	2006	2005	2004
		(Dollars in millions)	
Net sales	$ 11,124	$ 10,496	$ 9,740
% change compared with prior year	6%	8%	
Segment profit	$ 1,892	$ 1,676	$ 1,422
% change compared with prior year	13%	18%	

Aerospace sales increased by 6 percent and 8 percent in 2006 and 2005, respectively, due primarily to strong growth in new aircraft deliveries and increased global flying hours. Aerospace sales by major customer end-markets were as follows:

	% of Aerospace Sales			% Change in Sales	
Customer End-Markets	2006	2005	2004	2006 Versus 2005	2005 Versus 2004
Commercial:					
Air transport and regional original equipment	16%	15%	15%	14%	9%
Air transport and regional aftermarket	22	23	24	4	3
Business and general aviation original equipment	12	11	8	16	42
Business and general aviation aftermarket	10	10	10	1	10
Defense and Space	40	41	43	3	2
Total	100%	100%	100%	6%	8%

Details regarding the net increase in sales by customer end-markets for both 2006 and 2005 are as follows:

- Air transport and regional original equipment (OE) sales increased by 14 percent in 2006 and 9 percent in 2005 primarily driven by increased deliveries to air transport customers primarily due to higher aircraft production rates.
- Air transport and regional aftermarket sales increased by 4 percent in 2006 as a result of increased sales of spare parts and maintenance activity relating to a more than 5 percent increase in global flying hours which more than offset the anticipated decline in the sales of upgrades and retrofits of avionics equipment to meet certain mandated regulatory standards. In 2005, sales increased by 3 percent due primarily to a 7 percent increase in flying hours which was partially offset by a decrease in the level of FAA-mandated safety avionics equipment upgrades and retrofits and the impact of the phase-out of regional aircraft with turboprop engines.
- Business and general aviation OE sales increased by 16 percent in 2006 and by 42 percent in 2005 due primarily to the continued demand in the business jet end market as evidenced by an increase in new business jet deliveries and high demand in the fractional ownership market. These sales primarily relate to sales of Primus Epic integrated avionics systems, and the TFE 731 and HTF 7000 engines, which generated sales commencing in 2005.
- Business and general aviation aftermarket sales increased by 1 percent in 2006, due to increased sales of spare parts and increased maintenance activity resulting in part from higher

engine utilization, partially offset lower sales of mandated upgrades and retrofits of avionics equipment required in the prior year to meet certain mandated regulatory standards. In 2005, sales increased by 10 percent due to these mandates, and as a result of increased engine utilization for corporate aircraft.

- Defense and space sales increased by 3 percent in 2006 primarily due to higher sales of surface systems and sales of spare parts for helicopters that offset lower volume of space sales due to delays in project funding. In 2005, defense and space sales increased by 2 percent, primarily driven by platform upgrades for war-related activities, growth in precision munitions and increased spending on restricted space programs. These factors lower replenishment demand for spare parts from the US military in both 2005 and 2006.

Aerospace segment profit increased by 13 percent in 2006 compared with 2005 due primarily to sales volume growth, increased prices and productivity savings (including benefits from prior restructuring actions) that were partially offset by inflation and the impact of stronger OE sales that typically have lower margins than aftermarket sales. Segment profit increased by 18 percent in 2005 compared to 2004 due primarily to volume growth and the effect of productivity actions, partially offset by an increase in spending for information technology systems.

2007 Areas of Focus

Aerospace's primary areas of focus for 2007 include:

- Continuing to grow the sales and profitability of the commercial aerospace aftermarket in the highly competitive and cost focused airline industry;
- Securing Honeywell product content on new aircraft platforms;
- Continuing to design equipment that enhances the safety, performance and durability of aerospace and defense equipment, while reducing weight and operating costs; and
- Developing differentiated, affordable products and services for the defense and space end-market.

Automation and Control Solutions (ACS)

Overview

ACS provides innovative solutions that make homes, buildings, industrial sites, airport facilities and infrastructure 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; 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's operating results are principally driven by:

- The growth of global commercial construction (including retrofits and upgrades);
- Demand for residential retrofits and upgrades;
- Industrial production;
- U.S. and European economic conditions;
- The strength of capital spending on process and building automation; and
- Changes to fire, security, health care and safety concerns and regulations.

Results of Operations

	2006	2005	2004
		(Dollars in millions)	
Net sales	$ 11,020	$ 9,416	$ 8,031
% change compared with prior year	17%	17%	
Segment profit	$ 1,223	$ 1,065	$ 894
% change compared with prior year	15%	19%	

ACS sales increased by 17 percent in 2006 compared with 2005 due to organic sales growth of 10 percent and 7 percent growth from acquisitions, net of divestitures. All of ACS businesses contributed to organic growth in the year. In 2005 sales increased by 17 percent compared to 2004, which was primarily due to growth from acquisitions of 13 percent and organic growth of 4 percent.

Organic sales growth in ACS products businesses increased by 8 percent in 2006 compared to 2005, primarily due to strong customer demand for new products in our security and life safety products and increased sales to customers in emerging markets for environmental, combustion, sensing and control products. In 2005, organic sales for products increased by 5 percent compared to 2004, primarily due to strong sales of fire solutions and security products, and the favorable effects of foreign exchange.

Organic sales in ACS solutions businesses increased by 11 percent in 2006 compared to 2005 driven by continued strong orders growth, strong conversion to sales from our order backlog and increased sales in emerging markets and strong revenue from energy projects. In 2005, organic sales growth for the solutions businesses was 3 percent compared to 2004 due primarily to favorable foreign exchange and increased capital spending.

Sales from acquisitions, net of divestitures, increased by 7 percent in 2006 compared with 2005, largely representing revenues in ACS products businesses relating to NOVAR (primarily environmental, combustion, building controls and life safety products) for the first quarter of 2006, Zellweger (gas detection) for the first two quarters of 2006 and revenues from our Gardiner Groupe (security distribution) and First Technology (gas detection) acquisitions in the last three quarters of 2006. In 2005, sales from acquisitions net of divestitures increased by 13 percent compared to 2004, due primarily to the acquisition of NOVAR, partially offset by the loss of sales due to the divestiture of our Security Monitoring business.

ACS segment profit increased by 15 percent in 2006 compared with 2005 due principally to increased sales volume and productivity savings (including net integration savings from our acquisitions) that more than offset continued inflation. Segment profit was also negatively impacted in 2006 by a contract loss experienced on a Building Solutions project, and by ERP implementation costs. ACS segment profit in 2005 increased by 19 percent compared with 2004 as the favorable effects of productivity actions, acquisitions (NOVAR) and higher sales volume more than offset the unfavorable effects of lower prices and investments in sales and marketing initiatives.

2007 Areas of Focus

ACS's primary areas of focus for 2007 include:

- Extending technology leadership: lowest total installed cost and integrated product solutions;
- Defending and extending our installed base through customer productivity and globalization;
- Sustaining strong brand recognition through our brand and channel management; and
- Centralization and standardization of global software development capabilities.

Specialty Materials

Overview

Specialty Materials develops and manufactures high-purity, high-quality and high-performance chemicals and materials for applications in the automotive, healthcare, agricultural, packaging, carpet fibers, refrigeration, appliance, housing, semiconductor, wax and adhesives segments. Specialty

Materials also provides process technology, products and services for the petroleum refining, petrochemical, and other industries. Specialty Materials' product portfolio includes fluorocarbons, caprolactam, ammonium sulfate for fertilizer, specialty films, advanced fibers, customized research chemicals and intermediates, electronic materials and chemicals, catalysts, and adsorbents.

Economic and Other Factors

Specialty Materials operating results are principally driven by:

- The degree of volatility in natural gas, benzene (the key component in phenol) and fluorspar prices;
- The impact of environmental and energy efficiency regulations;
- The extent of change in order rates from global semiconductor customers;
- The global demand for non-ozone depleting Hydro fluorocarbons (HFC's);
- The extent of the slowdown of the US residential housing industry; and
- The level of investment in refining and petrochemical capacity, utilization and/or expansion.

Results of Operations

	2006	2005	2004
		(Dollars in millions)	
Net sales	$ 4,631	$ 3,234	$ 3,497
% change compared with prior year	43%	(8)%	
Segment profit	$ 568	$ 257	$ 184
% change compared with prior year	121%	40%	

Specialty Materials sales increased by 43 percent in 2006 compared to 2005 due to organic sales growth of 7 percent and 36 percent growth due to our UOP acquisition, net of divestitures. Sales decreased by 8 percent in 2005 compared with 2004, due to the loss of sales from divested businesses of 16 percent, which was offset by organic growth of 4 percent and growth from acquisitions (UOP) of 4 percent.

Organic growth was 7 percent in 2006 primarily due to higher volume and prices. Organic sales in our Fluorine Products business increased by 9 percent due to continued strong demand for non-ozone depleting HFC products, and organic growth in our Resins and Chemicals business was 4 percent, primarily due to price increases to recover increased raw material costs. Both of these businesses experienced lower sales growth in the fourth quarter of 2006 due to the slowdown in the US residential housing industry. Our Resins and Chemicals business was also negatively impacted by a partial facility outage in the second half of 2006. Specialty Products organic sales increased by 10 percent due to higher sales to our customers in the semiconductor industry and increased sales of our specialty additives and our advanced fiber body armor. In 2005, organic sales increased by 4 percent, largely as a result of higher prices of 7 percent primarily in our Resins and Chemicals and Fluorine businesses, offsetting lower volumes in Specialty Products businesses.

Sales from acquisitions, net of divestitures grew by 36 percent in 2006 compared to 2005. This was due to a 44 percent growth in sales from UOP, which was consolidated into the Specialty Materials segment following our acquisition of the remaining 50 percent interest in UOP in November 2005. Prior to that date, UOP results were included in other income. UOP sales have grown due to continued strength in the petrochemical and refining industries. This growth was offset by the loss of sales of 8 percent principally from the divestiture of our Industrial Wax and North American Nylon Fiber businesses.

Specialty Materials segment profit increased by 121 percent in 2006 compared with 2005 due principally to the impact of the UOP acquisition, net of divestitures, and increased organic growth and productivity savings (net of the lost margin from the partial facility outage). Price increases (including benefits from formula based pricing contracts) offset the impact of continued inflation in raw material costs. 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.

2007 Areas of Focus

Specialty Materials primary areas of focus for 2007 include:

- Increasing resources and market penetration in Asia;
- Developing new products that address energy efficiency, global warming and security regulations;
- Increasing product differentiation in order to continue to expand margins; and
- Continued contract wins in the petrochemical and refining industries.

Transportation Systems

Overview

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 customers needs. Transportation Systems' products include Garrett(R) turbochargers and charge-air and thermal systems; car care products including anti-freeze (Prestone(R)), filters (Fram(R)), spark plugs (Autolite(R)), and cleaners, waxes and additives (Holts(R)); and brake hard parts and other friction materials (Bendix(R) and Jurid(R)). Transportation Systems sells its products to OE automotive and truck manufacturers (e.g., BMW, Caterpillar, Daimler-Chrysler, Ford, and Volkswagen), wholesalers and distributors and through the retail aftermarket.

Economic and Other Factors

Transportation Systems operating results are principally driven by:

- Global demand for automobile and truck production;
- Diesel penetration rates for new platforms;
- Global consumer preferences for diesel passenger cars;
- Demand for North American truck production in conjunction with new lower emission regulations;
- The degree of volatility in raw material prices including nickel and steel; and
- Changes in consumer spending for automotive aftermarket and car care products.

Results of Operations

	2006	2005	2004
		(Dollars in millions)	
Net sales	$ 4,592	$ 4,505	$ 4,323
% change compared with prior year	2%	4%	
Segment profit	$ 574	$ 557	$ 575
% change compared with prior year	3%	(3)%	

Transportation Systems sales increased 2 percent in 2006 compared with 2005, primarily due to increased sales in our Turbo Technologies business, offset by lower sales in our Consumer Products Group. In 2005, sales 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.

Sales for our Turbo Technologies business were 6 percent higher in 2006 compared to 2005 primarily due to new product introductions in Europe and Asia, a slight increase in diesel penetration in Europe and relatively flat sales in the U.S. Sales were 5 percent higher in 2005 compared to 2004 due to higher volumes in our North American truck segment, offset by lower volumes in Europe due to a shift in consumer demand among automotive platforms partially offset by a slight increase in diesel penetration.

Sales for our Consumer Products Group business decreased by 4 percent in 2006 as a result of reduced consumer spending in North America on automotive aftermarket products and our exit of the North America Friction Materials OE business. Sales increased by 8 percent in 2005 compared to 2004 largely due to higher prices, offset by the impact of our exit in late 2005 from the North American Friction Materials OE business.

Transportation Systems segment profit increased by 3 percent in 2006 compared with 2005 due primarily to increased Turbo Technologies volume and productivity savings including the benefits of prior year restructuring actions, which offset higher material and labor inflation and increased warranty expense. 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 nickel) and operating costs associated with the exit from North American Friction Materials OE business in late 2005, partially offset by the effects of higher prices and productivity actions.

2007 Areas of Focus

Transportation Systems primary areas of focus in 2007 include:

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

Repositioning and Other Charges

A summary of repositioning and other charges follows:

	Years Ended December 31,		
	2006	2005	2004
	(Dollars in millions)		
Severance	$102	$248	$ 85
Asset impairments	15	5	21
Exit costs	7	14	10
Reserve adjustments	(22)	(25)	(28)
Total net repositioning charge	102	242	88
Asbestos related litigation charges, net of insurance	126	10	76
Probable and reasonably estimable environmental liabilities	210	186	536
Business impairment charges	12	23	42
Arbitration award related to phenol supply agreement	(18)	(67)	—
Other	51	18	33
Total net repositioning and other charges	$483	$412	$775

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

	Years Ended December 31,		
	2006	2005	2004
	(Dollars in millions)		
Cost of products and services sold	$472	$357	$739
Selling, general and administrative expenses	11	43	25
Other (income) expense	—	12	11
	$483	$412	$775

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

	Years Ended December 31,		
	2006	2005	2004
	(Dollars in millions)		
Aerospace			
Net repositioning charge	$10	$96	$ 5
Other	—	—	(10)

	$10	$96	$ (5)

	Years Ended December 31,		
	2006	2005	2004
	(Dollars in millions)		
Automation and Control Solutions			
Net repositioning charge	$39	$84	$15
Other	—	1	13
	$39	$85	$28

	Years Ended December 31,		
	2006	2005	2004
	(Dollars in millions)		
Specialty Materials			
Net repositioning charge	$ 11	$ 14	$36
Business impairment charges	12	23	42
Arbitration award related to phenol supply agreement	(18)	(67)	—
Other	—	(4)	12
	$ 5	$(34)	$90

	Years Ended December 31,		
	2006	2005	2004
	(Dollars in millions)		
Transportation Systems			
Net repositioning charge	$ 32	$49	$ 26
Asbestos related litigation charges, net of insurance	261	31	120
Other	—	2	1
	$293	$82	$147

	Years Ended December 31,		
	2006	2005	2004
	(Dollars in millions)		
Corporate			
Net repositioning charge	$ 10	$ (1)	$ 6
Asbestos related litigation charges, net of insurance	(135)	(21)	(44)
Probable and reasonably estimable environmental liabilities	210	186	536
Other	51	19	17
	$ 136	$183	$515

In 2006, we recognized repositioning charges totaling $124 million primarily for severance costs related to workforce reductions of 2,253 manufacturing and administrative positions across all of our reportable segments. Also, $22 million of previously established accruals, primarily for severance at our Aerospace, Transportation Systems and Specialty Materials reportable segments, were returned to income in 2006 due mainly to changes in the scope of previously announced severance programs and due to fewer employee separations than originally planned associated with prior Aerospace severance actions.

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 (substantially implemented in the third quarter of 2005) which reorganized our Aerospace businesses to better align with customer segments. 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 related to changes in the scope of previously announced severance programs, excise taxes related 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.

Our 2006 repositioning actions are expected to generate incremental pretax savings of approximately $100 million in 2007 compared with 2006 principally from planned workforce reductions. Cash expenditures for severance and other exit costs necessary to execute our repositioning actions were $142, $171 and $164 million in 2006, 2005 and 2004, 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 2007 and will be funded through operating cash flows.

In 2006, we recognized a charge of $210 million for environmental liabilities deemed probable and reasonably estimable during the year. We recognized asbestos related litigation charges, net of insurance, of $126 million which are discussed in more detail in Note 21 to the financial statements. We recognized other charges of $51 million related to our Corporate segment primarily for the settlement of a property damage claim litigation matter in Brunswick, GA and our entrance into a plea agreement related to an environmental matter at our Baton Rouge, LA. facility (see Note 21 to the financial statements). We recognized impairment charges of $12 million related to the write-down of property, plant and equipment held for sale in Specialty Materials. We also recognized a credit of $18 million in connection with an arbitration award for overcharges by a supplier of phenol to Specialty Materials for 2005 transactions.

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 more detail in Note 21 to the financial statements. 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. We recognized impairment charges of $23 million related to the write-down of property, plant and equipment held and used 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 estimated costs of the court-ordered excavation and transport for offsite disposal of approximately one million tons of chromium residue present at a predecessor Honeywell site located in Jersey City, New Jersey, and environmental conditions in and around Onondaga Lake in Syracuse, New York. Both of these environmental matters are discussed in further detail in Note 21 to the financial statements. We recognized asbestos related litigation charges, net of insurance, of $76 million which are discussed 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.

LIQUIDITY AND CAPITAL RESOURCES

The Company continues to manage its businesses to maximize operating cash flows as the primary source of liquidity. We supplement operating cash with short-term debt from the commercial paper market and with long-term borrowings. We continue to balance our cash and financing uses through investment in our existing core businesses, acquisition activity, share repurchases and dividends.

Cash Flow Summary

Our cash flows from operating, investing and financing activities, as reflected in the Consolidated Statement of Cash Flows for the years ended December 31. 2006, 2005 and 2004 are summarized as follows:

	2006	2005	2004
Cash provided by (used for):			
Operating activities	$ 3,211	$ 2,442	$ 2,253
Investing activities	(614)	(2,010)	(584)
Financing activities	(2,649)	(2,716)	(1,223)
Effect of exchange rate changes on cash	42	(68)	190
Net (decrease)/increase in cash and cash equivalents	$ (10)	$ (2,352)	$ 636

Cash provided by operating activities increased by $769 million during 2006 compared with 2005 primarily due to increased earnings, lower cash payments for asbestos of $331 million, receipt of $100 million from the sale of an insurance receivable, an increase in customer advances and deferred income (net of acquisitions) of $115 million and $93 million receipt of an arbitration award relating to raw material pricing in Specialty Materials, partially offset by increased working capital usage (accounts and other receivables (net of tax receivables), inventory and accounts payable) of $263 million (including proceeds of $58 million from the sale of a long-term receivable), higher cash tax payments (net of tax receipts) of $236 million and higher pension and postretirement payments of $154 million. Cash provided by operating activities increased by $189 million during 2005 compared to 2004 primarily due to increased earnings, working capital improvements, net of tax receivables, of $258 million, offset by higher cash payments for asbestos of $232 million and higher cash tax payments (net of tax receipts) of $57 million.

Cash used for investing activities decreased by $1,396 million during 2006 compared with 2005 due primarily to lower spending for acquisitions, partially offset by lower proceeds of $285 million from maturities of investment securities. In 2006, cash paid for acquisitions, net of cash acquired was $633 million primarily for First Technologies and Gardiner Groupe, compared to $2,679 million in 2005, primarily for our acquisitions of NOVAR and UOP. Sale proceeds from divestitures was $665 million in the 2006 primarily due to the sale of Indalex in February for $425 million, First Technology Safety & Analysis business (FTSA) for $93 million in May 2006 and the sale of First Technology Automotive Business in December 2006 for $90 million. Cash used for investing activities increased by $1,426 million during 2005 compared with 2004 due primarily to the acquisition of NOVAR and UOP.

Cash used for financing activities decreased by $67 million during 2006 compared 2005 primarily due to a $356 million reduction for the payment of debt assumed with acquisitions, an increase in net proceeds from debt of $258 million, and increased proceeds from issuance of common stock primarily related to stock option exercises of $229 million, offset by increases in repurchases of common stock of $763 million and increased dividend payments. Cash used for financing activities increased by $1,493 million during 2005 compared 2004, primarily due payment of debt assumed with acquisition of $702 million, increased net repayments of debt of $418 million and an increase in repurchases of common stock of $409 million.

Liquidity

Each of our businesses is focused on implementing strategies to improve working capital turnover in 2007 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 $669 million of commercial paper outstanding at December 31, 2006.

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 2006, Standard and Poor's, Fitch's and Moody's Rating Services affirmed their corporate ratings on our long-term debt of A and A+ and A2 respectively, and short-term debt of A-1, F1 and P-1 respectively, and maintained Honeywell's ratings outlook as “stable”.

On April 27, 2006 Honeywell entered into a $2.3 billion Five-Year Credit Agreement (“Credit Agreement”) with a syndicate of banks. Commitments under the Credit Agreement can be increased pursuant to the terms of the Credit Agreement to an aggregated amount not to exceed $3 billion. This credit facility contains a $500 million sub-limit for the issuance of letters of credit. The $2.3 billion credit agreement is maintained for general corporate purposes, including support for the issuance of commercial paper. We had no borrowings and have issued $145 million of letters of credit under the credit facility at December 31, 2006. The Credit Agreement replaces the previous $1 billion five year credit agreement dated as of October 22, 2004, and $1.3 billion five year credit agreement dated as of November 26, 2003 (the “Prior Agreements”). The Credit Agreement does not restrict Honeywell's ability to pay dividends, nor does it contain financial covenants.

In September 2006, the Company renewed its 364-day Canadian Dollar (CAD) credit facility for 220 million CAD. This 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, 2006.

In March 2006, the Company issued $300 million of floating rate (Libor + 6 bps) Senior Notes due 2009, $400 million 5.40% Senior Notes due 2016 and $550 million 5.70% Senior Notes due 2036 (collectively, the “Notes”). The Notes are senior unsecured and unsubordinated obligations of Honeywell and rank equally with all of Honeywell's existing and future senior unsecured debt and senior to all Honeywell's subordinated debt. The offering resulted in gross proceeds of $1,250 million, offset by $11 million in discount and closing costs relating to the offering. Proceeds from the notes were used to repay commercial paper and debt.

During the first quarter of 2006, the Company made a cash tender offer and repurchased $225 million of its $500 million 5.125% Notes due November 2006. The costs relating to the early redemption of the Notes were immaterial.

In the fourth quarter of 2006, the Company repaid $360 million (Euro 275 million) of its 5.27% Notes, primarily through issuance of commercial paper.

We also have a current 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 $171 million at December 31, 2006 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, 2006 and 2005.

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 2007 to be as follows:

- Capital expenditures—we expect to spend approximately $800 million for capital expenditures in 2007 primarily for growth, replacement, production capacity expansion, cost reduction and maintenance.

- Debt repayments—there are $423 million of scheduled long-term debt maturities in 2007. We expect to refinance substantially all of these maturities in the debt capital markets during 2007.

- Share repurchases—We intend to continue to repurchase outstanding shares from time to time in the open market using cash generated from operations. In February 2007, the Board of Directors authorized the repurchase of shares of up to $3 billion of Honeywell common stock. Honeywell intends to repurchase outstanding shares from time to time in the open market using cash flow generated by operations. The amount and timing of repurchases may vary depending on market conditions and the level of other investing activities.

- Dividends—we expect to pay approximately $800 million in dividends on our common stock in 2007, reflecting the 10 percent increase in the dividend rate announced by Honeywell's Board of Directors in December 2006.

- Asbestos claims—we expect our cash spending for asbestos claims and our cash receipts for related insurance recoveries to be approximately $557 and $157 million, respectively, in 2007. See Asbestos Matters in Note 21 to the financial statements for further discussion.

- Pension contributions—assuming that actual pension plan returns are consistent with our expected rate of return of 9 percent in 2007 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 $52 million to our U.S. pension plans in 2007 for government contracting purposes. We also expect to make contributions to our non-U.S. plans of approximately $155 million in 2007. See Note 22 to the financial statements 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 2007.

- Environmental remediation costs—we expect to spend approximately $250 million in 2007 for remedial response and voluntary clean-up costs. See Environmental Matters in Note 21 to the financial statements for additional information.

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 2006, we realized $665 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, 2006:

	Payments by Period				
	Total	2007	2008-2009	2010-2011	Thereafter
	(Dollars in millions)				
Long-term debt, including capitalized leases(1)	$ 4,332	$ 423	$ 927	$ 1,656	$ 1,326
Minimum operating lease payments	1,078	304	377	174	223
Purchase obligations(2)	3,446	863	1,361	704	518
Estimated environmental liability payments(3)	831	250	346	221	14
Asbestos related liability payments(4)	1,819	557	926	298	38
	11,506	2,397	3,937	3,053	2,119
Asbestos insurance recoveries(5)	(1,257)	(157)	(83)	(98)	(919)
	$10,249	$2,240	$ 3,854	$ 2,955	$ 1,200

(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) The amounts in the table do not reflect any significant environmental liability payments after 2011. See Note 21 to the financial statements for additional information.

(4) 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 and future claims. Projecting future 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 to the financial statements for additional information.

(5) These amounts represent probable insurance recoveries through 2018. See Asbestos Matters in Note 21 to the financial statements.

The table excludes our pension and other postretirement benefits (OPEB) obligations. We made voluntary contributions of $68 and $40 million to our U.S. pension plans in 2006 and 2004, 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 2007 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 $52 million to our U.S. plans in 2007 for government contracting purposes. We expect to make contributions to our non-U.S. plans of approximately $155 million in 2007. 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 $189 million in 2007 net of the benefit of approximately $22 million from the Medicare prescription subsidy. See Note 22 to the financial statements 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, 2006:

	Maximum Potential Future Payments
	(Dollars in millions)
Operating lease residual values	$ 38
Other third parties' financing	6
Unconsolidated affiliates' financing	9
Customer financing	22
	$ 75

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, 2006) 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, 2006, our retained subordinated and undivided interests at risk were $171 and $579 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 reasonably 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, execution timeframe of projects, remedial techniques to be utilized and agreements with other parties.

Remedial response and voluntary cleanup payments were $264, $247 and $248 million in 2006, 2005, and 2004, respectively, and are currently estimated to be approximately $250 million in 2007. We expect to fund such expenditures from operating cash flow.

Remedial response and voluntary cleanup costs charged against pretax earnings were $210, $186 and $536 million in 2006, 2005 and 2004, respectively. At December 31, 2006 and 2005, the recorded liability for environmental matters was $831 and $879 million, respectively. In addition, in 2006 and 2005 we incurred operating costs for ongoing businesses of approximately $101 and $87 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 to the financial statements 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 to the financial statements.

We conduct our business on a multinational basis in a wide variety of foreign currencies. Our exposure to market risk from 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 U.S. dollar, Euro, British pound, the Canadian dollar, the Hong Kong dollar, the Chinese renminbi and the Singapore dollar.

Our exposure to market risk from changes in interest rates relates primarily to our debt and pension obligations. As described in Notes 14 and 16 to the financial statements, 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 expected future 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, 2006 and 2005.

	Face or Notional Amount	Carrying Value(1)	Fair Value(1)	Estimated Increase (Decrease) In Fair Value
		(Dollars in millions)		
December 31, 2006				
Interest Rate Sensitive Instruments				
Long-term debt (including current maturities)	$ (4,329)	$ (4,332)	$ (4,521)	$ (194)
Interest rate swap agreements	700	3	3	(31)
Foreign Exchange Rate Sensitive Instruments				
Foreign currency exchange contracts(2)	2,572	—	—	8
Commodity Price Sensitive Instruments				
Forward commodity contracts(3)	60	(9)	(9)	(10)
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)

(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.

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. New accounting standards effective in 2006 which had a material impact on our consolidated financial statements are described in the Recent Accounting Pronouncements section in Note 1 to the 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), contractual matters, 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 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 (including new discovery of fact, changes in legislation and outcomes of similar cases through the judicial system), changes in assumptions 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 to the financial statements.

***Asbestos Related Contingencies and Insurance Recoveries*—**We are 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 have also accrued for the probable value of future NARCO asbestos related claims through 2018 based on the disease criteria and payment values contained in the NARCO trust as described in Note 21 to the financial statements. 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. In the fourth quarter of 2006, the Company accrued a liability for the estimated cost of future anticipated claims related to Bendix through 2011 based on our assessment of additional claims that may be brought against us and anticipated resolution values in the tort system. In December 2006, we also changed our methodology for valuing Bendix pending and future claims from using average resolution values of the previous five years to using average resolution values of the previous two years. For additional information relating to Bendix related claims see Note 21 to the financial statements. 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 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. At December 31, 2006, we have recorded insurance receivables of $955 million that can be specifically allocated to 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 to the financial statements 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 significant actuarial assumptions, including a discount rate for plan obligations and an expected long-term 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 and expected plan asset returns over varying long-term periods combined with current market conditions and broad asset mix considerations (see Note 22 to the financial statements for actual and targeted asset allocation percentages for our pension plans). The discount rate reflects the market rate on December 31 (measurement date) for high-quality fixed-income investments with maturities corresponding to our benefit obligations and is subject to change each year. Further information on all our major actuarial assumption is included in Note 22 to the financial statements.

The key assumptions used in developing our 2006, 2005 and 2004 net periodic pension expense for our U.S. plans included the following:

	2006	2005	2004
Discount rate	5.75%	5.875%	6.00%
Assets:			
Expected rate of return	9%	9%	9%
Actual rate of return	14%	8%	13%
Actual 10 year average annual compounded rate of return	10%	10%	11%

The reduction in the discount rate in both 2006 and 2005 reflects the lower market interest rate environment for high-quality fixed income debt instruments. The discount rate is also volatile from year to year because it is determined based upon the prevailing rate as of the measurement date. We will use a 6.00 percent discount rate in 2007, reflecting the increase in the market interest rate environment. We plan to continue to use an expected rate of return on plan assets of 9 percent for 2007 based principally on our historical experience of actual plan returns. The net losses for our pension plans were $2.4 billion at December 31, 2006 compared with $3.4 billion at December 31, 2005. This decrease of $1.0 billion is due primarily to lower net losses in our U.S. plans due to a higher discount rate at December 31, 2006, an actual plan asset return of 14% in 2006 in our U.S. plans which was higher than the expected rate of return of 9%, and loss amortization in 2006. The net losses at December 31, 2006 principally result from the decline each year in the discount rate for the period 2001 through 2005 and from actual plan asset returns below expected rates of return during 2000, 2001, 2002 and 2005. Such net losses were recognized as of December 31, 2006 on our consolidated balance sheet and as a component of other comprehensive income (loss), net of tax, in accordance with SFAS No. 158, “Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS No. 158) which is discussed in detail in Notes 1 and 22 to the financial statements. In the future we will continue to systematically recognize such net losses in 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, 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 $345 million
0.25 percentage point increase in discount rate	Decrease $50 million	Decrease $330 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 $200 million in 2007, a $113 million decrease from 2006 due principally to a decrease in the amortization of net losses. The decline in the amortization of net losses results principally from an increase in the discount rate at December 31, 2006 and actual plan asset returns higher than the expected rate of return in 2004 and 2006.

In 2006, 2005 and 2004 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 $68 and $40 million to our U.S. pension plans in 2006 and 2004, respectively, mainly for government contracting purposes. 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 2007 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 $52 million in cash in 2007 to certain of our U.S. pension plans for government contracting purposes. We also expect to contribute approximately $155 million in cash in 2007 to our non-U.S. defined benefit pension plans to satisfy regulatory funding standards.

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, 2006, the net carrying amount of these long-lived assets totaled $5.9 billion. 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, changes in 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 $12 and $23 million in 2006 and 2005, respectively, principally related to 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 significantly restructured, sold or are in the process of being sold.

Goodwill Impairment Testing—Goodwill represents the excess of acquisition costs over the fair value of the net tangible assets and identifiable intangible assets acquired in a business combination. Goodwill is not amortized, but is subject to impairment testing. Our Goodwill balance, $8.4 billion as of December 31, 2006, is 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, (SFAS No. 142) "Goodwill and Other Intangible Assets". This testing compares carrying values to fair values and, when appropriate, the carrying value is reduced to fair value. The fair value of our reporting units is estimated utilizing a discounted cash flow approach incorporating historic and projected future operating performance. This impairment test involves the use of accounting estimates and assumptions, changes in which could materially impact our financial condition or operating performance if actual results differ from such estimates and assumptions. We completed our annual impairment test as of March 31, 2006 and determined that there was no impairment as of that date.

Income Taxes—Deferred tax assets and liabilities are determined based on the difference between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Our provision for income taxes is based on domestic and international statutory income tax rates and tax planning opportunities in the jurisdictions in which we operate. Significant judgment is required in determining income tax provisions as well as deferred tax asset and liability balances, including the estimation of valuation allowances and the evaluation of tax positions.

As of December 31, 2006, we recognized a net deferred tax asset of $2,414 million, less a valuation allowance of $516 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) expected 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 $2,414 million is comprised of $1,624 million related to U.S. operations and $790 million related to non-U.S. operations. The U.S. net deferred tax asset of $1,624 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 $35 million against such asset related to state tax net operating losses. The non-U.S. net deferred tax asset of $790 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 $481 million against these deferred tax assets reflecting our historical experience and lower expectations of taxable income over the applicable carryforward periods. As more fully described in Note 6 to the financial statements, our valuation allowance increased by $39, $139 and $39 million in 2006, 2005 and 2004, 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.

Significant judgment is required in determining income tax provisions under Statement of Financial Accounting Standards No. 109 “Accounting for Income Taxes” (SFAS No. 109) and in evaluating tax positions. We establish additional provisions for income taxes when, despite the belief that tax positions are fully supportable, there remain certain positions that are likely to be challenged and that may not be sustained on review by tax authorities. In the normal course of business, the Company and its subsidiaries are examined by various Federal, State and foreign tax authorities. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current tax liability and deferred taxes in the period in which the facts that give rise to a revision become known.

As described in further detail in the Recent Accounting Pronouncements section in Note 1 of Notes to Financial Statements in “Item 8. Financial Statements and Supplementary Data”, FASB Interpretation (“FIN”) No. 48 “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109” is effective beginning January 1, 2007. FIN 48 establishes a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Honeywell will adopt FIN 48 as of January 1, 2007 as required. Based on our current assessment, and subject to any changes that may result from additional technical guidance being issued, the adoption of FIN 48 on January 1, 2007 is expected to reduce our existing reserves for uncertain tax positions by approximately $130 million, to be recorded as a cumulative effect adjustment to equity, largely relating to state income tax matters.

Sales Recognition on Long-Term Contracts**—**In 2006, we recognized approximately 12 percent of our total net sales using the percentage-of-completion method for long-term contracts in our Automation and Control Solutions, Aerospace and Specialty Materials 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.

OTHER MATTERS

Litigation

See Note 21 to the financial statements for a discussion of environmental, asbestos and other litigation matters.

Recent Accounting Pronouncements

See Note 1 to the financial statements 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,		
	2006	2005	2004
	(Dollars in millions, except per share amounts)		
Product sales	$25,165	$22,257	$20,400
Service sales	6,202	5,395	5,193
Net sales	31,367	27,652	25,593
Costs, expenses and other			
Cost of products sold	19,649	17,681	17,071
Cost of services sold	4,447	3,843	3,681
	24,096	21,524	20,752
Selling, general and administrative expenses	4,210	3,707	3,316
Other (income)/expense	(111)	(231)	(429)
Interest and other financial charges	374	356	331
	28,569	25,356	23,970
Income from continuing operations before taxes	2,798	2,296	1,623
Tax expense	720	732	377
Income from continuing operations	2,078	1,564	1,246
Income from discontinued operations, net of taxes	5	95	—
Cumulative effect of accounting change, net of taxes	—	(21)	—
Net income	$ 2,083	$ 1,638	$ 1,246
Earnings (loss) per share of common stock—basic:			
Income from continuing operations	$ 2.53	$ 1.85	$ 1.45
Income from discontinued operations	0.01	0.11	—
Cumulative effect of accounting change	—	(0.03)	—
Net income	$ 2.54	$ 1.93	$ 1.45
Earnings (loss) per share of common stock—assuming dilution:			
Income from continuing operations	$ 2.51	$ 1.84	$ 1.45
Income from discontinued operations	0.01	0.11	—
Cumulative effect of accounting change	—	(0.03)	—
Net income	$ 2.52	$ 1.92	$ 1.45

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

HONEYWELL INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEET

	December 31, 2006	December 31, 2005
	(Dollars in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,224	$ 1,234
Accounts, notes and other receivables	5,740	5,017
Inventories	3,588	3,401
Deferred income taxes	1,215	1,243
Other current assets	470	542
Assets held for disposal	67	525
Total current assets	12,304	11,962
Investments and long-term receivables	382	370
Property, plant and equipment—net	4,797	4,658
Goodwill	8,403	7,660
Other intangible assets—net	1,247	1,173
Insurance recoveries for asbestos related liabilities	1,100	1,302
Deferred income taxes	1,075	730
Prepaid pension benefit cost	695	2,716
Other assets	938	1,062
Total assets	$30,941	$31,633
LIABILITIES		
Current liabilities:		
Accounts payable	$ 3,518	$ 2,886
Short-term borrowings	62	275
Commercial paper	669	754
Current maturities of long-term debt	423	995
Accrued liabilities	5,455	5,359
Liabilities related to assets held for disposal	8	161
Total current liabilities	10,135	10,430
Long-term debt	3,909	3,082
Deferred income taxes	352	334
Postretirement benefit obligations other than pensions	2,090	1,786
Asbestos related liabilities	1,262	1,549
Other liabilities	3,473	3,690
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	3,845	3,626
Common stock held in treasury, at cost:		
2006—157,008,412 shares; 2005—128,116,854 shares	(6,339)	(5,027)
Accumulated other comprehensive income (loss)	(1,307)	(25)
Retained earnings	12,563	11,230
Total shareowners' equity	9,720	10,762
Total liabilities and shareowners' equity	$30,941	$31,633

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

HONEYWELL INTERNATIONAL INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Years Ended December 31,		
	2006	2005	2004
	(Dollars in millions)		
Cash flows from operating activities:			
Net income	$ 2,083	$ 1,638	$ 1,246
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change	—	21	—
Depreciation and amortization	794	653	614
Repositioning and other charges	483	412	775
Payments of repositioning and other charges	(559)	(1,008)	(863)
Pension and other postretirement expense	459	561	628
Pension and other postretirement benefit payments	(353)	(199)	(247)
Stock option expense	77	—	—
Deferred income taxes	450	42	201
Excess tax benefits from share based payment arrangements	(31)	—	—
Other	20	(56)	(358)
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:			
Accounts, notes and other receivables	(573)	(94)	(470)
Inventories	(128)	37	(84)
Other current assets	(11)	61	(77)
Accounts payable	516	181	408
Accrued liabilities	(16)	193	480
Net cash provided by operating activities	3,211	2,442	2,253
Cash flows from investing activities:			
Expenditures for property, plant and equipment	(733)	(684)	(629)
Proceeds from disposals of property, plant and equipment	87	71	38
Proceeds from investments	—	285	80
Increase in investments	—	—	(115)
Cash paid for acquisitions, net of cash acquired	(633)	(2,679)	(384)
Proceeds from sales of businesses, net of fees paid	665	997	426
Net cash (used for) investing activities	(614)	(2,010)	(584)
Cash flows from financing activities:			
Net (decrease)/increase in commercial paper	(86)	534	220
Net (decrease)/increase in short-term borrowings	(224)	100	(121)
Payment of debt assumed with acquisitions	(346)	(702)	—
Proceeds from issuance of common stock	396	167	74
Proceeds from issuance of long-term debt	1,239	—	—
Payments of long-term debt	(1,019)	(982)	(29)
Excess tax benefits from share based payment arrangements	31	—	—
Repurchases of common stock	(1,896)	(1,133)	(724)
Cash dividends paid on common stock	(744)	(700)	(643)
Net cash (used for) financing activities	(2,649)	(2,716)	(1,223)
Effect of foreign exchange rate changes on cash and cash equivalents	42	(68)	190
Net (decrease)/increase in cash and cash equivalents	(10)	(2,352)	636
Cash and cash equivalents at beginning of period	1,234	3,586	2,950
Cash and cash equivalents at end of period	$ 1,224	$ 1,234	$ 3,586

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 Comprehensive Income (Loss)	Retained Earnings	Total Shareowners' Equity
				(In millions, except per share amounts)				
Balance at December 31, 2003	957.6	$ 958	$ 3,486	(95.3)	$(3,655)	$ (189)	$ 9,689	$ 10,289
Net income							1,246	1,246
Foreign exchange translation adjustments						351		351
Minimum pension liability adjustment						(15)		(15)
Change in fair value of effective cash flow hedges						(9)		(9)
Other Comprehensive Income (Loss)								1,573
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	10,292	10,777
Net income							1,638	1,638
Foreign exchange translation adjustments						(147)		(147)
Minimum pension liability adjustment						(16)		(16)
Other Comprehensive Income (Loss)								1,475
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)	11,230	10,762
Net income							2,083	2,083
Foreign exchange translation adjustments						233		233
Change in fair value of effective cash flow hedges						(3)		(3)
Minimum pension liability adjustment						196		196
Other Comprehensive Income (Loss)								2,509
Pension and other postretirement benefits (including related tax benefits of $912)						(1,708)		(1,708)
Common stock issued for employee savings and option plans (including related tax benefits of $31)			29	16.2	573			602
Stock based compensation expense			77					77
Reclassification to equity of obligations settled in stock			112					112
Repurchases of common stock				(45.4)	(1,896)			(1,896)
Dividends on common stock ($0.9075 per share)							(750)	(750)
Other owner changes			1	.3	11			12
Balance at December 31, 2006	957.6	$ 958	$ 3,845	(157.0)	$(6,339)	$ (1,307)	$12,563	$ 9,720

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

Note 1—Summary of Significant Accounting Policies

***Accounting Principles*—**The financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. 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 or a series of historic and projected operating losses by investees are strong indicators of other-than-temporary declines. 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 50 years for buildings and improvements and 2 to 15 years for machinery and equipment. Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS No. 143) and FASB Interpretation No. 47 ("FIN 47") require 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 adoption of FIN 47 on December 31, 2005, we recorded an increase of $14 million to property, plant and equipment and recognized an asset retirement obligation liability of $46 million. This resulted in the recognition of a non-cash charge of $32 million ($21 million after tax) that was reported as a cumulative effect of an accounting change. 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. See Note 17 for additional details.

***Goodwill and Indefinite-Lived Intangible Assets*—**Goodwill represents the excess of acquisition costs over the fair value of tangible net assets and identifiable intangible 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, 2006 and determined that there was no impairment as of that date. See Note 12 for additional details on goodwill balances.

***Other Intangible Assets with Determinable Lives*—**Other intangible assets with determinable lives consist of customer lists, technology, patents and trademarks and other intangibles and are amortized over their estimated useful lives, ranging from 2 to 24 years.

***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, Automation and Control Solutions and Specialty Materials 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 provided 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.

***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 NARCO 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. In the fourth quarter of 2006, the Company accrued a liability for the estimated cost of future anticipated claims related to Bendix through 2011 based on our assessment of additional claims that may be brought against us and anticipated resolution values in the tort system. In December 2006, we also changed our methodology for valuing Bendix pending and future claims from using average resolution values of the previous five years to using average resolution values of the previous two years. For additional information see Note 21. 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 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.

Aerospace Sales Incentives—The Company provides 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 principally consist of free or deeply discounted products but also include credits for future purchases of product and upfront cash payments. These costs are expensed as provided. For aircraft manufacturers, incentives are recorded when the products are delivered; for airlines, incentives are recorded when the associated aircraft are delivered by the aircraft manufacturer to the airline.

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 $1,411, $1,072 and $917 million in 2006, 2005 and 2004, respectively.

Stock-Based Compensation Plans—Effective January 1, 2006, we adopted SFAS No. 123 (revised 2004), “Share-Based Payment” (SFAS No. 123R) requiring that compensation cost relating to share-based payment awards made to employees and directors be recognized in the financial statements. The principal awards issued under our stock-based compensation plans, which are described in Note 20, “Stock-Based Compensation Plans” include non-qualified stock options and restricted stock units (RSUs). The cost for such awards is measured at the grant date based on the calculated fair value of the award. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods (generally the vesting period of the equity award) in our Consolidated Statement of Operations.

Prior to January 1, 2006, we accounted for share-based compensation cost using the intrinsic value method in accordance with Accounting Principles Board No. 25, “Accounting for Stock Issued to Employees” (APB No. 25), and related interpretations. We also followed disclosure requirements of SFAS No. 123, “Accounting for Stock-Based Compensation”, as amended by SFAS No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure”. Under APB No. 25 there was no compensation cost recognized in our Consolidated Statement of Operations for our stock option awards. Compensation cost for RSUs is recognized in our Consolidated Statement of Operations and is included in selling, general and administrative expenses, and was not affected by our adoption of FAS No. 123R.

We adopted SFAS No. 123R using the modified prospective method and, accordingly, the Consolidated Statement of Operations for prior years has not been restated to reflect the fair value method of recognizing compensation cost relating to stock options. Share-based compensation cost relating to stock options recognized in 2006 is based on the value of the portion of the award that is ultimately expected to vest. SFAS No. 123R requires forfeitures to be estimated at the time of grant in order to estimate the portion of the award that will ultimately vest. The estimate is based on our historical rates of forfeiture. In our pro forma information required under SFAS No. 123 for the years prior to 2006, we accounted for forfeitures as they occurred.

(Dollars in millions, except per share amounts)

Compensation cost related to stock options recognized in operating results (included in selling, general and administrative expenses) under SFAS No. 123R in 2006 was $77 million on a pre-tax basis and the associated future income tax benefit recognized was $28 million. Compensation cost related to stock options recognized in our Consolidated Statement of Operations in 2006 includes (1) compensation cost for stock option awards granted prior to, but not yet vested as of December 31, 2005, based on the grant-date fair value estimated in accordance with the pro forma provisions of SFAS No. 123 and (2) compensation cost for stock option awards granted subsequent to December 31, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R.

The following table illustrates the effect on net income and earnings per share as if we had applied the fair value recognition provisions of SFAS No. 123 in the years prior to the adoption of FAS No. 123R.

	2005	2004
Net income, as reported	$ 1,638	$ 1,246
Deduct: Total stock-based employee compensation cost determined under fair value method for fixed stock option plans, net of related tax effects	(53)	(42)
Pro forma net income	$ 1,585	$ 1,204
Earnings per share of common stock:		
Basic—as reported	$ 1.93	$ 1.45
Basic—pro forma	$ 1.87	$ 1.40
Earnings per share of common stock:		
Assuming dilution—as reported	$ 1.92	$ 1.45
Assuming dilution—pro forma	$ 1.86	$ 1.40

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
Weighted average fair value per share of options granted during the year(1)	$ 10.67	$ 10.97
Assumptions:		
Expected annual dividend yield	2.4%	2.1%
Expected volatility	34.8%	37.9%
Risk-free rate of return	3.7%	3.3%
Expected option term (years)	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 in effect 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 Comprehensive Income (Loss) and subsequently recognized in earnings when the hedged items impact 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. The determination of the amount of a 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) expected future taxable income, and (3) the impact of tax planning strategies. 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.

Significant judgment is required in determining income tax provisions under Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" (SFAS No. 109) and in evaluating tax positions. We establish additional provisions for income taxes when, despite the belief that tax positions are fully supportable, there remain certain positions that are likely to be challenged and that may not be sustained on review by tax authorities. In the normal course of business, the Company and its subsidiaries are examined by various Federal, State and foreign tax authorities. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current tax liability and deferred taxes in the period in which the facts that give rise to a revision become known.

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 to the current year presentation.

Recent Accounting Pronouncements—In June 2006, the FASB issued FASB Interpretation ("FIN") No. 48 "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement 109". FIN 48 establishes a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. Honeywell will adopt FIN 48 as of January 1, 2007 as required. Based on our current assessment, and subject to any changes that may result from additional technical guidance being issued, the adoption of FIN 48 is expected to reduce our existing reserves for uncertain tax positions by approximately $130 million, to be recorded as a cumulative effect adjustment to equity, largely relating to state income tax matters.

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

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (SFAS No. 158). SFAS No. 158 requires that employers recognize on a prospective basis the funded status of their defined benefit pension and other postretirement benefit plans on their consolidated balance sheet and recognize as a component of other comprehensive income (loss), net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. We adopted SFAS No. 158 as of December 31, 2006. See Note 22—Pensions and Other Postretirement Benefits for additional disclosures required by SFAS No. 158 and the effects of adoption.

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

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

In September 2006, the SEC staff issued Staff Accounting Bulletin ("SAB") 108 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" (SAB 108). SAB 108 requires that public companies utilize a "dual-approach" to assessing the quantitative effects of financial misstatements. This dual approach includes both an income statement focused assessment and a balance sheet focused assessment. The guidance in SAB 108 must be applied to annual financial statements for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material effect on our consolidated financial position or results of operations.

Note 2—Acquisitions and Divestitures

We acquired businesses for an aggregate cost of $979, $3,500 and $396 million in 2006, 2005 and 2004, 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.

In May 2006, the Company purchased Gardiner Groupe, a privately held company. The purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values and lives at the acquisition date. The Company has assigned $47 million to identifiable intangible assets, predominantly customer relationships and trademarks. These intangible assets are being amortized over their estimated lives which range from 3 to 15 years using straight-line and accelerated amortization periods. The excess of the purchase price over the estimated fair values of net assets acquired approximating $129 million, was recorded as goodwill. This goodwill is non-deductible for tax purposes. This acquisition was accounted for by the purchase method, and, accordingly, results of operations are included in the consolidated financial statements from the date of acquisition. The results from the acquisition date through December 31, 2006 are included in the Automation and Control Solutions segment and were not material to the consolidated financial statements.

In March 2006, the Company purchased First Technology plc, a U.K publicly listed company. The aggregate value of the purchase price was $723 million, including the assumption of approximately $217 million of outstanding debt and $23 million of transaction costs. The purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The Company has assigned $155 million to identifiable intangible assets, predominantly customer relationships, existing technology and trademarks. These intangible assets are being amortized over their estimated lives which range from 3 to 15 years using straight-line and accelerated amortization periods. The excess of the purchase price over the estimated fair values of net assets acquired approximating $439 million, was recorded as goodwill. This goodwill is non-deductible for tax purposes. This acquisition was accounted for by the purchase method, and, accordingly, results of operations are included in the consolidated financial statements from the date of acquisition. The results from the acquisition date through December 31, 2006 are included in the Automation and Control Solutions segment and were not material to the consolidated financial statements. During the year the Company completed the sales of the First Technology Safety & Analysis business for $93 million and First Technology Automotive for $90 million which were accounted for as part of the purchase price allocation.

In November 2005, the Company acquired the remaining 50 percent of UOP LLC giving Honeywell full ownership of the entity. The aggregate value of the purchase price was approximately $825 million, including the assumption of approximately $115 million of outstanding debt. The purchase price for the acquisition was allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The Company has assigned $339 million to identifiable intangible assets, predominantly existing technology, which is being amortized over 15 years on a straight-line basis and trade names, which are not amortized. The excess of the purchase price over the estimated fair values of net assets acquired approximating $336 million, was recorded as goodwill. This goodwill is non-deductible for tax purposes. Following this acquisition, which is being accounted for by the purchase method, results of operations have been included into the Specialty Materials segment. Prior to that date, UOP results for the 50 percent share that the Company owned was included in equity income of affiliated companies.

On March 31, 2005, the Company purchased 100% of the issued and ordinary preference share capital of NOVAR plc (NOVAR) for $1.7 billion, net of cash acquired, which represented $2.4 billion for consideration of all outstanding shares and outstanding options to be exercised, net of the assumption of debt of $0.7 billion. Transaction costs related to this acquisition were $49 million. In December 2005, we completed the sale of the Security Printing business to M&F Worldwide Corp. for $800 million in cash. 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 was 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. Goodwill of approximately $1.3 billion was recognized and we allocated $261 million to other intangible assets (contractual customer relationships, existing technology and trademarks). 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 included $76 million of restructuring costs related to the integration of the NOVAR operations.

As of December 31, 2006, the purchase accounting for both First Technology and Gardiner Groupe is still subject to final adjustment primarily for amounts related to the businesses that were sold and pre-acquisition contingencies.

In connection with all acquisitions in 2006, 2005 and 2004, except for the First Technology and NOVAR acquisitions 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 2006, 2005 and 2004, assuming these acquisitions had been made at the beginning of the year, would not be materially different from consolidated reported results.

(Dollars in millions, except per share amounts)

Note 3—Repositioning and Other Charges

A summary of repositioning and other charges follows:

	Years Ended December 31,		
	2006	2005	2004
Severance	$102	$248	$ 85
Asset impairments	15	5	21
Exit costs	7	14	10
Reserve adjustments	(22)	(25)	(28)
Total net repositioning charge	102	242	88
Asbestos related litigation charges, net of insurance	126	10	76
Probable and reasonably estimable environmental liabilities	210	186	536
Business impairment charges	12	23	42
Arbitration award related to phenol supply agreement	(18)	(67)	—
Other	51	18	33
Total net repositioning and other charges	$483	$412	$775

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

	Years Ended December 31,		
	2006	2005	2004
Cost of products and services sold	$472	$357	$739
Selling, general and administrative expenses	11	43	25
Other (income) expense	—	12	11
	$483	$412	$775

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

	Years Ended December 31,		
	2006	2005	2004
Aerospace	$ 10	$ 96	$ (5)
Automation and Control Solutions	39	85	28
Specialty Materials	5	(34)	90
Transportation Systems	293	82	147
Corporate	136	183	515
	$483	$412	$775

In 2006, we recognized repositioning charges totaling $124 million primarily for severance costs related to workforce reductions of 2,253 manufacturing and administrative positions across all of our reportable segments. Also, $22 million of previously established accruals, primarily for severance at our Aerospace, Transportation Systems and Specialty Materials reportable segments were returned to income in 2006 due mainly to changes in the scope of previously announced severance programs and due to fewer employee separations than originally planned associated with prior Aerospace severance programs.

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 (substantially implemented in the third quarter of 2005) which reorganized our Aerospace businesses to better align with customer segments. 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 related to changes in the scope of previously announced severance programs, excise taxes related 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.

(Dollars in millions, except per share amounts)

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.

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

	Severance Costs	Asset Impairments	Exit Costs	Total
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
2006 charges	102	15	7	124
2006 usage	(134)	(15)	(8)	(157)
Adjustments	(18)	—	(4)	(22)
Balance at December 31, 2006	$ 118	$ —	$ 9	$ 127

In 2006, we recognized a charge of $210 million for environmental liabilities deemed probable and reasonably estimable during the year. We recognized asbestos related litigation charges, net of insurance, of $126 million which are discussed in Note 21. We recognized other charges of $51 million related to our Corporate segment primarily for the settlement of a property damage claim litigation matter in Brunswick, GA and our entrance into a plea agreement related to an environmental matter at our Baton Rouge, LA facility. See Note 21 for discussion of these matters. We recognized impairment charges of $12 million related to the write-down of property, plant and equipment held for sale in our Specialty Materials reportable segment. We also recognized a credit of $18 million in connection with an arbitration award for overcharges by a supplier of phenol to our Specialty Materials business for 2005 transactions.

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 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. We recognized impairment charges of $23 million related to the write-down of property, plant and equipment held and used 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 estimated costs of the court-ordered excavation and transport for offsite disposal of approximately one million tons of chromium residue present at a predecessor Honeywell site located in Jersey City, New Jersey, and 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 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.

(Dollars in millions, except per share amounts)

Note 4—Other (Income)/Expense

	Years Ended December 31,		
	2006	2005	2004
Gain on sale of non-strategic businesses and assets	$ (30)	$ (36)	$(255)(1)
Equity (income)/loss of affiliated companies	(13)	(134)(2)	(82)(2)
Interest income	(94)	(84)	(100)
Foreign exchange	18	21	28
Other (net)	8	2	(20)(3)
	$(111)	$(231)	$(429)

(1) Includes pretax gains on the sales of our Security Monitoring and VCSEL Optical Products businesses of $215 and $36 million, respectively.

(2) Includes equity income of $107 million in 2005 and $71 million in 2004 from UOP (acquisition to full ownership in November 2005).

(3) Includes recognition of a gain of $27 million related to the settlement of a patent infringement lawsuit.

Note 5—Interest and Other Financial Charges

	Years Ended December 31,		
	2006	2005	2004
Total interest and other financial charges	$396	$373	$349
Less—capitalized interest	(22)	(17)	(18)
	$374	$356	$331

The weighted average interest rate on short-term borrowings and commercial paper outstanding at December 31, 2006 and 2005 was 5.67 percent and 4.48 percent, respectively.

Note 6—Income Taxes

Income from continuing operations before taxes

	Years Ended December 31,		
	2006	2005	2004
United States	$1,882	$1,530	$ 821
Foreign	916	766	802
	$2,798	$2,296	$1,623

(Dollars in millions, except per share amounts)

Tax expense

	Years Ended December 31,		
	2006	2005	2004
United States	$412	$427	$148
Foreign	308	305	229
	$720	$732	$377

	Years Ended December 31,		
	2006	2005	2004
Tax expense consist of:			
Current:			
United States	$ (39)	$395	$ 26
State	26	19	16
Foreign	283	276	134
	270	690	176
Deferred:			
United States	376	19	90
State	49	(6)	16
Foreign	25	29	95
	450	42	201
	$720	$732	$377

	Years Ended December 31,		
	2006	2005	2004
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)	(4.0)	(1.4)	(7.4)
Asset basis differences	—	(3.6)	(.6)
Nondeductible amortization	—	.6	1.1
State income taxes (1)	1.7	.7	1.3
Tax benefits on export sales	(1.9)	(3.3)	(4.6)
ESOP dividend tax benefit	(.7)	(.9)	(1.2)
Tax credits	(.7)	(.5)	(.6)
Equity income	—	(.5)	(.6)
Repatriation expense related to American Jobs Creation Act of 2004	—	6.8	—
Audit Settlements	(2.9)	(.6)	—
All other items—net	(.8)	(.4)	.8
	25.7%	31.9%	23.2%

(1) Net of changes in valuation allowance.

(Dollars in millions, except per share amounts)

Deferred tax assets (liabilities)

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:

	December 31,	
	2006	2005
Property, plant and equipment basis differences	$ (608)	$ (582)
Postretirement benefits other than pensions and postemployment benefits	747	771
Investment and other asset basis differences	(396)	(31)
Other accrued items	1,567	642
Net operating and capital losses	786	841
Tax credits	315	408
Undistributed earnings of subsidiaries	(40)	(40)
All other items—net	43	8
	2,414	2,017
Valuation allowance	(516)	(477)
	$1,898	$1,540

The Company's effective tax rate decreased by 6.2 percentage points in 2006 compared with 2005, due principally to the absence of the 2005 one-time tax charge of $155 million for the repatriation of foreign earnings under the American Jobs Creation Act of 2004 (the “Act”), offset, in part, by $64 million of tax benefits associated with the 2005 sale of our Industrial Wax business which had a higher tax basis than book basis. In addition, in 2006, there were benefits recognized from the favorable resolution of certain tax audits offset by a tax charge for an up-front licensing of certain in-process research and development.

The amount of U.S. federal tax net operating losses available for carryforward at December 31, 2006 was $35 million that were generated by certain subsidiaries prior to their acquisition and have expiration dates through 2024. 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. Various subsidiaries have state tax net operating loss carryforwards of $3.2 billion at December 31, 2006 with varying expiration dates through 2025. We also have foreign net operating and capital losses of $2.4 billion which are available to reduce future income tax payments in several countries, subject to varying expiration rules. Included in these losses is $32 million of loss carryforwards related to businesses purchased by Honeywell in 2006.

We have U.S. tax credit carryforwards of $94 million at December 31, 2006, including carryforwards of $41 million with various expiration dates through 2026 and tax credits of $53 million which are not subject to expiration. In addition, we have $221 million of foreign tax credits available for carryback or carryforward on the U.S. federal tax return at December 31, 2006 with varying expiration dates through 2015.

The valuation allowance against deferred tax assets was increased by $39, $139 and $39 million in 2006, 2005 and 2004, respectively. The 2006 increase in the valuation allowance was primarily due to an increase in foreign net operating losses attributable to acquired businesses not expected to be realized and a partial valuation allowance against a deferred tax asset established in connection with the adoption of SFAS No. 158 partially offset by a decrease in state tax net operating loss carryforwards (net of federal impact). The 2005 increase in the valuation allowance 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, that was partially 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. The 2004 increase in the valuation allowance 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, partially offset by a decrease 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 Act.

(Dollars in millions, except per share amounts)

Federal income taxes have not been provided on undistributed earnings of the majority of our international subsidiaries as it is our intention to reinvest these earnings into the respective businesses. At December 31, 2006 Honeywell has not provided for U.S. federal income and foreign withholding taxes on approximately $2.9 billion of such earnings of our non-U.S. operations. 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.

In 2005, the Company was effected by actions taken relating to certain provisions in the Act which was signed into law in October 2004 and 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 created 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 2005, we repatriated approximately $2.7 billion of foreign earnings, of which $2.2 billion received the benefit under the Act, with an income tax provision of $155 million. No additional amounts were repatriated under the Act in 2006.

Note 7—Earnings (Loss) Per Share

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

	2006		2005		2004	
	Basic	Assuming Dilution	Basic	Assuming Dilution	Basic	Assuming Dilution
Income						
Income from continuing operations	$ 2,078	$ 2,078	$ 1,564	$ 1,564	$ 1,246	$ 1,246
Income from discontinued operations, net of taxes	5	5	95	95	—	—
Cumulative effect of accounting change, net of taxes	—	—	(21)	(21)	—	—
Net income	$ 2,083	$ 2,083	$ 1,638	$ 1,638	$ 1,246	$ 1,246
Average shares						
Average shares outstanding	820,845,838	820,845,838	848,740,395	848,740,395	858,857,721	858,857,721
Dilutive securities issuable in connection with stock plans	—	5,432,435	—	3,594,592	—	3,475,613
Total average shares	820,845,838	826,278,273	848,740,395	852,334,987	858,857,721	862,333,334
Earnings (loss) per share of common stock						
Income from continuing operations	$ 2.53	$ 2.51	$ 1.85	$ 1.84	$ 1.45	$ 1.45
Income from discontinued operations, net of taxes	0.01	0.01	0.11	0.11	—	—
Cumulative effect of accounting change, net of taxes	—	—	(0.03)	(0.03)	—	—
Net income	$ 2.54	$ 2.52	$ 1.93	$ 1.92	$ 1.45	$ 1.45

(Dollars in millions, except per share amounts)

In 2006, 2005 and 2004, 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 2006, 2005 and 2004, the number of stock options not included in the computation were 22,749,056, 17,793,385 and 41,656,606, respectively. These stock options were outstanding at the end of each of the respective years.

Note 8—Accounts, Notes and Other Receivables

	December 31,	
	2006	2005
Trade	$5,373	$4,623
Other	584	573
	5,957	5,196
Less—Allowance for doubtful accounts	(217)	(179)
	$5,740	$5,017

Trade Accounts Receivable includes $808 and $565 million of unbilled balances under long-term contracts as of December 31, 2006 and 2005, respectively. These amounts are billed in accordance with the terms of the customer contracts to which they relate.

We sell interests in designated pools of trade accounts receivables to third parties. The sold receivables are over-collateralized by $171 million at December 31, 2006 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,	
	2006	2005
Designated pools of trade receivables	$1,250	$1,251
Interest sold to third parties	(500)	(500)
Retained interest	$ 750	$ 751

Losses on sales of receivables were $27, $18 and $9 million in 2006, 2005 and 2004, respectively. No credit losses were incurred during those years.

Note 9—Inventories

	December 31,	
	2006	2005
Raw materials	$1,625	$1,438
Work in process	808	695
Finished products	1,342	1,427
	3,775	3,560
Less—		
Progress payments	(17)	(14)
Reduction to LIFO cost basis	(170)	(145)
	$3,588	$3,401

(Dollars in millions, except per share amounts)

Inventories valued at LIFO amounted to $205 and $258 million at December 31, 2006 and 2005, respectively. Had such LIFO inventories been valued at current costs, their carrying values would have been approximately $170 and $145 million higher at December 31, 2006 and 2005, respectively.

Note 10—Investments and Long-Term Receivables

	December 31, 2006	December 31, 2005
Investments	$ 49	$ 64
Long-term trade and other receivables	333	306
	$382	$370

Long-Term Trade and Other Receivables includes $68 and $137 million of unbilled balances under long-term contracts as of December 31, 2006 and 2005, respectively. These amounts are billed in accordance with the terms of the customer contracts to which they relate.

Note 11—Property, Plant and Equipment

	December 31, 2006	December 31, 2005
Land and improvements	$ 408	$ 352
Machinery and equipment	9,888	9,381
Buildings and improvements	2,056	2,120
Construction in progress	447	433
	12,799	12,286
Less—Accumulated depreciation and amortization	(8,002)	(7,628)
	$ 4,797	$ 4,658

Depreciation expense was $650, $578 and $572 million in 2006, 2005 and 2004, respectively.

Note 12—Goodwill and Other Intangibles—Net

The change in the carrying amount of goodwill for the years ended December 31, 2006 and 2005 by reportable segment are as follows:

	December 31, 2005	Acquisitions	Divestitures	Currency Translation Adjustment	December 31, 2006
Aerospace	$ 1,723	$ —	$ —	$ 22	$ 1,745
Automation and Control Solutions	4,333	572	—	54	4,959
Specialty Materials	1,066	80	(4)	9	1,151
Transportation Systems	538	—	—	10	548
	$ 7,660	$ 652	$ (4)	$ 95	$ 8,403

(Dollars in millions, except per share amounts)

	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

Intangible assets are comprised of:

	December 31, 2006			December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with determinable lives:						
Patents and technology	$ 895	$ (395)	$ 500	$ 821	$ (329)	$ 492
Customer relationships	462	(60)	402	260	(15)	245
Trademarks	101	(16)	85	75	(6)	69
Other	418	(265)	153	505	(245)	260
	1,876	(736)	1,140	1,661	(595)	1,066
Trademarks with indefinite lives	107	—	107	107	—	107
	$ 1,983	$ (736)	$ 1,247	$ 1,768	$ (595)	$ 1,173

Intangible assets amortization expense was $144, $75 and $42 million in 2006, 2005 and 2004, respectively. Estimated intangible assets amortization expense for each of the next five years approximates $150 million in 2007, $140 million in 2008, $140 million in 2009, $130 million in 2010 and $120 million in 2011.

Note 13—Accrued Liabilities

	December 31,	
	2006	2005
Compensation, benefit and other employee related	$1,138	$ 996
Customer advances and deferred income	1,067	932
Income taxes	418	633
Environmental costs	251	237
Asbestos related liabilities	557	520
Product warranties and performance guarantees	347	322
Restructuring	127	182
Other taxes (payroll, sales, VAT etc.)	124	102
Insurance	110	127
Accrued interest	116	110
Other (primarily operating expenses)	1,200	1,198
	$5,455	$5,359

(Dollars in millions, except per share amounts)

Note 14—Long-term Debt and Credit Agreements

	December 31, 2006	December 31, 2005
8⅝% debentures due 2006	$ —	$ 100
5.25% notes due 2006	—	336
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
Floating rate notes due 2009	300	—
Zero coupon bonds and money multiplier notes, 13.0%–14.26%, due 2009	100	100
Floating rate notes due 2009-2011	239	249
7.50% notes due 2010	1,000	1,000
6⅛% notes due 2011	500	500
5.40% notes due 2016	400	—
Industrial development bond obligations, floating rate maturing at various dates through 2037	65	65
6⅝% debentures due 2028	216	216
9.065% debentures due 2033	51	51
5.70% notes due 2036	550	—
Other (including capitalized leases), 0.53%–16.40%, maturing at various dates through 2016	161	210
	4,332	4,077
Less—current portion	(423)	(995)
	$3,909	$3,082

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

	At December 31, 2006
2007	$ 423
2008	416
2009	511
2010	1,130
2011	526
Thereafter	1,326
	4,332
Less—current portion	(423)
	$ 3,909

We maintain a $2.3 billion five year revolving credit facility with a group of banks, arranged by Citigroup Global Markets Inc. and J.P.Morgan Securities Inc. This credit facility contains a $500 million sub-limit for the issuance of letters of credit. The $2.3 billion credit facility is maintained for general corporate purposes, including support for the issuance of commercial paper. We had no borrowings outstanding under the credit facility at December 31, 2006. We have issued $145 million of letters of credit under the credit facility at December 31, 2006.

The credit agreement does not restrict our ability to pay dividends and contains no financial covenants. The failure to comply with customary conditions or the occurrence of customary events of default contained in the credit agreement would prevent any further borrowings and would generally

require the repayment of any outstanding borrowings under the credit agreement. 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 letters of credit under the agreement 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 $2.3 billion credit facility are required to be repaid no later than April 27, 2011. We have agreed to pay a facility fee of 0.06 percent per annum on the aggregate commitment.

Interest on borrowings under the $2.3 billion credit facility 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 0.14 percent (applicable margin).

The facility fee, the applicable margin over the Eurocurrency rate and the letter of credit issuance fee, are subject to change, based upon a grid determined by our long term debt ratings. The credit agreement is not subject to termination based upon a decrease in our debt ratings or a material adverse change.

A 364-Day Canadian dollar credit facility arranged by Citibank, N.A., Canadian Branch was renewed on September 8, 2006, for 220 million Canadian dollars. 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, 2006. 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).

In March 2006, the Company issued $300 million of floating rate (LIBOR + 6 bps) Senior Notes due 2009, $400 million 5.40% Senior Notes due 2016 and $550 million 5.70% Senior Notes due 2036 (collectively, the “Notes”). The Notes are senior unsecured and unsubordinated obligations of Honeywell and rank equally with all of Honeywell's existing and future senior unsecured debt and senior to all Honeywell's subordinated debt. The offering resulted in gross proceeds of $1,250 million, offset by $11 million in discount and closing costs relating to the offering.

During the first quarter of 2006, the Company made a cash tender offer and repurchased $225 million of its $500 million 5.125% Notes due November 2006. The costs relating to the early redemption of the Notes were immaterial.

(Dollars in millions, except per share amounts)

Note 15—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, 2006
2007	$ 304
2008	222
2009	155
2010	100
2011	74
Thereafter	223
	$ 1,078

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 $341, $326 and $321 million in 2006, 2005 and 2004, respectively.

Note 16—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 21 percent of our consolidated sales in 2006. 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 U.S. dollar, Euro, the British pound, the Canadian dollar, the Hong Kong dollar, the Chinese renminbi, and the Singapore 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 2007 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, 2007.

At December 31, 2006 and 2005, we had contracts with notional amounts of $2,572 and $1,998 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 primarily mitigate our exposure to commodity price risk through the use of long-term, fixed-price contracts with our suppliers and formula price agreements with suppliers and customers. We also enter into forward commodity purchase agreements with third parties designated as hedges of anticipated purchases of several commodities. 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 long-term, medium-term and short-term financing, variable-rate commercial paper, and interest rate swaps to manage the interest rate mix of our total debt portfolio and related overall cost of borrowing. At December 31, 2006 and 2005, interest rate swap agreements designated as fair value hedges effectively changed $700 and $681 million, respectively, of fixed rate debt at an average rate of 6.38 and 6.15 percent, respectively, to LIBOR based floating rate debt. Our interest rate swaps mature through 2028.

***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, 2006 and 2005. 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.

(Dollars in millions, except per share amounts)

	December 31, 2006		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Long-term receivables	$ 333	$ 306	$ 306	$ 285
Interest rate swap agreements	3	3	9	9
Foreign currency exchange contracts	3	3	3	3
Forward commodity contracts	—	—	18	18
Liabilities				
Long-term debt and related current maturities	$ (4,332)	$ (4,521)	$ (4,077)	$ (4,291)
Foreign currency exchange contracts	(3)	(3)	(5)	(5)
Forward commodity contracts	(9)	(9)	(1)	(1)

Note 17—Other Liabilities

Other liabilities consist of the following:

	December 31,	
	2006	2005
Pension and other employee related	$1,748	$2,010
Environmental	580	642
Income taxes	575	569
Insurance	134	55
Asset retirement obligations (1)	92	88
Deferred income	56	28
Other	288	298
	$3,473	$3,690

(1) Asset retirement obligations primarily relate to costs associated with the future retirement of nuclear fuel conversion facilities in our Specialty Materials reportable segment and the future retirement of facilities in our Automation and Control Solutions reportable segment.

A reconciliation of our liability for asset retirement obligations for the year ended December 31, 2006, is as follows:

Balance at December 31, 2005	$ 88
Liabilities settled	(3)
Adjustments	2
Accretion expense	5
Balance at December 31, 2006	$ 92

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.

(Dollars in millions, except per share amounts)

In November 2005, Honeywell's Board authorized the Company to repurchase up to $3 billion of its common stock. As of December 31, 2006, $709 million 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, 2006, there was no preferred stock outstanding.

Note 19—Accumulated Other Comprehensive Income (Loss)

Total accumulated other comprehensive income (loss) is included in the Consolidated Statement of Shareowners' Equity. The changes in Accumulated Other Comprehensive Income (Loss) are as follows:

	Pretax	Tax	After-Tax
Year Ended December 31, 2006			
Foreign exchange translation adjustments	$ 233	$ —	$ 233
Change in fair value of effective cash flow hedges	(5)	2	(3)
Minimum pension liability adjustment	268	(72)	196
Pension and postretirement benefit adjustment	(2,620)	912	(1,708)
	$ (2,124)	$ 842	$ (1,282)
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

The components of Accumulated Other Comprehensive Income (Loss) are as follows:

	December 31,	
	2006	2005
Cumulative foreign exchange translation adjustments	$ 575	$ 342
Fair value of effective cash flow hedges	5	8
Pension and postretirement benefit adjustment	(1,887)	—
Minimum pension liability	—	(375)
	$(1,307)	$ (25)

(Dollars in millions, except per share amounts)

Note 20—Stock-Based Compensation Plans

We have stock-based compensation plans available to grant non-qualified stock options, incentive stock options, stock appreciation rights, restricted units and restricted stock to key employees. Under the 2006 Stock Incentive Plan of Honeywell International Inc. and its Affiliates (the Plan), which was approved by the shareowners at the Annual Meeting of Shareowners and became effective on April 24, 2006, a maximum of 43 million shares of common stock may be awarded. We expect that common stock awarded on an annual basis will be between 1.0 and 1.5 percent of total common stock outstanding. Following approval of the Plan on April 24, 2006, we will not grant any new awards under any previously existing stock-based compensation plans. Additionally, under the 2006 Stock Plan for Non-Employee Directors of Honeywell International Inc. (the Directors Plan), which was approved by the shareowners at the Annual Meeting of Shareowners and became effective on April 24, 2006, 500,000 shares of Honeywell common stock may be awarded. The Directors Plan replaces the 1994 Stock Plan for Non-Employee Directors of Honeywell International Inc.

Stock Options—The exercise price, term and other conditions applicable to each option granted under our stock plans are generally determined by the Management Development and Compensation Committee of the Board. The exercise price of stock options is set on the grant date and may not be less than the fair market value per share of our stock on that date. The fair value is recognized as an expense over the employee's requisite service period (generally the vesting period of the award). Options have generally vested over a three-year period and expire after ten years. Starting with 2007 option grants the vesting period will be extended to four years.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatility is based on implied volatilities from traded options on Honeywell stock. We used a Monte Carlo simulation model to derive an expected term. Such model uses historical data to estimate option exercise activity and post-vest termination behavior. The expected term represents an estimate of the time options are expected to remain outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. treasury yield curve in effect at the time of grant.

The fair value of each stock option grant made during 2006 was estimated on the grant-date using the Black-Scholes model using the following weighted-average assumptions consistent with the requirements of SFAS No. 123R.

	Year Ended December 31, 2006
Expected volatility	22.32%
Expected annual dividend yield	2.15%
Risk-free rate of return	4.63%
Expected option term (years)	5.0

(Dollars in millions, except per share amounts)

The following table summarizes information about stock option activity for the three years ended December 31, 2006:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2003	54,444,346	$ 37.68
Granted	9,469,800	35.49
Exercised	(2,955,232)	21.20
Lapsed or canceled	(2,433,985)	39.41
Outstanding at December 31, 2004	58,524,929	38.09
Granted	10,327,350	36.75
Exercised	(5,372,501)	29.07
Lapsed or canceled	(4,261,523)	40.46
Outstanding at December 31, 2005	59,218,255	38.50
Granted	9,193,200	42.35
Exercised	(11,466,491)	33.61
Lapsed or canceled	(2,712,287)	42.27
Outstanding at December 31, 2006	54,232,677	$ 39.98
Vested and expected to vest at December 31, 2006(1)	52,076,411	$ 39.76
Exercisable at December 31, 2006	37,902,956	$ 40.16

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

The following table summarizes information about stock options outstanding and exercisable at December 31, 2006:

	Options Outstanding				Options Exercisable		
Range of exercise prices	Number Outstanding	Weighted Average Life(1)	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
$21.75–$32.63	5,197,055	6.07	$ 24.07	$ 111	5,151,345	$ 24.03	$ 110
$33.00–$49.50	42,845,669	6.08	38.66	295	26,561,771	38.08	200
$49.97–$74.95	6,189,953	2.79	62.60	—	6,189,840	62.60	—
	54,232,677	5.70	39.98	$ 406	37,902,956	40.16	$ 310

(1) Average remaining contractual life in years.

There were 42,416,585 and 43,343,099 options exercisable at weighted average exercise prices of $40.01 and $40.36 at December 31, 2005 and 2004, respectively. There were 43,341,460 shares available for future grants under the terms of our stock option plans at December 31, 2006.

The weighted average fair value of options granted in 2006 was $9.44. The total intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options on the date of exercise) exercised during 2006 was $92 million. During 2006, the amount of cash received from the exercise of stock options was $385 million with an associated tax benefit realized of $34 million. Consistent with the requirements of SFAS No. 123R, we classified $31 million of this benefit as a financing cash inflow in the Consolidated Statement of Cash Flows, and the balance was classified as cash from operations.

At December 31, 2006, there was $90 million of total unrecognized compensation cost related to non-vested stock option awards which is expected to be recognized over a weighted-average period of 1.59 years. The total fair value of options vested during 2006 was $70 million.

(Dollars in millions, except per share amounts)

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 at fair market value at the date of grant as compensation. RSUs typically become fully vested over periods ranging from three to seven years and are payable in Honeywell common stock upon vesting.

The following table summarizes information about RSU activity for the three years ended December 31, 2006:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value Per Share
Non-vested at December 31, 2003	3,103,513	$ 30.10
Granted	980,706	$ 35.63
Vested	(205,463)	$ 34.91
Forfeited	(187,200)	$ 32.14
Non-vested at December 31, 2004	3,691,556	$ 31.20
Granted	1,163,984	$ 37.39
Vested	(424,175)	$ 32.84
Forfeited	(465,834)	$ 30.11
Non-vested at December 31, 2005	3,965,531	$ 32.97
Granted	1,948,650	$ 39.11
Vested	(759,015)	$ 30.04
Forfeited	(403,167)	$ 34.25
Non-vested at December 31, 2006	4,751,999	$ 35.85

As of December 31, 2006, there was approximately $113 million of total unrecognized compensation cost related to non-vested RSUs granted under our stock plans which is expected to be recognized over a weighted-average period of 2.36 years. Compensation expense related to RSUs was $29, $24 and $24 million in 2006, 2005 and 2004, respectively. At December 31, 2006, the Company reclassified $112 million of obligations to equity for restricted and deferred stock awards that are settled in equity.

Non-Employee Directors' Plan—Under the Directors' Plan 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 have generally become exercisable over a three-year period and expire after ten years. Starting with 2007 option grants the vesting period will be extended to four 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 accordance with environmental and safety laws and regulations. However, mainly because of past operations and operations of predecessor companies, we, like other companies engaged in similar businesses, have incurred remedial response and voluntary cleanup costs for site contamination and are a party to lawsuits and claims associated with environmental and safety matters, including past production of products containing toxic substances. Additional lawsuits, claims and costs involving environmental matters are likely to continue to arise in the future.

(Dollars in millions, except per share amounts)

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 remedial investigations and feasibility studies, the timing of litigation and settlements of remediation liability, personal injury and property damage claims, regulatory approval of cleanup projects, remedial techniques to be utilized and agreements with other parties. The following table summarizes information concerning our recorded liabilities for environmental costs:

	Years Ended December 31,		
	2006	2005	2004
Beginning of year	$ 879	$ 895	$ 593
Accruals for environmental matters deemed probable and reasonably estimable	218	186	536
Environmental liability payments	(264)	(247)	(248)
Other adjustments(1)	(2)	45	14
End of year	$ 831	$ 879	$ 895

(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,	
	2006	2005
Accrued liabilities	$251	$237
Other liabilities	580	642
	$831	$879

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

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

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

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

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

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

Decision with respect to remediation of industrial contamination in the Lake. In October 2006, Honeywell entered into a Consent Decree with the State of New York to implement the remedy set forth in the Record of Decision. In January 2007, the Consent Decree was approved by the United States District Court for the Northern District of New York.

The Record of Decision calls for a combined dredging/capping remedy generally in line with the approach recommended in the Feasibility Study submitted by Honeywell in May 2004. Based on currently available information and analysis performed by our engineering consultants, we have accrued for our estimated cost of implementing the remedy set forth in the Record of Decision. Our estimating process considered a range of possible outcomes and the amounts recorded reflect our best estimate at this time. Given the scope and complexity of this project, it is possible that actual costs could exceed estimated costs by an amount that could have a material adverse impact on our consolidated results of operations and operating cash flows in the periods recognized or paid. At this time, however, we cannot identify any legal, regulatory or technical reason to conclude that a specific alternative outcome is more probable than the outcome for which we have made provisions in our financial statements. The DEC's aggregate cost estimate, which is higher than the amount reserved, is based on the high end of the range of potential costs for major elements of the Record of Decision and includes a contingency. The actual cost of the Record of Decision will depend upon, among other things, the resolution of certain technical issues during the design phase of the remediation. We do not believe that this matter will have a material adverse impact on our consolidated financial position. In December 2006, the United States Fish and Wildlife Service published notice of its intent to pursue natural resource damages related to the site. It is not possible to predict the outcome or timing of its assessments, which are typically lengthy processes lasting several years, or the amounts of or responsibility for these damages.

***Dundalk Marine Terminal, Baltimore*–**Chrome residue from legacy chrome plant operations in Baltimore was deposited as fill at the Dundalk Marine Terminal (“DMT”), which is owned and operated by the Maryland Port Administration (“MPA”). Honeywell and the MPA have been sharing costs to investigate and mitigate related environmental issues, and have entered into a cost sharing agreement under which Honeywell will bear a 77 percent share of the costs of developing and implementing permanent remedies for the DMT facility. The investigative phase (which began in April 2006) is expected to take approximately 18 to 36 months, after which the appropriate remedies will be identified and chosen. We have negotiated a Consent Decree with the MPA and Maryland Department of the Environment (“MDE”) with respect to the investigation and remediation of the DMT facility, and that Consent Decree was filed with the Maryland state court for Baltimore County, Maryland. BUILD, a Baltimore community group, together with a local church and two individuals, have intervened and are challenging the Consent Decree. We do not believe that this matter will have a material adverse impact on our consolidated financial position or operating cash flows. Given the scope and complexity of this project, it is possible that the cost of remediation, when determinable, could have a material adverse impact on our results of operations in the periods recognized.

Asbestos Matters

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

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

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

As a result of the NARCO bankruptcy filing, all of the claims pending against NARCO are automatically stayed pending the reorganization of NARCO. In addition, the bankruptcy court enjoined both the filing and prosecution of NARCO-related asbestos claims against Honeywell. 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 to Honeywell, upon the effective date of the plan of reorganization.

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

The vast majority of the asbestos claimants have voted in favor of NARCO's Third Amended Plan Of Reorganization (NARCO Plan). The court conducted its evidentiary hearing on confirmation issues on June 5 and 6, 2006. All objections to the NARCO Plan have either been resolved or dismissed by the Bankruptcy Court. The Court's confirmation order for the NARCO Plan may be delayed, however, due to additional evidentiary requirements relating to the confirmation of a plan of reorganization for one of NARCO's affiliates. Although we expect the NARCO Plan 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 as of December 31, 2006 and 2005 of $1.3 and $1.8 billion, respectively. The estimated liability for pending claims is based on terms and conditions, including evidentiary requirements, in definitive agreements with approximately 260,000 current claimants, and an estimate of the unsettled claims pending as of the time NARCO filed for bankruptcy protection. Substantially all settlement payments with respect to current claims are expected to be completed by the end of 2007. Approximately $90 million of payments due pursuant to these settlements is due only upon establishment of the NARCO trust.

The estimated liability for future claims represents the estimated value of future asbestos related bodily injury claims expected to be asserted against NARCO through 2018 and the aforementioned obligations to NARCO's parent. In light of the uncertainties inherent in making long-term projections we do not believe that we have a reasonable basis for estimating asbestos claims beyond 2018 under

SFAS No. 5, “Accounting for Contingencies”. The estimate is based upon the disease criteria and payment values contained in the NARCO Trust Distribution Procedures negotiated with the NARCO Asbestos Claimants Committee and the NARCO future claimants' representative. Honeywell projected 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. In December 2006, (as a result of significantly varying experiences of asbestos claims filing rates in the tort system and in certain operating asbestos trusts) and the changing claims experience in those forums (as a result of more clearly defined proof requirements and possible enactment of state medical criteria bills), we updated the range of estimated liability for future NARCO-related claims. Such update resulted in a range of estimated liability for future claims of $743 to $961 million. We believe that no amount within this range is a better estimate than any other amount. Accordingly, we recorded the minimum amount in the range which resulted in a reduction of $207 million in our estimated liability for future NARCO-related asbestos claims.

As of December 31, 2006 and 2005, our consolidated financial statements reflect an insurance receivable corresponding to the liability for settlement of pending and future NARCO-related asbestos claims of $955 million and $1.1 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, 2006, a significant portion of this coverage is with insurance companies with whom we have agreements to pay full policy limits based on corresponding Honeywell claims costs. We conduct analyses to determine the amount of insurance that we estimate is probable of recovery in relation to payment of current and estimated future claims. While the substantial majority of our insurance carriers are solvent, some of our individual carriers are insolvent, which has been considered in our analysis of probable recoveries. We made judgments concerning insurance coverage that we believe are reasonable and consistent with our historical dealings with our insurers, our knowledge of any pertinent solvency issues surrounding insurers and various judicial determinations relevant to our insurance programs.

In the second quarter of 2006, Travelers Casualty and Insurance Company (“Travelers”) filed a lawsuit against Honeywell and other insurance carriers in the Supreme Court of New York, County of New York, disputing obligations for NARCO-related asbestos claims under high excess insurance coverage issued by Travelers and other insurance carriers. Approximately $370 million of coverage under these policies is included in our NARCO-related insurance receivable at December 31, 2006. Honeywell believes it is entitled to the coverage at issue and has filed counterclaims in the Superior Court of New Jersey seeking, among other things, declaratory relief with respect to this coverage. Although Honeywell expects to prevail in this matter, an adverse outcome could have a material impact on our results of operations in the period recognized but would not be material to our consolidated financial position or operating cash flows.

Projecting future events is subject to many uncertainties that could cause the NARCO related asbestos liabilities or assets to be higher or lower than those projected and recorded. There is no assurance that 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.

(Dollars in millions, except per share amounts)

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

From 1981 through December 31, 2006, we have resolved approximately 105,000 Bendix related asbestos claims including trials covering 124 plaintiffs, which resulted in 116 favorable verdicts. Trials covering eight individuals resulted in adverse verdicts; however, two of these verdicts were reversed on appeal, three are or shortly will be 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	**2006**	**2005**
Claims Unresolved at the beginning of year	79,502	76,348
Claims Filed	4,391	7,520
Claims Resolved	(26,785)	(4,366)(a)
Claims Unresolved at the end of year	57,108	79,502

	December 31,	
Disease Distribution of Unresolved Claims	**2006**	**2005**
Mesothelioma and Other Cancer Claims	4,843	4,810
Other Claims	52,265	74,692
Total Claims	57,108	79,502

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

Approximately 45 percent of the approximately 57,000 pending claims at December 31, 2006 are on the inactive, deferred, or similar dockets established in some jurisdictions for claimants who allege minimal or no impairment. The approximately 57,000 pending claims also include claims filed in jurisdictions such as Texas, Virginia, and Mississippi that historically allowed for consolidated filings. In these jurisdictions, plaintiffs were permitted to file complaints against a pre-determined master list of defendants, regardless of whether they have claims against each individual defendant. Many of these plaintiffs may not actually have claims against Honeywell. Based on state rules and prior experience in these jurisdictions, we anticipate that many of these claims will ultimately be dismissed. During 2006 approximately 16,000 cases were dismissed. More than 85 percent of these dismissals occurred in Mississippi as a result of judicial rulings relating to non-resident filings and venue. We anticipate additional dismissals in this jurisdiction.

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

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

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

Our consolidated financial statements reflect an estimated liability for resolution of pending and future Bendix related abestos claims at December 31, 2006 of $528 million. Prior to December 2006, we only accrued for the estimated cost of pending Bendix related abestos claims as we could not reasonably estimate losses which could arise from future Bendix related abestos claims. Due to the steady three-year decline in the rate of Bendix related asbestos claims filed and reduced volatility in those rates, we believe that it is now possible to determine a reasonable estimate of the costs that will be incurred for claims filed over the next five years. Accordingly during the fourth quarter of 2006, we recorded a reserve of $335 million for the estimated cost of future Bendix related asbestos claims based on the number of pending claims at December 31, 2006, disease classifications, and expected resolution values and historic dismissal rates. Prior to December 2006, we have historically valued Bendix claims at the average resolution value of the previous five years. In December 2006, based on the Bendix related experience over the last five years we now believe that the average of the prior two years is a more accurate indicator of future resolution values, and accordingly, we have applied this two-year resolution value in calculating both the reserves for pending and future Bendix related asbestos claims. This change resulted in a reduction of $118 million in the reserve for pending Bendix claims in the fourth quarter of 2006. We will update the expected resolution values used to estimate the cost of pending and future Bendix claims during the fourth quarter each year.

The estimated liability for future claims represents the estimated value of future asbestos related bodily injury claims expected to be asserted against Bendix through 2011. In light of the uncertainties inherent in making long-term projections, as well as certain factors unique to friction product asbestos claims, we do not believe that we have a reasonable basis for estimating asbestos claims beyond 2011 under SFAS No. 5, “Accounting for Contingencies”. The estimate is based upon Bendix historical experience in the tort system for the two years ended December 31, 2006 with respect to claims filing and resolution. The methodology used to estimate the liability for future claims has been commonly accepted by numerous courts. It is substantially similar to that used to estimate the future NARCO related asbestos claims liability, with the exception that the valuation methodology for Bendix includes payment rates based on Bendix resolution history, rather than expected trust payment rates.

Honeywell currently has approximately $1.9 billion of insurance coverage remaining with respect to pending and potential future Bendix related asbestos claims, of which $302 and $377 million are reflected as receivables in our consolidated balance sheet at December 31, 2006 and 2005, 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 issuers. 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.

(Dollars in millions, except per share amounts)

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

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

Asbestos Related Liabilities

	Year Ended December 31, 2006			Year Ended December 31, 2005			Year Ended December 31, 2004		
	Bendix	NARCO	Total	Bendix	NARCO	Total	Bendix	NARCO	Total
Beginning of year	$ 287	$ 1,782	$ 2,069	$ 355	$ 2,395	$ 2,750	$ 249	$ 2,760	$ 3,009
Accrual for claims filed and defense costs incurred	125	—	125	170	—	170	186	—	186
Accrual for estimated cost of future claims	335	—	335	—	—	—	—	—	—
Reduction in estimated cost of future claims	—	(207)	(207)	—	—	—	—	—	—
Asbestos related liability payments	(103)	(316)	(419)	(153)	(597)	(750)	(153)	(365)	(518)
Settlement with plaintiff firms of certain pending asbestos claims(1)	—	32	32	—	(21)	(21)	—	—	—
Update of expected resolution values for pending claims	(118)	—	(118)	(85)	—	(85)	73	—	73
Other	2	—	2	—	5	5	—	—	—
End of year	$ 528	$ 1,291	$ 1,819	$ 287	$ 1,782	$ 2,069	$ 355	$ 2,395	$ 2,750

(1) In 2006, charge of $32 million reflects a settlement of certain pending asbestos claims. In 2005, consists of a charge of $52 million to reflect a settlement of certain pending 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.

(Dollars in millions, except per share amounts)

Insurance Recoveries for Asbestos Related Liabilities

	Year Ended December 31, 2006			Year Ended December 31, 2005			Year Ended December 31, 2004		
	Bendix	NARCO	Total	Bendix	NARCO	Total	Bendix	NARCO	Total
Beginning of year	$ 377	$ 1,096	$ 1,473	$ 336	$ 1,226	$ 1,562	$ 209	$ 1,238	$ 1,447
Probable insurance recoveries related to claims filed	11	—	11	34	—	34	96	—	96
Probable insurance recoveries related to annual update of expected resolution values for pending claims	39	—	39	(15)	—	(15)	39	—	39
Insurance receipts for asbestos related liabilities	(166)	(100)	(266)	(33)	(127)	(160)	(8)	(59)	(67)
Insurance receivables settlements and write-offs(1)	34	(41)	(7)	41	—	41	—	—	—
Other(2)	7	—	7	14	(3)	11	—	47	47
End of year	$ 302	$ 955	$ 1,257	$ 377	$ 1,096	$ 1,473	$ 336	$ 1,226	$ 1,562

(1) In 2006, $34 million reflects gains from settlements with two Bendix insurance carriers and $41 million represents the write-down of the NARCO insurance receivable to reflect the reduction in the estimated cost of future claims. 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.

(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.

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

	December 31,	
	2006	2005
Other current assets	$ 157	$ 171
Insurance recoveries for asbestos related liabilities	1,100	1,302
	$1,257	$1,473
Accrued liabilities	$ 557	$ 520
Asbestos related liabilities	1,262	1,549
	$1,819	$2,069

Other Matters

Baton Rouge, LA—As previously reported, three incidents occurred during 2003 at Honeywell's Baton Rouge, Louisiana chemical plant, including a release of chlorine, a release of antimony pentachloride (which resulted in an employee fatality), and an employee exposure to hydrofluoric acid. The United States Environmental Protection Agency and the United States Department of Justice have conducted investigations of these incidents, including a federal grand jury convened to investigate the employee fatality. As a result of that investigation, we have signed a plea agreement with the U.S. Attorney under which Honeywell will plead guilty to a misdemeanor charge and pay $12 million in combined restitution and fines. The plea agreement has been filed, but the plea and the sentence still are subject to Court acceptance, which we expect to receive. Honeywell has been served with several civil lawsuits regarding these incidents, for which we believe we have adequate insurance coverage to the extent that there is any liability. We are also engaged in discussions with the Louisiana Department

of Environmental Quality (LADEQ) to resolve alleged civil environmental violations at our Baton Rouge and Geismar, Louisiana facilities that, in part, overlap with the subject of the federal investigation.

Brunswick, GA—Honeywell has reached settlements with Glynn County, Georgia and with a group of private individuals who own or owned properties near the Allied Chemical (a predecessor company) chlor-alkali plant, in Brunswick, Georgia in various related cases. The plaintiffs had alleged that mercury and PCB discharges from the plant devalued their property, and caused them loss of use and enjoyment of that property. They were seeking compensatory, injunctive and punitive damages. The settlement with Glynn County was for $25 million and that amount has been paid. The settlement with the private property owners was also for $25 million and the money has been placed into the plaintiffs' attorney trust account pending confirmation that none of the private landowners have opted out of the settlement and allocation of the proceeds among the parties by a special master appointed by the court. Honeywell and the private landowners will ask the court to confirm the settlement as final in a hearing set for April 6, 2007.

Allen, et, al. v. Honeywell Retirement Earnings Plan—This represents a 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. A class was certified by the Court in September 2006. In light of the merits of our arguments on appeal and our 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 and the wide range of potential remedies, 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 this matter, an adverse outcome 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 this 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 (taking into consideration any insurance recoveries), based on a careful analysis of each matter with the assistance of outside legal counsel and, if applicable, other experts.

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

(Dollars in millions, except per share amounts)

***Warranties and Guarantees*—**We have issued or are a party to the following direct and indirect guarantees at December 31, 2006:

	Maximum Potential Future Payments
Operating lease residual values	$ 38
Other third parties' financing	6
Unconsolidated affiliates' financing	9
Customer financing	22
	$ 75

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,		
	2006	2005	2004
Beginning of year	$ 347	$ 299	$ 275
Accruals for warranties/guarantees issued during the year	268	203	236
Adjustment of pre-existing warranties/guarantees	(22)	17	1
Settlement of warranty/guarantee claims	(230)	(172)	(213)
End of year	$ 363	$ 347	$ 299

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

	December 31,	
	2006	2005
Accrued liabilities	$347	$322
Other liabilities	16	25
	$363	$347

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 74 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 26 percent of our projected benefit obligation.

(Dollars in millions, except per share amounts)

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.

As discussed in Note 1—Summary of Significant Accounting Policies, we adopted SFAS No. 158 as of December 31, 2006. SFAS No. 158 requires that we recognize on a prospective basis the funded status of our defined benefit pension and other postretirement benefit plans on the consolidated balance sheet and recognize as a component of accumulated other comprehensive income (loss), net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost. Additional minimum pension liabilities and related intangible assets are also derecognized upon adoption of the new standard. The adjustment for SFAS No. 158 affected our Consolidated Balance Sheet as follows:

Decrease in prepaid pension benefit cost	$	(2,071)
Decrease in intangible asset		(79)
Decrease in accrued and minimum pension liability		138
Increase in postretirement benefit obligations other than pensions		(340)
Increase in accumulated other comprehensive loss, pre-tax		(2,352)
Increase in income tax benefit		840
Increase in accumulated other comprehensive loss, net of tax(1)	$	(1,512)

(1) Represents $1,708 million reduction of shareowners' equity including a $196 million adjustment related to our additional minimum liability.

(Dollars in millions, except per share amounts)

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, 2006 and 2005.

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 16,168	$ 13,587	$ 2,318	$ 2,353
Service cost	274	236	17	17
Interest cost	908	815	122	120
Plan amendments	7	(2)	(11)	(20)
Actuarial (gains) losses	(183)	685	(14)	(74)
Acquisitions	75	1,940	—	121
Benefits paid	(1,070)	(965)	(186)	(199)
Settlements and curtailments	(15)	(1)	—	—
Other	844	(127)	19	—
Benefit obligation at end of year	17,008	16,168	2,265	2,318
Change in plan assets:				
Fair value of plan assets at beginning of year	14,653	13,070	—	—
Actual return on plan assets	1,897	1,229	—	—
Company contributions	347	105	—	—
Acquisitions	65	1,317	—	—
Benefits paid	(1,070)	(965)	—	—
Other	686	(103)	—	—
Fair value of plan assets at end of year	16,578	14,653	—	—
Funded status of plans	$ (430)	(1,515)	$ (2,265)	(2,318)
Net obligation at transition(1)	—	9	—	—
Net loss(1)	—	3,444	—	552
Prior service cost (credit)(1)	—	119	—	(175)
Net amount recognized(1)	—	$ 2,057	—	$ (1,941)
Amounts recognized in Consolidated Balance Sheet consist of:				
Prepaid pension benefit cost	$ 685	$ 2,716	$ —	$ —
Intangible asset(2)	—	79	—	—
Accrued liabilities	—	—	(197)	(197)
Postretirement benefit obligations other than pensions(3)	—	—	(2,068)	(1,744)
Accrued pension liability(4)	(1,115)	(767)	—	—
Additional minimum liability(4)	—	(518)	—	—
Accumulated other comprehensive income (loss)	—	547	—	—
Net amount recognized	$ (430)	$ 2,057	$ (2,265)	$ (1,941)

(1) Disclosure is not applicable in 2006 as a result of SFAS No. 158.

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

(3) Excludes Non-U.S. plans of $22 and $42 million in 2006 and 2005, respectively.

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

(Dollars in millions, except per share amounts)

	Pension Benefits	Other Postretirement Benefits
	2006	2006
Amounts recognized in Accumulated Other Comprehensive Income (loss) at December 31, 2006		
Transition obligation	$ 11	$ —
Prior service cost or (benefit)	98	(146)
Actuarial losses	2,423	486
Net amount recognized	$ 2,532	$ 340

The accumulated benefit obligation for our defined benefit pension plans was $16.2 and $15.4 billion at December 31, 2006 and 2005, respectively.

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

	Pension Benefits		
	Years Ended December 31,		
	2006	2005	2004
Service cost	$ 274	$ 236	$ 222
Interest cost	908	815	755
Expected return on plan assets	(1,251)	(1,104)	(1,042)
Amortization of prior service cost	27	30	38
Recognition of actuarial losses	348	392	413
Settlements and curtailments	(13)	—	—
Net periodic benefit cost	$ 293	$ 369	$ 386

	Other Postretirement Benefits		
	Years Ended December 31,		
	2006	2005	2004
Service cost	$ 17	$ 17	$ 17
Interest cost	122	120	138
Amortization of prior service (credit)	(40)	(39)	(37)
Recognition of actuarial losses	52	63	101
Net periodic benefit cost	$ 151	$ 161	$ 219

The estimated net loss and prior service cost for pension benefits that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are expected to be $193 and $27 million, respectively. The estimated net loss and prior service credit for other postretirement benefits that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are expected to be $45 and $(40) million, respectively.

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 individually material, assumptions reflect economic assumptions applicable to each country.

(Dollars in millions, except per share amounts)

	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Actuarial assumptions used to determine benefit obligations as of December 31:						
Discount rate	6.00%	5.75%	5.875%	5.70%	5.50%	5.50%
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	5.75%	5.875%	6.00%	5.50%	5.50%	6.00%
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, actuarial losses in excess of 10 percent of the greater of the market-related value of plan assets or the plans projected benefit obligation are amortized 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,	
	2006	2005
Projected benefit obligation	$2,055	$2,746
Accumulated benefit obligation	1,875	2,541
Fair value of plan assets	1,321	1,511

(Dollars in millions, except per share amounts)

Our U.S. pension plans assets were $12.8 and $12.0 billion and our non-U.S. pension plans assets were $3.8 and $2.6 billion at December 31, 2006 and 2005, respectively. Our asset allocation and target allocation for our pension plans assets are as follows:

Asset Category	Percentage of Plans Assets at December 31, 2006	2005	Long-term Target Allocation
Equity securities	63%	63%	40-65%
Debt securities, including cash	29	31	25-45
Real estate	5	4	2-8
Other	3	2	2-6
	100%	100%	

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 25 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 2006 and 2004, we made voluntary contributions of $68 and $40 million, respectively, to our U.S. defined benefit pension plans primarily for government contracting purposes. Assuming that actual plan asset returns are consistent with our expected rate of 9 percent in 2007 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 $52 million in cash in 2007 to certain of our U.S. plans for government contracting purposes. We also expect to contribute approximately $155 million in cash in 2007 to our non-U.S. defined benefit pension plans to satisfy regulatory funding standards. 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:

2007	$1,074
2008	1,083
2009	1,092
2010	1,100
2011	1,111
2012-2016	6,327

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

(Dollars in millions, except per share amounts)

Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) for employers that sponsor postretirement health care plans that provide prescription drug coverage that is at least actuarially equivalent to that offered by Medicare Part D. The impact of the Act reduced other postretirement benefits expense by approximately $37 and $45 million in 2006 and 2005, respectively.

	December 31, 2006	December 31, 2005
Assumed health care cost trend rate:		
Health care cost trend rate assumed for next year	9.0%	9.0%
Rate that the cost trend rate gradually declines to	5.5%	5.0%
Year that the rate reaches the rate it is assumed to remain at	2014	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	1 percentage point Decrease
Effect on total of service and interest cost components	$ 6	$ (5)
Effect on postretirement benefit obligation	$ 87	$ (78)

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

	Without Impact of Medicare Subsidy	Net of Medicare Subsidy
2007	$ 211	$ 189
2008	212	192
2009	214	193
2010	214	193
2011	215	195
2012-2016	1,016	930

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 4.5, 4.1 and 4.3 million at a cost of $179, $153 and $151 million in 2006, 2005 and 2004, 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 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, other income (expense), interest and other financial charges, pension and other postretirement benefits (expense), stock option expense, repositioning and other charges and accounting changes. Intersegment sales approximate market prices and are not significant. Reportable segment data follows:

(Dollars in millions, except per share amounts)

	Years Ended December 31,		
	2006	2005	2004
Net sales			
Aerospace	$11,124	$10,496	$ 9,740
Automation and Control Solutions	11,020	9,416	8,031
Specialty Materials	4,631	3,234	3,497
Transportation Systems	4,592	4,505	4,323
Corporate	—	1	2
	$31,367	$27,652	$25,593
Depreciation and amortization			
Aerospace	$ 195	$ 188	$ 199
Automation and Control Solutions	240	202	159
Specialty Materials	221	137	141
Transportation Systems	101	93	80
Corporate	37	33	35
	$ 794	$ 653	$ 614
Segment profit			
Aerospace	$ 1,892	$ 1,676	$ 1,422
Automation and Control Solutions	1,223	1,065	894
Specialty Materials	568	257	184
Transportation Systems	574	557	575
Corporate	(177)	(173)	(158)
	$ 4,080	$ 3,382	$ 2,917
Capital expenditures			
Aerospace	$ 178	$ 178	$ 168
Automation and Control Solutions	165	136	106
Specialty Materials	186	155	156
Transportation Systems	109	143	137
Corporate	95	72	62
	$ 733	$ 684	$ 629

	December 31,		
	2006	2005	2004
Total assets			
Aerospace	$ 7,914	$ 7,696	$ 7,949
Automation and Control Solutions	11,287	10,080	8,128
Specialty Materials	4,674	4,732	3,239
Transportation Systems	3,038	2,880	3,131
Corporate	4,028	6,245	8,123
	$30,941	$31,633	$30,570

(Dollars in millions, except per share amounts)

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

	Years Ended December 31,		
	2006	2005	2004
Segment profit	$4,080	$3,382	$2,917
Other income (expense)	111	231	429
Interest and other financial charges	(374)	(356)	(331)
Stock option expense(1)	(77)	—	—
Pension and other postretirement benefits (expense)(1)	(459)	(561)	(628)
Repositioning and other charges(1)	(483)	(400)	(764)
Income from continuing operations before taxes	$2,798	$2,296	$1,623

(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,		
	2006	2005	2004	2006	2005	2004
United States	$ 19,821	$ 17,956	$ 16,625	$ 11,438	$ 10,842	$ 8,307
Europe	7,781	6,552	6,097	2,161	1,958	2,044
Other International	3,765	3,144	2,871	848	691	458
	$ 31,367	$ 27,652	$ 25,593	$ 14,447	$ 13,491	$ 10,809

(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 $3,493, $2,780 and $2,399 million in 2006, 2005 and 2004, 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,		
	2006	2005	2004
Payments for repositioning and other charges:			
Severance and exit cost payments	$(142)	$ (171)	$(164)
Environmental payments	(264)	(247)	(248)
Proceeds from sale of insurance receivable	100	—	—
Insurance receipts for asbestos related liabilities	166	160	67
Asbestos related liability payments	(419)	(750)	(518)
	$(559)	$(1,008)	$(863)
Interest paid, net of amounts capitalized	$ 361	$ 397	$ 330
Income taxes paid, net of refunds	471	235	178

Non-cash investing and financing activities:			
Common stock contributed to U.S. savings plans	179	153	151

(Dollars in millions, except per share amounts)

Note 26—Unaudited Quarterly Financial Information

	2006					2005				
	Mar. 31	June 30	Sept. 30	Dec. 31	Year	Mar. 31	June 30	Sept. 30	Dec. 31	Year
Net sales	$ 7,241	$ 7,898	$ 7,952	$ 8,276	$ 31,367	$ 6,449	$ 7,028	$ 6,900	$ 7,275	$27,652
Gross profit	1,641	1,871	1,841	1,918	7,271	1,367	1,525	1,598	1,638	6,128
Income from continuing operations	431	521	541	585	2,078	358	274	427	505	1,564
Income from discontinued operations	5	—	—	—	5	—	28	37	30	95
Cumulative effect of accounting change(1)	—	—	—	—	—	—	—	—	(21)	(21)
Net income	436	521	541	585	2,083	358	302	464	514	1,638
Earnings per share—basic:										
Income from continuing operations	.51	.63	.66	.72	2.53	.42	.33	.50	.60	1.85
Income from discontinued operations	.01	—	—	—	.01	—	.03	.04	.04	.11
Cumulative effect of accounting change	—	—	—	—	—	—	—	—	(.03)	(.03)
Net income	.52	.63	.66	.72	2.54	.42	.36	.54	.61	1.93
Earnings per share—assuming dilution:										
Income from continuing operations	.51	.63	.66	.72	2.51	.42	.33	.50	.60	1.84
Income from discontinued operations	.01	—	—	—	.01	—	.03	.04	.04	.11
Cumulative effect of accounting change	—	—	—	—	—	—	—	—	(.03)	(.03)
Net income	.52	.63	.66	.72	2.52	.42	.36	.54	.61	1.92
Dividends paid	.226875	.226875	.226875	.226875	.9075	.20625	.20625	.20625	.20625	.8250
Market price(2)										
High	42.85	44.16	41.37	45.46	45.46	39.30	38.12	39.29	37.96	39.30
Low	35.84	37.62	36.21	41.35	35.84	34.00	35.17	35.41	33.21	33.21

(1) Represents the net of tax effect of adopting FIN 47 as of December 31, 2005.
(2) 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 consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, 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, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 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 changed the manner in which it accounts for stock-based compensation and defined benefit pension and other postretirement plans in 2006 and the manner in which it accounts for conditional asset retirement obligations in 2005.

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, 2006 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, 2006, 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
February 15, 2007

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, 2006. 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, 2006.

Management's assessment of the effectiveness of Honeywell's internal control over financial reporting as of December 31, 2006 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, 2006, 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: Scott Davis (Chair), Linnet Deily, James J. Howard, Russell E. Palmer, Eric K. Shinseki, John R. Stafford, and Michael W. Wright. The Board has determined that Mr. Davis is the “audit committee financial expert” as defined by applicable SEC rules and that Mr. Davis and Mr. Palmer satisfy 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 2006 and 2005 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

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 102 through 106 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.

February 15, 2007 By: /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	James J. Howard Director
*	*
Gordon M. Bethune Director	Russell E. Palmer Director
*	*
Jaime Chico Pardo Director	Ivan G. Seidenberg Director
*	*
D. Scott Davis Director	Bradley T. Sheares, Ph.D. Director
*	*
Linnet F. Deily Director	Eric K. Shinseki Director
*	*
Clive R. Hollick Director	John R. Stafford Director
/s/ DAVID J. ANDERSON	*
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)

February 15, 2007

EXHIBIT INDEX

Exhibit No.	Description
2	Omitted (Inapplicable)
3(i)	Restated Certificate of Incorporation of Honeywell International Inc., as amended April 25, 2005 (incorporated by reference to Exhibit 3(i) to Honeywell's Form 10-K for the year ended December 31, 2005)
3(ii)	By-laws of Honeywell, as amended December 8, 2006 (incorporated by reference to Exhibit 3(ii) to Honeywell's Form 8-K filed December 11, 2006)
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 and by the attached amendment (filed herewith))
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 Exhibit 10.2 to Honeywell's Form 10-K for the year ended December 31, 2005)
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 and by the attached amendment (filed herewith))
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)

Exhibit No.	Description
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 and by the attached amendments (filed herewith))
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 and by the attached amendment (filed herewith))
10.10*	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 and by Exhibit 10.2 to Honeywell's Form 10-Q for the quarter ended September 30, 2006)
10.11*	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)
10.12*	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 and by Exhibit 10.2 to Honeywell's Form 10-Q for the quarter ended September 30, 2006)
10.13*	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 and by Exhibit 10.2 to Honeywell's Form 10-Q for the quarter ended September 30, 2006)
10.14*	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)
10.15*	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)
10.16*	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)
10.17*	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)
10.18*	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 February 7, 2005)

Exhibit No.	Description
10.19*	2003 Stock Incentive Plan for Employees of Honeywell International Inc. and its Affiliates Restricted Unit Agreement (incorporated by reference to Exhibit 10.21 to Honeywell's Form 10-K for the year ended December 31, 2005)
10.20*	2003 Stock Incentive Plan for Employees of Honeywell International Inc. and its Affiliates Growth Plan Agreement (incorporated by reference to Exhibit 10.22 to Honeywell's Form 10-K for the year ended December 31, 2005)
10.21*	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)
10.22*	Deferred Compensation Agreement dated August 4, 2006 between Honeywell and David M. Cote (filed herewith)
10.23*	Letter Agreement dated July 27, 2001 between Honeywell and Larry E. Kittelberger (filed herewith)
10.24*	Honeywell Supplemental Retirement Plan (filed herewith)
10.25*	Pittway Corporation Supplemental Executive Retirement Plan (filed herewith)
10.26*	2006 Stock Incentive Plan of Honeywell International Inc. and Its Affiliates (incorporated by reference to Honeywell's Proxy Statement, dated March 13, 2006, filed pursuant to Rule 14a-6 of the Securities and Exchange Act of 1934 and to Exhibit 10.2 to Honeywell's Form 10-Q for the quarter ended June 30, 2006, and amended by the attached amendment (filed herewith))
10.27*	2006 Stock Incentive Plan of Honeywell International Inc. and Its Affiliates Form of Option Award Agreement (filed herewith)
10.28*	2006 Stock Incentive Plan of Honeywell International Inc. and Its Affiliates Form of Restricted Unit Agreement (filed herewith)
10.29*	2006 Stock Incentive Plan of Honeywell International Inc. and Its Affiliates Form of Growth Plan Agreement (incorporated by reference to Exhibit 10.5 to Honeywell's Form 10-Q for the quarter ended June 30, 2006)
10.30*	2006 Stock Incentive Plan of Honeywell International Inc. and Its Affiliates Form of Performance Share Agreement (filed herewith)
10.31*	2006 Stock Plan for Non-Employee Directors of Honeywell International Inc. (incorporated by reference to Honeywell's Proxy Statement dated March 13, 2006, filed pursuant to Rule 14a-6 of the Securities and Exchange Act of 1934 and to Exhibit 10.6 to Honeywell's Form 10-Q for the quarter ended June 30, 2006, and amended by the attached amendments (filed herewith))
10.32*	2006 Stock Plan for Non-Employee Directors of Honeywell International Inc.—Form of Option Agreement (incorporated by reference to Exhibit 10.7 to Honeywell's Form 10-Q for the quarter ended June 30, 2006)
10.33*	2006 Stock Plan for Non-Employee Directors of Honeywell International Inc.—Form of Restricted Stock Agreement (incorporated by reference to Exhibit 10.8 to Honeywell's Form 10-Q for the quarter ended June 30, 2006)

Exhibit No.	Description
10.34	$2.3 Billion Five-Year Credit Agreement dated as of April 27, 2006 among Honeywell International Inc., the initial lenders therein, Citicorp USA, Inc., as administrative agent, Citibank International PLC, as swing line agent, JPMorgan Chase Bank, N.A., as syndication agent, 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 10.1 to Honeywell's Form 10-Q for the quarter ended June 30, 2006)
10.35	364-Day Canadian Dollar 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 (incorporated by reference to Exhibit 10.24 to Honeywell's Form 10-K for the year ended December 31, 2005)
10.36	Amendment No. 1 to the 364-Day Canadian Dollar Credit Agreement dated as of September 8, 2006 among Honeywell, Honeywell ASCa Inc., Honeywell Limited Honeywell Limitee and Honeywell Aerospatiale Inc., as borrowers, the lenders named therein and Citibank, N.A., Canadian Branch, as agent (incorporated by reference to Exhibit 10.1 to Honeywell's Form 10-Q for the quarter ended September 30, 2006)
10.37	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)
10.38	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)

Exhibit No.	Description
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
99	Omitted (Inapplicable)

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, 2006
(In millions)

Allowance for Doubtful Accounts:

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
Provision charged to income		111
Deductions from reserves(1)		(77)
Acquisitions		4
Balance December 31, 2006	$	217

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

Deferred Tax Assets—Valuation Allowance

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
Additions charged to income tax expense		40
Reductions credited to income tax expense		(3)
Reductions charged to goodwill, due to acquisitions		(24)
Additions charged to other comprehensive income (loss), upon adoption of SFAS No. 158		28
Reductions charged to deferred tax asset, due to expired NOL		(2)
Balance December 31, 2006	$	516

Exhibit 10.1

AMENDMENT TO THE
2003 STOCK INCENTIVE PLAN
OF
HONEYWELL INTERNATIONAL INC. AND ITS AFFILIATES

The 2003 Stock Incentive Plan of Honeywell International Inc. and Its Affiliates ("the Plan") is hereby amended effective December 8, 2006, by replacing Section 5.3 of the Plan in its entirety with the following paragraph:

"**5.3** ***Adjustments*.** In the event of a change in the outstanding Shares by reason of a 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, exercise of stock purchase rights, issuance of warrants or other rights to purchase Shares or other securities, or similar corporate transaction or event, the Committee shall make an equitable adjustment to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, the transaction or event equitably requires an adjustment in the number or kind of Shares that may be issued under the Plan, the number or kind of Shares subject to an outstanding Award, or the Exercise Period of an Award. Any adjustment made by the Committee under this Section 5.3 will be conclusive and binding for all purposes under the Plan. No adjustment will be made with respect to Awards granted to Key Employees to the extent the adjustment would cause the Award to fail to qualify as performance-based compensation under Section 162(m) of the Code."

Exhibit 10.6

AMENDMENT TO THE

SUPPLEMENTAL NON-QUALIFIED SAVINGS PLAN

FOR HIGHLY COMPENSATED EMPLOYEES OF

HONEYWELL INTERNATIONAL INC. AND ITS SUBSIDIARIES

The Supplemental Non-Qualified Savings Plan for Highly Compensated Employees of Honeywell International Inc. and Its Subsidiaries ("the Plan") is hereby amended effective December 31, 2006 in the following manner:

Pursuant to a previously-approved benefits integration plan for UOP LLC and its affiliates, the accounts maintained pursuant to the terms of the UOP Supplemental Savings Plan will be transferred to the Honeywell Supplemental Savings Plan effective as of 11:59:59 p.m. on December 31, 2006, and no future amounts will accrue under the UOP Supplemental Savings Plan after that time. There is no intention to alter the rights of a participant, or materially modify the rights of a participant, with respect to his or her transferred account.

EXHIBIT 10.8

AMENDMENT TO THE

SALARY AND INCENTIVE AWARD DEFERRAL PLAN

FOR

SELECTED EMPLOYEES OF

HONEYWELL INTERNATIONAL INC. AND ITS AFFILIATES

The Salary and Incentive Award Deferral Plan for Selected Employees of Honeywell International Inc. and Its Affiliates (the "Plan"), is hereby amended effective immediately, by replacing the fifth paragraph of Section 7 of the Plan in its entirety with the following paragraph:

> "As permitted by IRS Notice 2005-1 and subsequent guidance published under Code section 409A, (i) an eligible employee who elected to defer all or part of the Incentive Award earned in 2004 and payable in 2005 was permitted to completely cancel this election during a period that began no earlier than January 1, 2005 and ended no later than March 15, 2005, (ii) an eligible employee who elected to defer all or part of the Incentive Award earned in 2005 and payable in 2006 was permitted to completely cancel this deferral election during a period that will end no later than December 31, 2005 and (iii) an eligible employee who is actively employed and who elected to defer Base Annual Salary earned in 2002, 2003 and/or 2004 will be permitted to change the form and/or timing of the distribution of amounts attributable to such deferrals no later than December 31, 2007, provided however that any re-deferral (A) must apply only to amounts that would not otherwise be payable in the year in which the re-deferral occurs (the "re-deferral year"), (B) may not cause an amount to be paid in the re-deferral year that would not otherwise be payable in the re-deferral year, and (C) satisfy the Plan rules for re-deferrals of Deferral Amounts that are not subject to the requirements of Code section 409A."

IN WITNESS WHEREOF, pursuant to the authority granted to me by the Management Development and Compensation Committee of the Board of Directors on July 28, 2006, the Plan is hereby amended this 20th day of December, 2006.

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

AMENDMENT
TO THE
SALARY AND INCENTIVE AWARD DEFERRAL PLAN
FOR
SELECTED EMPLOYEES OF HONEYWELL INTERNATIONAL INC.
AND ITS AFFILIATES

The Salary and Incentive Award Deferral Plan for Selected Employees of Honeywell International Inc. and Its Affiliates is hereby amended, effective January 1, 2007, by replacing the first sentence of Section 3(b) of the Plan in its entirety with the following sentence:

> "A Participant may elect to defer an amount not greater than one hundred percent of an incentive award payable pursuant to the terms of the Honeywell International Inc. Incentive Compensation Plan for Executive Employees (or any successor plan) (the Incentive Plan') or the Honeywell Capital Management LLC Incentive Compensation Plan (or any successor plan) (the HCM Incentive Plan') (each an Incentive Award'), unless the terms of either plan prohibit such a deferral."

Exhibit 10.9

**AMENDMENT TO THE
1993 STOCK PLAN
FOR
EMPLOYEES OF
HONEYWELL INTERNATIONAL INC. AND ITS AFFILIATES**

The 1993 Stock Plan for Employees of Honeywell International Inc. and Its Affiliates ("the Plan") is hereby amended effective December 8, 2006, by replacing Section 17 of the Plan in its entirety with the following paragraph:

"17. Adjustment Upon Changes in Capitalization

Notwithstanding any other provision of the 1993 Plan, the Committee shall make or provide for equitable adjustments to the 1993 Plan, to any outstanding Awards and to the number and class of Shares as to which Awards may be granted to any employee over any three-year period, to all employees through April 25, 2003 and as Incentive Stock Options in any year, and shall make equitable adjustments to any outstanding Awards to prevent dilution or enlargement of rights, including adjustments in the event of distributions to holders of Common stock (other than normal cash dividends), changes in the outstanding Common Stock by reason of stock dividends, stock splits, recapitalizations, mergers, consolidations, combinations or exchanges of Shares, separations, reorganizations, liquidations and the like. In the event of any offer to holders of Common Stock generally relating to the acquisition of their Shares, the Committee shall make equitable adjustment in respect of outstanding Awards including revision of outstanding Stock Options, Rights and Units so that they may be exercisable for or payable in the consideration payable in the acquisition transaction. Any such determination by the Committee shall be conclusive."

Exhibit 10.22

DEFERRED COMPENSATION AGREEMENT

This Agreement is made and entered into this 4th day of August 2006, by and between

Honeywell International Inc. ("Honeywell"), and David M. Cote ("Executive").

WHEREAS, Honeywell highly values the efforts of Executive and wishes to assist Executive with his personal life insurance program,

WHEREAS, Honeywell is obligated to provide Executive with life insurance coverage in the amount of $10,000,000 under the terms of Executive's Employment Agreement dated February 18, 2002 (the "Employment Agreement"), and

WHEREAS, Honeywell and Executive agree that Honeywell satisfies its obligation to Executive for the life insurance coverage by providing Executive with an annual amount so that Executive can pay premiums for a personal life insurance policy.

NOW, THEREFORE, the parties named above agree as follows:

1. The Policy. Executive owns a policy of insurance on the joint lives of Executive and his wife, Linda Cote ("Co-insured"), issued by the Paci Life Insurance Company (the "Insurer") and designated as Policy Number VF51472790.

2. Definitions. For purposes of this Agreement, the following terms have the meanings set forth below:

   a. "Administrator" refers to the Senior Vice President, Human Resources and Communications of Honeywell, or any successor position th

   b. "Agreement" means, this Agreement, as maybe amended from time to time in accordance with the terms of this Agreement.

   c. "Annual Payment" means, $124,000.

d. "Change in Control" means, a Change in Control of Honeywell, as defined in the Honeywell International Inc. Severance Plan for Senior Executives at the time the Change in Control occurs. If such definition does not comply with the requirements of Internal Revenue Code section 409A, "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.

e. "Policy" means, the policy of insurance which shall provide $10,000,000 to the beneficiary or beneficiaries of the survivor of Executive and Co-insured for a period of 48 policy years, which policy is owned by Executive. For purposes of this Agreement, Honeywell and Executive agree that the Policy meets the requirements for life insurance coverage set forth in the Employment Agreement.

f. "Premium" means, with respect to the Policy, the annual amount paid by Executive or Co-insured following Executive's death to the Insurer for the Policy.

g. "Terminated for Cause" means, a determination made by the Board of Directors of Honeywell, at a hearing which Executive may attend, that Executive has been terminated for cause, as that term is defined in the Employment Agreement at the time the hearing occurs.

h. "Vested Executive" means, Executive if he has attained age 55 or older, has five or more years of Vesting Service (as defined in the Honeywell Retirement Earnings Plan), and has been the Chief Executive Officer of Honeywell for at least three years; provided that in the sole discretion of the Board of Directors of Honeywell, if Executive is not age 55, has fewer than five years of Vesting Service or has not been Chief Executive Officer of Honeywell for at least three years, Executive may be designated as a Vested Executive for the limited purpose of this Agreement. Notwithstanding the foregoing, Executive shall not be treated as a Vested Executive if Executive is Terminated for Cause.

3. Payment of Annual Payment.

   a. Payments Before Executive's Death. Subject to Sections 5(a), 5(b), 9(a) and 9(b), Honeywell shall pay Executive the Annual Payment no later than January 15th of each calendar year for which the Annual Payment is due; provided, that for 2006, Honeywell shall pay Executive the Annual Payment no later than August 31, 2006. Honeywell shall tax and report each Annual Payment as wages and shall withhold all applicable federal, state and local taxes from the Annual Payment. Executive shall be solely responsible for paying the net proceeds of the Annual Payment to the Insurer.

   b. Payments After Executive's Death. Subject to Sections 5(a), 5(b), 9(a) and 9(b), if Executive predeceases Co-insured, Honeywell shall pay Co-insured the Annual Payment no later than January 15th of each calendar year for which the Annual Payment is due. Honeywell shall properly report and withhold all applicable federal, state and local taxes from the Annual Payment. Co-insured shall be solely responsible for paying the net proceeds of the Annual Payment to the Insurer.

   c. Additional Payment Provisions. The parties anticipate that the Annual Payment shall be sufficient to allow Executive (or Co-insured) to pay the Premium and to compensate Executive (or Co-insured) for estimated federal, state and local taxes that he or she may incur as a result of this Agreement. If the Annual Payment exceeds the Premium and Executive's (or Co-insured's) actual federal, state and local taxes, Executive (or Co-insured) shall retain the difference. If the Annual Payment is less than the Premium and Executive's (or Co-insured's) actual federal, state and local taxes, Executive (or Co-insured) shall be solely responsible for the difference.

4. Policy Ownership. Executive (or Co-insured following Executive's death) shall be the owner of the Policy and shall be entitled to exercise all rights of ownership. Honeywell shall have no rights with respect to the Policy.

5. Termination Events.

   a. Termination Events. Except as provided in Section 5(b), Honeywell's obligation to pay the Annual Payment shall terminate:

      i. Automatically upon the earliest to occur of the following:

         (A) the payment of the Annual Payment that is attributable to the 48^{th} policy year of the Policy,

         (B) the death of the survivor of Executive and Co-insured,

         (C) Executive's Termination for Cause,

         (D) upon written action of the Administrator, if Executive's termination of employment from Honeywell and its subsidiaries and affiliates occurs before he obtains an irrevocable right to the Annual Payment, as described in paragraph (b) below,

         (E) the year the Policy is no longer in force because Executive or Co-insured fails to pay the Premium, or voluntarily terminates, relinquishes, surrenders or cancels the Policy,

         (F) the first day Executive provides services above a de minimis level and without Honeywell's consent to an entity deemed a competitor of Honeywell's at any time within three years following Executive's termination of employment from Honeywell (or any subsidiary or affiliate of Honeywell). For purposes of this subsection, an entity shall be deemed a competitor if that entity and Honeywell could not have interlocking directors under 15 U.S.C. §19, as the same may be amended from time to time, and

(G) upon the written agreement of Honeywell and Executive (or Co-insured following Executive's death).

b. Irrevocable Obligation. Notwithstanding any other provision of the Agreement:

i. If Executive becomes a Vested Executive, Honeywell's obligation to pay the Annual Payment shall be irrevocable while Executive is employed by Honeywell and thereafter until the earlier of (a) the 48^{th} policy year of the Policy, or (b) the year the survivor of Executive and Co-insured dies, unless Executive incurs a Termination for Cause or the provisions of Section 5(a)(i)(E), 5(a)(i)(F) or 5(a)(i)(G) apply; and

ii. If Executive obtains an irrevocable right pursuant to the provisions of Section 6 hereof (relating to Change in Control), Honeywell's obligation to pay the Annual Payment shall continue until the earlier of (a) the 48^{th} policy year of the Policy, or (b) the year the survivor of Executive and Co-insured dies.

c. Allocation of Policy Death Benefit. If the Agreement terminates due to the death of the survivor of Executive and Co-insured, the entire death benefit under the Policy shall be paid to the beneficiary or beneficiaries of the survivor of Executive or Co- insured. Honeywell shall not be entitled to receive any death benefits from the Policy.

d. <u>Disposition of Policy</u>. If this Agreement terminates for any reason, Executive (or Co-insured following Executive's death) shall be solely responsible for paying the Premium as long as the Policy remains in force.

6. <u>Change in Control</u>. If there is a Change in Control:

a. The Agreement and Honeywell's (or its successor's) obligation to pay the Annual Payment shall become irrevocable at the time of the Change in Control; and

b. Honeywell (or its successor) shall immediately fund an irrevocable rabbi trust with an amount sufficient to pay all necessary projected future Annual Payments.

Notwithstanding the creation and funding of an irrevocable rabbi trust in accordance with the provisions of this Section, Honeywell or its successor shall continue to be responsible for the Annual Payment if such amounts are not paid by the trust for any reason, or if the trust's assets become insufficient to pay any required amounts.

7. <u>Governing Laws & Notices</u>.

a. <u>Governing Law</u>. This Agreement shall be governed by and construed in accordance with the substantive law of the State of New Jersey without giving effect to the choice of law rules of the State of New Jersey.

b. <u>Notices</u>. All notices hereunder shall be in writing and sent by first class mail with postage prepaid. Any notice to Honeywell shall be addressed to the Senior Vice President, Human Resources and Communications, Honeywell International Inc., 101 Columbia Road, Morristown, New Jersey 07962. Any notice to Executive shall be addressed to Executive at the address following such party's signature on this Agreement. Any party may change the address for such party herein set forth by giving written notice of such change to the other parties pursuant to the Section.

8. Miscellaneous Provisions.

   a. This Agreement shall not be deemed to constitute a contract of employment between Executive and Honeywell, nor shall any provision restrict the right of Honeywell to discharge Executive or restrict Executive's right to terminate employment.

   b. The masculine pronoun includes the feminine, and the singular includes the plural where appropriate.

   c. Executive and Co-insured shall be responsible for keeping the Policy in force and remitting Premiums when required by the Insurer in a timely manner. Honeywell shall have no responsibility other than to pay Executive or Co-insured, as the case may be, the Annual Payment until this Agreement terminates.

   d. The parties intend for this Agreement to comply with the requirements of Internal Revenue Code section 409A, as amended from time to time, and the related regulations, and the provisions hereof shall be interpreted in a manner that satisfies the requirements of such Section and the related regulations, and the Agreement shall be operated accordingly. If any provision of this Agreement would otherwise frustrate or conflict with this intent, the provision, term or condition shall be interpreted and deemed amended so as to avoid this conflict.

9. Amendment, Termination, Administration, and Successors.

   a. Amendment. This Agreement may be modified or amended by the Board of Directors of Honeywell at any time, but an amendment that affects the rights, benefits or obligations of Executive after Honeywell's obligation to pay the Annual Payment becomes irrevocable under Section 5(b) shall not apply unless Executive (or Co-insured following Executive's death) consents, in writing, to the amendment.

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b. Termination. The Board of Directors of Honeywell may terminate this Agreement at any time, but a termination which affects the rights, benefits or obligations of Executive after Honeywell's obligation to pay the Annual Payment becomes irrevocable under Section 5(b) shall not apply unless Executive (or Co-insured following Executive's death) consents, in writing, to the termination.

c. Administration. This Agreement shall be administered by the Administrator, whose address is Honeywell International Inc., 101 Columbia Road, Morristown, New Jersey 07962. The Administrator shall have the authority to make, amend, interpret, and enforce all rules and regulations for the administration of the Agreement and decide or resolve any and all questions, including interpretations of the Agreement, as may arise in connection with the Agreement in the Administrator's sole discretion. In the administration of this Agreement, the Administrator may, from time to time, employ agents and delegate to them or to others such administrative duties as it sees fit. The Administrator may from time to time consult with counsel, who may be counsel to Honeywell. The decision or action of the Administrator (or its designee) with respect to any question arising out of or in connection with the administration, interpretation and application of this Agreement shall be final and conclusive and binding upon all persons having any interest in the Agreement. Honeywell shall indemnify and hold harmless the Administrator and any persons to whom administrative duties under this Agreement are delegated, against any and all claims, loss, damage, expense or liability arising from any action or failure to act with respect to this Agreement, except in the case of gross negligence or willful misconduct by the Administrator.

d. Successors. The terms and conditions of this Agreement shall inure to the benefit of and bind Honeywell and Executive and their successors, assignees, and representatives.

10. Claims Procedure; Agreement Information.

a. Named Fiduciary. The Administrator is hereby designated as the named fiduciary under this Agreement. The named fiduciary shall have authority to control and manage the operation and administration of the Agreement.

b. Claims Procedures. Any controversy or claim arising out of or relating to this Agreement shall be filed with the Administrator, Honeywell International Inc., 101 Columbia Road, Morristown, New Jersey 07962. The Administrator shall make all determinations concerning such claim.

Any decision by the Administrator denying such claim shall be in writing and shall be delivered to all parties in interest in accordance with the notice provisions of Section 7(b) hereof. The denial shall state a specific reason for it, shall cite to pertinent provisions of the Agreement and, where appropriate, provide an explanation as to how the claimant can perfect the claim. The denial shall include a statement that an appeal must be in writing to the Administrator within sixty (60) days after receipt of the Administrator's notice of the denial and of claimant's right to bring a civil action under Section 502(a) of ERISA following a denial on appeal. This notice of denial of benefits shall be provided within ninety (90) days of the Administrator's receipt of the claimant's claim for benefits. If the Administrator fails to notify the claimant of its decision regarding the claim, the claim shall be considered denied, and the claimant shall then be permitted to proceed with the appeal as provided in this Section.

A claimant who has been completely or partially denied a benefit shall be entitled to appeal this denial of his/her claim by filing a written statement of his/her position with the Administrator no later than sixty (60) days after receipt of the written notification of such claim denial. The Administrator shall schedule and provide an opportunity for a full and fair review of the issue within thirty (30) days of receipt of the appeal. If the claimant appeals a denial of benefits, the Administrator shall reexamine all facts related to such claim and its denial, taking into account all comments, documents, records and other information submitted by the claimant relating to the claim, regardless of whether such information was submitted or considered in the initial benefit determination, and shall make a final determination as to whether the denial of benefits is justified under the circumstances.

Following the review of information submitted by the claimant, either through the hearing process or otherwise, the Administrator shall render a decision on the review of the denied claim in the following manner:

i. The Administrator shall make its decision regarding the merits of the denied claim within sixty (60) days following receipt of the request for review (or within 120 days after such receipt, in a case where there are special circumstances requiring extension of time for reviewing the appealed claim). The Administrator shall deliver the decision to the claimant in writing. If an extension of time for reviewing the appealed claim is required because of special circumstances, written notice of the extension shall be furnished to the claimant prior to the commencement of the extension. If the decision on review is not furnished within the prescribed time, the claim shall be deemed denied on review. The Administrator's decision shall be binding on all persons affected thereby.

ii. The decision on review shall include the specific reason for the adverse determination; specific reference to pertinent Agreement provisions; a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to the claimant's claim for benefits; and a statement that the claimant has a right to bring a civil action under Section 502(a) of ERISA.

c. Agent for Service of Process. The agent for service of process on the Agreement and service of legal process shall be the Senior Vice President, Human Resources and Communications, Honeywell International Inc., 101 Columbia Road, Morristown, New Jersey 07962.

d. Agreement Year. The agreement year of the Agreement shall be the calendar year.

August 4, 2006 Date		/s/ David M. Cote David M. Cote
		100 Columbia Road
		Morristown, NJ 07962 Address

HONEYWELL INTERNATIONAL INC.

August 7, 2006 Date	By:	/s/ Thomas W. Weidenkopf
	Title:	SVP HR & Communications

Exhibit 10.23

July 27, 2001

Mr. Larry E. Kittelberger
4 McVickers Lane
Mendam, NJ 07945

Dear Larry:

I am delighted to confirm our offer to you to become the Senior Vice President, Information Technology and Administration. In this position, reporting directly to me, you will become a member of the Honeywell Leadership Council and will be appointed an Officer of Honeywell, pending the Board of Directors' approval. Please note that other elements of this offer, such as equity awards, are also subject to approval by our Board of Directors. In this position, you will participate in, or be eligible for the compensation and benefits outlined below.

I. COMPENSATION

Cash Base Salary: Your annual cash base salary will be $490,000 and will be reviewed periodically on an interval that is approximately 18 months.

Annual Incentive Bonus: Your target bonus opportunity will be 75% of your annual cash base salary earnings during the year. Bonuses are awarded based on annual individual and business performance against objectives and are typically paid in the first quarter following each performance year. Your 2001 bonus will be guaranteed at target ($367,500) and is payable in the first quarter of 2002. Any relevant Lucent bonus payment will be offset against such payment.

II. BENEFITS

Long Term Incentive Award: You are eligible for an annual stock option grant, with your actual grant determined by performance and potential. You will be granted the following on the later of your start date or the next Board meeting:

- 250,000 Nonqualified Stock options, vesting 40%, 30%, 30% on January 1, 2002, January 1, 2003 and January 1, 2004, respectively.
- 50,000 Restricted Units, vesting 50% respectively on the 1st and then the 2nd anniversary of your hire date.

Contingent on Board of Director approval, the Company will also grant you, on or before April 1, 2002 but no earlier than January 31, 2002 the following:

- 100,000 Nonqualified Stock options, vesting 40%, 30%, 30% on January 1, 2003, January 1, 2004 and January 1, 2005, respectively.

- 25,000 Restricted Units, vesting 50% respectively on the 1st and then the 2nd anniversary of the grant date.

In the event of your death or disability, any outstanding Long-Term Incentive Awards will be vested and exercisable in accordance with the terms and conditions of the 1993 Stock Plan for Employees of Honeywell International Inc. and its Affiliates (the "1993 Stock Plan"). In the event of your involuntary termination other than for Gross Cause or termination by you for "Good Reason" (as defined below), any outstanding Long-Term Incentive Awards will continue to vest as originally scheduled and shall be exercisable for their full remaining term.

Pension: You will be provided a pension benefit equal to the benefit defined in the "Honeywell International Inc. Supplemental Executive Retirement Plan for Executives in Career Band 6 and Above" (the "Band 6 SERP") (which provides total pension benefits equal to those historically offered to similarly situated Honeywell Corporate staff executives) and such Band 6 SERP benefit shall be determined by (1) combining your prior AlliedSignal service with your Lucent service and (2) providing you with two years of service credit for each year you perform services for Honeywell subsequent to your reemployment. Your Band 6 SERP benefit shall be available in an annuity or a single sum (determined in accordance with the assumptions specified in the Band 6 SERP at the time of your termination or retirement) and shall be reduced by the actuarial value of any qualified pension benefit payable to you under the terms of any tax-qualified pension plan of the Company which has not already been taken into account in determining the Band 6 SERP benefit.

Savings Plan: Upon reemployment, you are immediately eligible to participate in the Company's Savings Plan at the same Company match level ($0.50 on the dollar of your savings, up to 8% of your base salary) as when you left the Company in November 1999. The match will increase to one dollar ($1.00) for each one dollar ($1.00) of employee savings, up to 8% of your base salary after five (5) years of matching participation in the Savings Plan (including your prior AlliedSignal years of participation).

The Company's contribution shall be fully vested after completion of five (5) years of vesting service with Honeywell, including your prior service with AlliedSignal. The amount of any Company contribution previously forfeited when you left AlliedSignal shall be restored to your account provided you repay any prior distribution from the Savings Plan within 60 months of your reemployment.

Supplemental Savings and Retirement Plans: These plans are designed to assist highly paid employees who are limited by tax laws in the amount of employer contributions or payout to attain levels of participation enjoyed by other Honeywell employees. The current interest rate for amounts contributed under the plan is 10%. Benefits under any applicable Supplemental Pension Plan will be determined based on applicable base pay and incentive awards; Company contributions under the Supplemental Savings Plan are based on the amount of base pay deferred by you to the Plan.

Salary and Incentive Compensation Deferrals: You may defer up to 50% of your base salary and 100% of your bonus. The interest rate for amounts deferred in 2001 is 11%, if you remain with Honeywell for 3 years from the beginning of your deferral, or 8% if your employment terminates sooner. The interest rate for 2002 will be 10%. In the event that the Company adopts a rabbi trust with respect to any deferred compensation program of the Company, you shall be covered by such trust to the same extent as similarly situated executive employees. Once you've accepted the position, Terri Acquaviva will forward a detailed enrollment package to you.

Medical and Dental Plans: Medical and Dental Plans provide competitive and comprehensive coverage on a subsidized basis. Coverage begins for you, your spouse and dependents on the first day of employment. The Company's health plans cover pre-existing conditions if you enroll within 31 days of first becoming eligible for the plans. We agree to combine your prior AlliedSignal service with your Lucent service and give you two years of service credit for years worked with Honeywell subsequent to your reemployment. If you are eligible to participate in the retiree medical plan upon your termination of employment with the Company, the Company shall make an annual cash payment to you equal to difference between the annual premium cost you are required to pay under the terms of the retiree medical plan and the annual premium cost you would have been required to pay if your service taken into account for purposes of calculating your Band 6 SERP benefit were recognized under the retiree medical plan.

In any event, coverage shall continue for you, your spouse and/or eligible dependents for your and their lifetime upon your death, disability, involuntary termination for other than Gross Cause or termination by you for Good Reason on terms equivalent to the Company's Retiree Medical Plan for similarly situated executives.

Short Term Disability (STD): A benefit of up to 6 months cash base salary will be provided.

Long Term Disability (LTD): The plan provides 60% of your base salary and incentive compensation target up to a maximum of $30,000 per month. This plan is contributory.

Vacation: You will be eligible for four (4) weeks' vacation.

Life Insurance:

- **Group Life** will be provided on a non-contributory basis in an amount equal to one and one-half times your base salary. Additionally, Group Universal Life is available; equal to five (5) times base salary and is contributory on an attractive group basis. Group Universal Life amounts over $250,000 are subject to evidence of good health.

- **Executive Life Insurance** provides for a pre-retirement death benefit generally equal to four (4) times base salary. In the event of your disability and provided you have enrolled in the basic LTD Plan described above, you are entitled to a long-term disability benefit equal to 100% of base pay for the first five (5) years of disability (reduced by your basic LTD Plan benefit) and 50% of base pay for the next five (5) years of disability (reduced by your basic LTD Plan benefit).

- **Accidental Death and Dismemberment** insurance is available on a contributory basis and provides a benefit up to a maximum of five (5) times your base salary.

- **Business Travel Accident** insurance is provided on a non-contributory basis, and provides a death benefit in the case of a business-related accident, of up to four (4) times your annual base salary (up to a maximum of $2.4 million).

Executive Perquisites:

- **Flexible Perquisite Allowance:** You will be eligible for a quarterly payment of $12,500 (an annual benefit of $50,000), which is designed to pay for, but is not limited to, expenses such as a car and financial and estate planning assistance. Payments are taxable income, and the taxes are withheld at the time the payment is made. Upon acceptance of this offer, you will receive a pro-rated payment for the third quarter, based on your hire date.

- **Executive Travel -** As an officer of the Company, you are eligible to fly first-class.

- **Excess Liability Insurance:** You will receive Excess Liability Insurance of $10,000,000 per occurrence.

- **Executive Severance**: The Company will provide 36 months, or such longer period as provided in this letter, of Cash Base Salary, Annual Incentive Bonus at the target bonus opportunity then in effect, and the Benefits (collectively the "Severance"), in the event of your involuntary termination for other than Gross Cause or termination by you for Good Reason. Gross Cause and Good Reason shall have the same meaning as said terms are currently defined in the AlliedSignal Inc. Severance Plan for Senior Executives as amended and restated effective as of May 1, 1999 (the "Severance Plan"). The term Good Reason shall also mean any change in your direct reporting relationship to Larry Bossidy (currently Chairman of the Board/CEO) or his successor or your removal from the Honeywell Leadership Council for reasons other than Gross Cause. In addition, you will become fully vested in all of the Plans listed below (other than any qualified pension or savings plan) and the Company will allow all unvested equity to continue to vest as scheduled and all options provided under the Long Term Incentive Award to be exercisable in the same manner as if you were still employed.

III. PLAN PARTICIPATION AND BENEFITS GUARANTEE

You will be a participant in the plans described in the following Plan documents (individually a "Plan", collectively the "Plans") and your participation is subject to the terms and conditions of such Plans:

- 1993 Stock Plan for Employees of Honeywell International Inc. and its Affiliates, as amended effective as of December 31, 1999;
- Salaried Employees' Pension Plan of AlliedSignal Inc., dated June 2000;
- Honeywell International Inc. Supplemental Pension Plan, amended and restated as of January 1, 2000;
- Honeywell International Inc. Supplemental Executive Retirement Plan for Executives in Career Band 6 and Above (you will not be a participant in this Plan but your pension benefit will be calculated in accordance with the terms of this Plan);
- AlliedSignal Savings Plan, amended and restated effective July 1, 1997;
- Honeywell Supplemental Savings Plan, dated December 1, 2000;
- Salary Deferral Plan for Selected Employees of Honeywell International Inc. and its Affiliates (Career Band 6 and Above or Employees Who Occupy Positions Equivalent Thereto), amended and restated as of January 1, 2000;
- The Various Honeywell Medical and Dental Plan options available based on your location;
- Honeywell's Short Term Disability Policy;
- Honeywell Long-Term Disability (LTD) Plan, revised on November 30, 2000; and
- AlliedSignal Inc. Severance Plan for Senior Executives (amended and restated effective as of May 1, 1999).

To the extent all Benefits provided in this offer letter (the "Benefits") are not provided in their entirety under the Plans, the Company guarantees that you will nevertheless receive all of the Benefits. The Company further guarantees that the Board of Directors will take all actions necessary to provide you with such Benefits.

If any of the Plans are modified or amended in any way which impacts your Benefits, other than any deminimis modifications to any medical, life or disability plans that shall also apply to similarly situated executives, the Company guarantees that you will nevertheless receive the better of the (i) Benefits or (ii) such benefits as are provided under any such modified or amended Plan.

In the event the Company has any additional plans or institutes any additional benefit for any similarly situated officers or members of the Honeywell Leadership Council, you will receive such additional benefit subject to the generally applicable terms and conditions of such benefit (excluding individually determined Bonus, Long Term Incentive awards and individually negotiated contractual obligations).

This offer is subject to certification of suitability for your proposed employment which will include screening for illegal substance abuse, satisfactory reference checks and background investigation, verification of documentation required in compliance with the Immigration Reform and Control Act of 1986, and your signing the Company's Agreement Relating to Intellectual Property and Confidential Information.

Larry, your experience and background will be an asset to our Company, and we look forward to having you with us.

Sincerely,

/s/Larry A. Bossidy

Larry A. Bossidy
Chairman and Chief Executive Officer

Please indicate your acceptance of this offer by signing below and returning a copy to me.

Read and Accepted:	/s/ Larry E. Kittelberger Signature
Date:	July 30, 2001
cc:	D. Redlinger E. Redling

Exhibit 10.24

Honeywell Supplemental Retirement Plan

Honeywell International Inc.

December 15, 2006

Honeywell Supplemental Retirement Plan

Section 1.

Purpose of the Plan

The purpose of this Honeywell Supplemental Retirement Plan (the "Plan") is to provide certain corporate procedures and uniform rules for plans and agreements maintained by Honeywell International Inc. (the "Company") and its Affiliates that provide supplemental retirement benefits to eligible executives.

Section 2.

Definitions

(a) "Administrator" means the Company's Senior Vice President – Human Resources and Communications.

(b) "Affiliate" means any plant, branch, location, operation, division or subsidiary of the Company.

(c) "Board" means the Board of Directors of the Company.

(d) "Effective Date" means December 15, 2006.

(e) "Eligible Employees" means those employees eligible to participate in a Sub-plan in accordance with the terms of the Sub-plan on or after the Effective Date.

(f) "Employer" means the Company and any Affiliate that is authorized to, and that elects to, participate in a Sub-plan.

(g) "Participant" means an Eligible Employee who participates in a Sub-plan.

(h) "Sub-plan" means a plan, program, scheme or arrangement maintained or adopted by an Employer to provide supplemental retirement benefits for one or more Eligible Employees.

Section 3.

Terms and Conditions to be Set Forth in Sub-plans

All benefits delivered pursuant to the Plan shall be delivered in accordance with the terms and conditions of a Sub-plan. Each Sub-plan shall be set forth in writing and shall be listed on Schedule A. Each Sub-plan shall permit participation by a specified group of Eligible Employees. Each Sub-plan shall include such additional terms and conditions as the Employer, the Administrator andthe Chief Executive Officer of the Company (or his delegate) shall determine to be necessary or appropriate to accomplish the purposes thereof consistent with the terms hereof. In the event of any inconsistency between the terms of any Sub-plan and the terms hereof, the terms hereof shall govern.

Section 4.

Amendment or Termination

(a) Amendment. The Plan (including, without limitation, Schedule A attached hereto) may be amended at any time and from time to time by the Chief Executive Officer of the Company (or his delegate). Each Sub-plan may be amended in accordance with its terms.

(b) Termination. The Plan will terminate upon the adoption of a resolution of the Chief Executive Officer of the Company terminating the Plan or the adoption of a resolution terminating all Sub-plans with respect to all of the then Employers.

Section 5.

Governing Law

The Plan and its provisions shall be construed in accordance with the laws of the State of Delaware, United States of America, except to the extent otherwise required by the laws of the applicable local jurisdiction.

Schedule A

List of Sub-plans as of December 15, 2006

- Honeywell International Inc. Supplemental Pension Plan
- Honeywell Supplemental Defined Benefit Retirement Plan
- Honeywell International Inc Supplemental Executive Retirement Plan for Executives in Career Band 6 and Above
- Pittway Corporation Supplement Executive Retirement Plan

Exhibit 10.25

PITTWAY CORPORATION
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

SECTION 1

Introduction

1.1 The Plan and Its Effective Date. This Pittway Corporation Supplemental Executive Retirement Plan (the "plan") has been established by Pittway Corporation (the "company"), effective January 1, 1996.

1.2 Purpose. The company maintains the Pittway Corporation Retirement Plan (As Amended and Restated Effective as of January 1, 1989) (as the same may hereafter be amended, the "retirement plan"), which is intended to meet the requirements of a "qualified plan" under the Internal Revenue Code of 1986, as amended (the "Code"). While the Code places limitations on the maximum benefits which may be paid from a qualified plan and the maximum amount of an employee's compensation that may be taken into account for determining benefits payable under a qualified plan, the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), permits the payment under an "unfunded plan" of benefits which may not be paid under a qualified plan because of such limitations. The purpose of the plan is to provide certain key employees of the company and its subsidiaries with certain benefits which may not be provided under the retirement plan because of the maximum compensation limitation of the Code.

SECTION 2

Eligibility and Benefits

2.1 Eligibility. Each key employee of the company or a subsidiary of the company (a "participant") who participates in the retirement plan and who is a party to an employment agreement with the company or subsidiary of the company substantially in the form attached hereto as Exhibit 1 (as the same may hereafter be amended, his "Employment Agreement") that provides for his participation in the plan shall participate in the plan, subject to the conditions and limitations of the plan. It is expressly understood that variations among the participants' Employment Agreements may result in differences in the numbered paragraphs thereof in which corresponding provisions appear (for example, the non-competition provisions which are in paragraph 10 of Exhibit 1 attached hereto, or variations thereof, may be in paragraph 10 of certain of the Employment Agreements but in paragraph 9 of others). Accordingly, each reference in the plan to a particular numbered paragraph of a participant's Employment Agreement shall be deemed to be a reference to the paragraph thereof, if any, which corresponds to the identically numbered paragraph of Exhibit 1.

2.2 Accrued Benefit. For 1995 and for each full calendar year and any final fraction of a calendar year of a participant's Employment Period (as such term is defined in such participant's Employment Agreement), the participant shall accrue a benefit under the plan equal to 1.85 percent of that portion of his earnings (as defined in section 2.3 below) for such year or fraction that is in excess of the "maximum dollar limitation" (as defined below) for such year or fraction and is less than $300,000. For purposes of the plan, "maximum dollar limitation" means, for any year or fraction of a year, the greater of $150,000 or the dollar amount of any higher maximum limitation on annual compensation taken into account under a qualified plan for such year or fraction of a year determined by the Secretary of Treasury or his delegate or by law under section 401 (a) (17) of the Code; it being understood that annual compensation for purposes of such limitation is computed differently from "earnings" for purposes of the plan. A participant's accrued benefits under the plan shall be referred to hereinafter as the participant's "supplemental retirement benefits."

2.3 Earnings. For purposes of the plan, a participant's "earnings" for any year or fraction means his total, regular cash compensation paid for such year or fraction for services rendered to the Pittway Companies (as such term is defined in the retirement plan) during such year or fraction, consisting solely of his salary and his annual discretionary cash bonus, if any, for such year. It is expressly understood that a participant's "earnings" do not include any other compensation, including, without limitation, any of the following:

(a) Long-tem incentive compensation;

(b) Unused vacation pay;

(c) Special cash bonuses;

(d) Any income realized for Federal income tax purposes as a result of the grant or exercise of an option or options to acquire shares of stock of a Pittway Company, the receipt or exercise of any stock appreciation right or payment, or the disposition of shares acquired by the exercise of such and option or right;

(e) Any noncash compensation, including any amounts contributed by the participant's employer(s) for his benefit under the retirement plan or any other retirement or benefit plan, arrangement, or policy maintained by his employer(s);

(f) Any reimbursements for medical, dental or travel expenses, automobile allowances, relocation allowances, educational assistance allowances, awards and other special allowances;

(g) Any income realized for Federal income tax purposes as a result of (i) group life insurance, (ii) the personal use of an employer-owned automobile, or (iii) the transfer of restricted shares of stock or restricted property of a Pittway Company, or the removal of any such restrictions;

(h) Any severance pay paid as a result of the participant's termination of employment (it being expressly understood that any amount(s) taken into account pursuant to the final sentence of section 2.8 below shall not be deemed severance pay for purposes hereof); or

(i) Any compensation paid or payable to the participant, or to any governmental body or agency on account of the participant, under the terms of any state, Federal or foreign law requiring the payment of such compensation because of the participant's voluntary or involuntary termination of employment with any Pittway Company.

Notwithstanding the foregoing, a participant's "earnings" do include (i) any salary reduction amount elected by the participant and credited to a cafeteria plan (as defined in section 125 (c) of the Code) or a qualified cash or deferred arrangement (as defined in section 401 (k) of the Code) and (ii) the initial value ascribed to any performance shares award the participant elects to receive in lieu of a portion of his annual discretionary cash bonus.

2.4 Payment of Benefits. Each participant's Employment Agreement provides that in no event shall his Employment Period be extended beyond his 65^{th} birthday except by mutual agreement of the participant and his employer. Subject to the conditions and limitations of the plan, upon a participant's attainment of age 65 years, he shall be entitled to a monthly benefit payable for his life commencing upon his attainment of age 65 years in an amount equal to one-twelfth (1/12) of the sum of the participant's accrued supplemental retirement benefits. A participant's supplemental retirement benefits shall be paid to him in the form described below that applies to the participant; provided, however, that in lieu of payment in the normal form described below, the participant may irrevocably elect, within thirty (30) days after his commencement of participation in the plan, to receive his supplemental retirement benefits in a single lump sum as soon as practicable after his attainment of age 65 years. A participant's "supplemental retirement benefit commencement date" means the date of which the initial payment (or, in the case of a single lump sum, full payment) of the supplemental retirement benefits to which the participant is entitled is payable. Subject to the conditions and limitations of the plan, a participant's supplemental retirement benefit commencement date shall normally be the first day of the calendar month coincident with or next following the participant's attainment of age 65 years. Notwithstanding the immediately proceeding sentence, if a participant's Employment Period under his Employment Agreement terminates prior to his attainment of age 65 years and he is eligible, and elects, to receive early retirement benefits under the retirement plan, and if the participant requests a supplemental retirement benefit commencement date prior to his attainment of age 65 years, then with (but only with) the consent of the committee (as defined in section 3.1 below), the participant's supplemental retirement benefit commencement date shall be such earlier date, if any, selected by the committee. Supplemental retirement benefits that are paid in a lump sum, or commence, before the participant's attainment of age 65 years, if any, shall be subject to actuarial reduction in accordance with section 2.5 below.

(a) Life Annuity. If a participant does not have a spouse (as defined in section 2.7 below) on his supplemental retirement benefit commencement date, and if he has not elected pursuant to the proceeding provisions of this section 2.4 to receive his supplemental retirement benefits in a single lump sum, payment of his supplemental retirement benefits shall be during his lifetime on a life annuity basis.

(b) Joint and Survivor Annuity. If a participant has a spouse (as defined in section 2.7 below) on his supplemental retirement benefit commencement date, payment of his supplemental retirement benefits shall be in the form of a joint and 50 percent survivor annuity unless the participant has theretofore elected pursuant to the preceding provisions of this section 2.4 to have his benefits provided in a single lump sum. Such joint and 50 percent survivor annuity shall consist of reduced monthly benefit continuing during the participant's lifetime, and if such spouse is living at the time of the participant's death, payment of 50 percent of such monthly benefit shall be made to such spouse until such spouse's death occurs. The amount of the participant's and such spouse's benefits under this subsection shall be calculated so that it is the actuarial equivalent of the supplemental retirement benefits to which the participant would otherwise be entitled under the plan. If such spouse predeceases the participant, or if the participant and such spouse cease to be married after the participant's supplemental retirement benefits commencement date, there shall be no adjustment to the participant's monthly payments and no supplemental retirement benefits shall be payable to any person after the participant's death.

2.5 Actuarial Equivalent. A benefit shall be actuarially equivalent to another benefit if the actuarial reserve required to provide such benefit is equal to the actuarial reserve required to provide such other benefit, computed on the basis of the same actuarial assumptions, interest rates, tables, methods and procedures, including reduction factors for commencement of payments prior to attainment of age 65 years, that are used for purposes of the retirement plan as in effect on the applicable date that a benefit payment amount is determined.

2.6 Pre-Retirement Surviving Spouse Benefit. If a participant dies prior to his supplemental retirement benefit commencement date, no supplemental retirement benefits under the plan shall be paid or payable with respect to the participant; provided, however, that if the participant has a spouse (as defined in section 2.7 below) at the time of his death, such spouse shall be entitled to receive a monthly benefit for such spouse's lifetime equal to 50 percent of the amount of monthly benefit that would have been payable to the participant in the form of a joint and 50 percent survivor annuity if he had terminated employment as of the date of his death with entitlement to supplemental retirement benefits under the plan and the committee (as defined in section 3.1 below) had permitted his supplemental retirement benefits commencement date to occur on the first day of the calendar month coincident with or next following the date of his death, taking into account actuarial reduction for commencement prior to the participant's attainment of age 65 years. The first payment to the spouse shall be made as of the first day of the calendar month coincident with or next following the date of participant's death and the final payment shall be made as of the first day of the calendar month during which the spouse's death occurs. If, prior to the participant's death, the participant had elected pursuant to section 2.4 above to receive his supplemental retirement benefits in a single lump sum, in lieu of the monthly payments described above, such spouse shall be entitled to receive a single lump sum equal to 50 percent of the lump sum value of the participant's supplemental retirement benefits as of the date of his death, taking into account actuarial factors for payment prior to the participant's attainment of age 65 years. Such lump sum payment shall be made to such spouse as soon as practicable following the participant's death.

2.7 Spouse. For purposes of the plan, a person will be considered the "spouse" of a participant as of any date if and only if such person and the participant have been married in a religious or civil ceremony recognized under the laws of the state where the marriage was contracted and the marriage remains legally effective. Any person which is not, or who has ceased to be, a participant's "spouse" on the participant's supplemental retirement benefit commencement date (or, in the event of the participant's death prior to his supplemental retirement benefits commencement date, the date of his death) shall not be considered the participant's "spouse" for purposes of the plan.

2.8 Forfeiture Early Termination of Employment Period. If the participant's Employment Period ends early pursuant to paragraph 5 of his Employment Agreement on account of a Termination for Cause or a Termination by Executive with Advance Notice (as such terms are defined, respectively, in his Employment Agreement), or if after the participant's Employment

Period ends (whether or not early and regardless of the reason) the participant breaches any of his agreements in paragraph 7, 9, or 10 of his Employment Agreement, the participant shall forfeit all of his supplemental retirement benefits, if any, under the plan, no benefit under the plan shall thereafter be payable to or with response to the participant or his spouse, and any benefit under the plan theretofore paid to or with respect to the participant or his spouse must be repaid to the company by the participant or his spouse promptly upon demand. If the participant's Employment Period ends early pursuant to paragraph 5 of his Employment Agreement on account of a Termination without Cause or a Termination by Executive for Good Reason (as such terms are defined, respectively, in his Employment Agreement), the participant's supplemental retirement benefits under the plan shall be the supplemental retirement benefits the participant would have been entitled to under the plan had his Employment Period remained in effect until the earlier of the date on which (without any extension thereof) such Employment Period was then scheduled to end pursuant to his Employment Agreement or the date of his death and had the participant's salary in effect as of the last day of his Employment Period (or, if greater, his Executive's Reference Salary (as such term is defined in his Employment Agreement)) continued until the earlier of such dates and been paid at the times such salary would have been paid, and had the participant received no further annual cash bonus.

2.9 Funding. The plan is intended to be non-qualified for purposes of the Code and unfunded for purposes of the Code and ERISA. Benefits payable under the plan to a participant and/or his spouse, as the case may be, shall be paid directly by the company. The company shall not be required to segregate on its books or otherwise any amount to be used for payment of supplemental retirement benefits under the plan. Each participant and spouse is solely an unsecured creditor of the company with respect to any benefit payable with respect to a participant hereunder.

SECTION 3

General Provisions

3.1 Committee. The plan shall be administered by the plan administrative committee of the retirement plan (the "committee"). The committee shall have, to the extent appropriate, the same powers, rights, duties and obligations with respect to the plan as it has with respect to the retirement plan. Each determination provided for in the plan shall be made by the committee under such procedure as may from time to time be prescribed by the committee and shall be made in the absolute discretion of the committee. Any determination so made shall be conclusive.

3.2 Employment Rights. Neither the establishment of, nor participation in, the plan shall be construed to give any participant the right to be retained in the service of the Pittway Companies or to any benefits not specifically provided by the plan.

3.3 Taxes and Withholding. Each participant (or his spouse, as applicable) shall be responsible for any taxes imposed on him (or his spouse) ("taxes") by reason of the establishment of, or his participation in, the plan, including, without limitation, any Federal, state and/or local income or employment taxes imposed on benefits or potential benefits under the plan (or on the value thereof) in advance of the participant's receipt of such benefits or potential benefits. The company or a subsidiary of the company may deduct any taxes from payroll or other payments due the participant or his spouse. The committee shall deduct from all payments under the plan any taxes required to be withheld, including, without limitation, any Federal, state and or/local income or employment taxes. In the event that such deductions and/or withholdings are not sufficient to pay the taxes, the participant (or his spouse) shall promptly remit the deficit to the company upon its request.

3.4 Interests Not Transferable. Except as to withholding of any tax under the laws of the United States or any state, the interests of participants and their spouses under the plan are not subject to the claims of their creditors and may not be voluntarily or involuntarily transferred, assigned, alienated or encumbered. No participant shall have any right to any benefit payments hereunder prior to his termination of employment with the Pittway Companies.

3.5 Payment with Respect to Incapacitated Participants or Beneficiaries. If any person entitled to benefits under the plan is under a legal disability or in the committee's opinion is incapacitated in any way so as to be unable to manage his financial affairs, the committee may direct the payment of such benefit to such person's legal representative or to a relative or friend of such person for such person's benefit, or the committee may direct the application of such benefits for the benefit of such person in any manner which the committee may select that is consistent with the plan. Any payments made in accordance with the foregoing provisions of this section shall be full and complete discharge of any liability for such payments.

3.6 Limitation of Liability. To the extent permitted by law, no person (including the company, any subsidiary of the company, the Board of Directors of the company (the "Board"), the board of directors of any subsidiary of the company, the committee, any present or former member of the Board or of the board of directors of any subsidiary of the company or of the committee, and any present or former officer of the company or of any subsidiary of the company) shall be personally liable for any act done or omitted to be done in good faith in the administration of the plan.

3.7 Controlling Law. The plan shall be construed in accordance with the provisions of ERISA and other Federal laws, to the extent such provisions are applicable to the plan. To the extent not inconsistent therewith, the plan shall be construed in accordance with the laws of the State of Illinois.

3.8 Gender and Number. Where the context admits, words in the masculine gender shall include the feminine and neuter genders the plural shall include the singular and the singular shall include the plural.

3.9 Action by the Company. Any action required of or permitted by the company under the plan, including action by the company to amend the plan, shall be by resolution of the Board or by a duly authorized committee of the Board or by a person or persons authorized by resolution of the Board or such committee. The procedure for amending the plan is that the plan shall be amended by the company's taking appropriate corporate action to effectuate any amendment considered by it to be advisable to be made. Appropriate corporate action includes action by resolution of the Board, by a committee authorized by the Board, or by a person or persons authorized by the Board or such committee, as provided above.

3.10 Successor to the Company. The term "company" as used in the plan shall include any successor to the company by reason of merger, consolidation, the purchase of all or substantially all of the company's assets or otherwise.

3.11 Miscellaneous. The plan shall be binding upon and inure to the benefit of the parties, their legal representatives, successors and assigns, and all persons entitled to benefits hereunder. Any notice given in connection with the plan shall be in writing and shall be delivered in person or by registered mail, return receipt requested. Any notice given by registered mail shall be deemed to have been given upon the date of delivery indicated on the registered mail return receipt, if correctly addressed.

SECTION 4

Amendment and Termination

While the company expects to continue the plan, it must necessarily reserve, and hereby does reserve, the right, either in general or as to one or more particular particpants, to amend the plan from time to time or to terminate the plan at any time; provided (i) that no amendment of the plan with respect to a participant that reduces or eliminates any benefits such participant has accrued as of the effective date of such amendment shall be effective unless such participant consents to such amendment; and (ii) no amendment of the plan with respect to a participant whose Employment Period under his Employment Agreement has not yet ended that adversely affects such participant, or termination of the plan with respect to such a participant, by the company on any date shall be effective prior to the date on which (without any extension thereof) such participant's Employment Period is then scheduled to end pursuant to his Employment agreement unless the participant consents to such amendment or termination.

Exhibit 10.26

AMENDMENT TO THE
2006 STOCK INCENTIVE PLAN OF
HONEYWELL INTERNATIONAL INC. AND ITS AFFILIATES

The 2006 Stock Incentive Plan of Honeywell International Inc. and its Affiliates (the "Plan"), is hereby amended effective December 8, 2006, by replacing Section 5.3 of the Plan in its entirety with the following paragraph:

"**5.3 Adjustment Upon Certain Changes**

(a) Shares Available for Grants. In the event of any change in the number of shares of Common Stock outstanding by reason of any stock dividend or split, recapitalization, merger, consolidation, combination or exchange of shares or similar corporate change, the maximum aggregate number of shares of Common Stock with respect to which the Committee may grant Awards and the maximum aggregate number of shares of Common Stock with respect to which the Committee may grant Awards to any individual Employee in any year shall be appropriately adjusted by the Committee. In the event of any change in the number of shares of Common Stock outstanding by reason of any other similar event or transaction, the Committee may, to the extent deemed appropriate by the Committee, make such adjustments in the number and class of shares of Common Stock with respect to which Awards may be granted.

(b) Increase or Decrease in Issued Shares Without Consideration. Subject to any required action by the shareowners of the Company, in the event of any increase or decrease in the number of issued shares of Common Stock resulting from a subdivision or consolidation of shares of Common Stock or the payment of a stock dividend (but only on the shares of Common Stock), or any other increase or decrease in the number of such shares effected without receipt or payment of consideration by the Company, the Committee shall equitably adjust the number of shares of Common Stock subject to each outstanding Award and the exercise price per share of Common Stock of each such Award.

(c) Certain Mergers. Subject to any required action by the shareowners of the Company, in the event that the Company shall be the surviving corporation in any merger, consolidation or similar transaction as a result of which the holders of shares of Common Stock receive consideration consisting exclusively of securities of such surviving corporation, the Committee shall have the power to adjust each Award outstanding on the date of such merger or consolidation so that it pertains and applies to the securities which a holder of the number of shares of Common Stock subject to such Award would have received in such merger or consolidation.

(d) Certain Other Transactions. In the event of (i) a dissolution or liquidation of the Company, (ii) a sale of all or substantially all of the Company's assets (on a consolidated basis), (iii) a merger, consolidation or similar transaction involving the Company in which the Company is not the surviving corporation or (iv) a merger, consolidation or similar transaction involving the Company in which the Company is the surviving corporation but the holders of shares of Common Stock receive securities of another corporation and/or other property, including cash, the Committee shall, in its sole discretion, have the power to:

(i) cancel, effective immediately prior to the occurrence of such event, each Award (whether or not then exercisable), and, in full consideration of such cancellation, pay to the Participant to whom such Award was granted an amount in cash, for each share of Common Stock subject to such Award equal to the value, as determined by the Committee in its reasonable discretion, of such Award, provided that with respect to any outstanding Stock Option or Stock Appreciation Right such value shall be equal to the excess of (A) the value, as determined by the Committee in its reasonable discretion, of the property (including cash) received by the holder of a share of Common Stock as a result of such event over (B) the exercise price of such Stock Option or Stock Appreciation Right; or

(ii) provide for the exchange of each Award (whether or not then exercisable or vested) for an Award with respect to, as appropriate, some or all of the property which a holder of the number of shares of Common Stock subject to such Award would have received in such transaction and, incident thereto, make an equitable adjustment as determined by the Committee in its reasonable discretion in the exercise price of the Award, or the number of shares or amount of property subject to the Award or, if appropriate, provide for a cash payment to the Participant to whom such Award was granted in partial consideration for the exchange of the Award.

(e) Other Changes. In the event of any change in the capitalization of the Company or corporate change other than those specifically referred to in subsections (b), (c) or (d), the Committee shall make equitable adjustments in the number and class of shares subject to Awards outstanding on the date on which such change occurs and in such other terms of such Awards.

(f) Performance Awards. In the event of any transaction or event described in this Section 5.3, including without limitation any corporate change referred to in subsection (e) hereof, the Committee shall have the power to make equitable adjustments in any Performance Measure and in other terms of any Performance Award, provided that such adjustment is consistent with the requirements of Section 162(m) of the Code and the regulations thereunder.

(g) No Other Rights. Except as expressly provided in the Plan, no Employee shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger or consolidation of the Company or any other corporation. Except as expressly provided in the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares or amount of other property subject to, or the terms related to, any Award."

Exhibit 10.27

US

EID Number: _________

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

OPTION AWARD AGREEMENT

AWARD AGREEMENT made in Morris Township, New Jersey, as of the [DAY]day of [MONTH, YEAR] between Honeywell International Inc. (the "Company") and [EMPLOYEE NAME] (the "Employee").

1. **Grant of Option.** The Company has granted you an Option to purchase [NUMBER] Shares of Common Stock, subject to the provisions of this Agreement and the 2006 Stock Incentive Plan for Employees of Honeywell International Inc. and its Affiliates (the "Plan"). This Option is a nonqualified Option.

2. **Exercise Price.** The purchase price of the Shares covered by the Option will be [DOLLAR AMOUNT] per Share.

3. **Vesting.** Except in the event of your death or Disability or a Change in Control, the Option will become exercisable in cumulative installments as follows: [VESTING PROVISIONS CONSISTENT WITH THE PLAN].

4. **Term of Option.** The Option must be exercised prior to the close of the New York Stock Exchange ("NYSE") on [EXPIRATION DATE], subject to earlier termination or cancellation as provided below. If the NYSE is not open for business on the expiration date specified, the Option will expire at the close of the NYSE on the business day immediately preceding [EXPIRATION DATE].

5. **Payment of Exercise Price.** You may pay the Exercise Price by cash, certified check, bank draft, wire transfer, postal or express money order, or any other alternative method specified in the Plan and expressly approved by the Committee. Notwithstanding the foregoing, you may not tender any form of payment that the Committee determines, in its sole and absolute discretion, could violate any law or regulation.

6. **Exercise of Option.** Subject to the terms and conditions of this Agreement, the Option may be exercised by contacting the Honeywell Stock Option Service Center, managed by Smith Barney, by telephone at 1-888-723-3391 or 1-212-615-7876, or on the internet at www.benefitaccess.com. If the Option is exercised after your death, the Company will deliver Shares only after the Committee has determined that the person exercising the Option is the duly appointed executor or administrator of your estate or the person to whom the Option has been transferred by your will or by the applicable laws of descent and distribution.

7. Termination, Retirement, Disability or Death. The Option will vest and remain exercisable as follows:

Event	Vesting	Exercise
Death	Immediate vesting as of death.	Expires earlier of (i) original expiration date, or (ii) 3 years after death.
Disability	Immediate vesting as of incurrence of Disability.	Expires earlier of (i) original expiration date, or (ii) 3 years after Disability.
Full Retirement (Voluntary Termination of Employment on or after age 60 and 10 Years of Service)	Unvested Awards forfeited as of Full Retirement.	Expires earlier of (i) original expiration date, or (ii) 3 years after retirement. If you die prior to end of this 3-year period, expires earlier of (i) original expiration date, or (ii) 1 year after death.
Early Retirement (Termination of Employment because of retirement from active employment on or after age 55 and 10 Years of Service)	Unvested Awards forfeited as of Early Retirement.	Expires earlier of (i) original expiration date, or (ii) 3 years after retirement. If you die prior to end of this 3-year period, expires earlier of (i) original expiration date, or (ii) 1 year after death.
Voluntary termination	Unvested Awards forfeited as of Termination of Employment.	Expires earlier of (i) original expiration date, or (ii) 30 days after termination. If you die prior to end of this 30-day period, expires earlier of (i) original expiration date, or (ii) 1 year after death.
Involuntary termination not for Cause	Unvested Awards forfeited as of Termination of Employment.	Expires earlier of (i) original expiration date, or (ii) 1 year after termination. If you die prior to end of this 1-year period, expires earlier of (i) original expiration date, or (ii) 1 year after death.
Involuntary termination for Cause	Unvested Awards forfeited as of Termination of Employment.	Vested Awards immediately cancelled.

For purposes of this Agreement, if your employment is terminated under circumstances that entitle you to severance benefits under a severance plan of the Company or an Affiliate in which you participate, "Termination of Employment" refers to the date immediately prior to the date severance benefits become payable under the terms of the severance plan. If your employment is terminated under any other circumstances and you are not entitled to severance benefits under a severance plan of the Company or an Affiliate, "Termination of Employment" refers to the last day you actively perform services for the Company and its Affiliates.

8. Change in Control. In the event of a Change in Control, any portion of the Option that has not vested as of the date of Change in Control will immediately become exercisable in full.

9. Withholdings. The Company will have the right, prior to the issuance or delivery of any Shares in connection with the exercise of the Option, to withhold or demand from you the amount necessary to satisfy applicable tax requirements, as determined by the Committee.

10. Transfer of Option. You may not transfer the Option or any interest in the Option except by will or the laws of descent and distribution or except as permitted by the Committee and as specified in the Plan.

11. Forfeiture of Award.

(a) By accepting the Award, you expressly agree and acknowledge that the forfeiture provisions of subparagraph (b) will apply if, from the date of the grant of the Option until the date that is twenty-four (24) months after your Termination of Employment for any reason, you enter into an employment or consultation agreement or arrangement (including any arrangement for service as an agent, partner, stockholder, consultant, officer or director) with any entity or person engaged in a business in which the Company or any Affiliate is engaged if the business is competitive (in the sole judgment of the Committee) with the Company or an Affiliate and the Committee has not approved the agreement or arrangement in writing.

(b) If the Committee determines, in its sole judgment, that you have engaged in an act that violates subparagraph (a) prior to the 24-month anniversary of your Termination of Employment, any Option that you have not exercised (whether vested or unvested) will immediately be rescinded, and you will forfeit any rights you have with respect to the Option 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 profit you realized upon an exercise of the Option during the period beginning six (6) months prior to your Termination of Employment and ending on the date of the Committee's determination.

12. Adjustments. Any adjustments to the Option will be governed by Section 5.3 of the Plan.

13. Restrictions on Exercise. Exercise of the Option is subject to the conditions that, to the extent required at the time of exercise, (a) the Shares covered by the Option will be duly listed, upon official notice of issuance, 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 of the Company.

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 U.S. federal securities laws in respect of trading in the Company's securities, and you agree not to use the Company's "cashless exercise" program (or any successor program) at any time when you possess material nonpublic information with respect to the Company or when using the program would otherwise result in a violation of securities law. The Company will have the right to recover, or receive reimbursement for, any compensation or profit realize on the exercise of the Option or by the disposition of Shares received upon exercise of the Option to the extent that the Company has a right of recovery or reimbursement under applicable securities laws.

15. Plan Terms Govern. The exercise of the Option, the disposition of any Shares received upon exercise of the Option, and the treatment of any gain on the disposition of these Shares are subject to the terms 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 unless otherwise stated in this Agreement. 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 Option, 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 options or other entitlement to shares awarded, canceled, exercised, vested, unvested, or outstanding in your favor, for the purpose of managing and administering the Plan ("Data").

(c) You further understand that part or all of your Data may be also held by the Company or its Affiliates, pursuant to a transfer made in the past with your consent, in respect of any previous grant of options 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 or its Affiliates among themselves as necessary for the purposes of implementation, administration, and management of the your participation in the Plan, and that the Company or its Affiliates may transfer data among themselves, and/or each, in turn, further transfer Data to any third parties assisting the Company in the implementation, administration, and management of the Plan ("Data Recipients").

(e) You understand that the Company or its Affiliates, as well as the Data Recipients, are or may be located in your country of residence or elsewhere, such as the United States. You authorize the Company or its Affiliates, as well as the Data Recipients, to receive, possess, use, retain, and transfer Data in electronic or other form, for the purposes of implementing, administering, and managing your participation in the Plan, including any transfer of such Data, as may be required for the administration of the Plan 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 Option. Furthermore, this Agreement is not derived from any preexisting labor relationship between you and the Company, but rather from a mercantile relationship.

(b) The Company may administer the Plan from outside your country of residence and United States law will govern all options granted under the Plan.

(c) Benefits and rights provided under the Plan are wholly discretionary and, although provided by the Company, do not constitute regular or periodic payments.

(d) The benefits and rights provided under the Plan are not to be considered part of your salary or compensation under your employment with your local employer for purposes of calculating any severance, resignation, redundancy or other end of service payments, vacation, bonuses, long-term service awards, indemnification, pension or retirement benefits, or any other payments, benefits or rights of any kind. You waive any and all rights to compensation or damages as a result of the termination of employment with your local employer for any reason whatsoever insofar as those rights result, or may result, from the loss or diminution in value of such rights under the Plan or your ceasing to have any rights under, or ceasing to be entitled to any rights under, the Plan as a result of such termination.

(e) The grant of the Option hereunder, and any future grant of an option under the Plan, is entirely voluntary, and at the complete discretion of the Company. Neither the grant of the Option nor any future grant by the Company will be deemed to create any obligation to make any future grants, whether or not such a reservation is explicitly stated at the time of such a grant. The Company has the right, at any time and/or on an annual basis, to amend, suspend or terminate the Plan; provided, however, that no such amendment, suspension, or termination will adversely affect your rights hereunder.

(f) The Plan will not be deemed to constitute, and will not be construed by you to constitute, part of the terms and conditions of employment. Neither the Company nor your local employer will 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 will not be deemed to constitute, and will 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 Shares is not secured by a trust, insurance contract or other funding medium, and you do not have any interest in any fund or specific asset of the Company by reason of the Option. You have no rights as a shareowner of the Company pursuant to the Option until Shares are actually delivered you.

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

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.

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, the Plan, the Plan's prospectus and all accompanying documentation; and (ii) you understand and agree that this Agreement and the Plan constitute the entire understanding between you and the Company regarding the Option, and that any prior agreements, commitments or negotiations concerning the

Option 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.

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

2006 Stock Incentive Plan
of Honeywell International Inc. and Its Affiliates

RESTRICTED UNIT AGREEMENT

RESTRICTED UNIT AGREEMENT made in Morris Township, New Jersey, as of the [DAY]day of [MONTH, YEAR] (the "Date of Grant"), between Honeywell International Inc. (the "Company") and [EMPLOYEE NAME] (the "Employee").

1. **Grant of Award.** The Company has granted you [NUMBER] Restricted Units, subject to the provisions of this Agreement and the 2006 Stock Incentive Plan for Employees of Honeywell International Inc. and its Affiliates (the "Plan"). The Company will hold the Restricted Units in a bookkeeping account on your behalf until they become payable or are forfeited or cancelled.

2. **Payment Amount.** Each Restricted Unit represents one (1) Share of Common Stock.

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 on [VESTING PROVISIONS CONSISTENT WITH THE PLAN]. Your vested right will be calculated on the earliest of (a) [VESTING DATE(S)], (b) your Termination of Employment, or (c) the occurrence of a Change in Control. No partial credit will be given for partial years of employment.

4. **Form and Timing of Payment.** Vested Restricted Units will be redeemed solely for Shares. [FOLLOWING INCLUDED AT COMMITTEE'S DISCRETION: Except as otherwise determined by the Management Development and Compensation Committee (the "Committee"), in its sole discretion, Dividend Equivalents will always be paid in cash.] Payment on Restricted Units [and Dividend Equivalents (and earnings thereon)] will be made as soon as practicable following the lapse of the restrictions on the Restricted Units but in no event later than two and one-half (2-1/2) months following the end of the calendar year in which the restrictions lapse. [FOLLOWING INCLUDED AT COMMITTEE'S DISCRETION: You cannot defer payment of the Restricted Units or Dividend Equivalents (or earnings thereon).]

5. [FOLLOWING INCLUDED AT COMMITTEE'S DISCRETION: **Dividend Equivalents.** Except as otherwise determined by the Committee, in its sole discretion, you will accrue Dividend Equivalents in an amount equal to the value of any cash or

stock dividends paid by the Company upon one Share of Common Stock for each Restricted Unit credited to your bookkeeping account. Accrued Dividend Equivalents will be subject to the same forfeiture and transferability restrictions that apply to the Restricted Units to which they relate. The Company will hold a accrued Dividend Equivalents (and earnings thereon) in a bookkeeping account on your behalf until they become payable or are forfeited. Accrued Dividend Equivalents will earn, for the relevant year, the same rate of interest credited to deferrals under the Salary and Incentive Award Deferral Plan for Selected Employees of Honeywell International Inc. and its Affiliates. For 2007, the rate is 5.8% and is subject to change annually.]

6. [FOLLOWING INCLUDED AT COMMITTEE'S DISCRETION: **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 Section 4. You cannot defer payment of Dividend Equivalents (or earnings thereon).]

7. **Termination of Employment.** Any Restricted Units [or accrued Dividend Equivalents (and earnings thereon)] that have not vested as of your Termination of Employment, other than by reason of your Full Retirement, death or Disability, or a Change in Control, will immediately be forfeited, and your rights with respect to these Restricted Units [and accrued Dividend Equivalents (and earnings thereon)] will end. For purposes of this Agreement, if your employment is terminated under circumstances that entitle you to severance benefits under a severance plan of the Company or an Affiliate in which you participate, "Termination of Employment" refers to the date immediately prior to the date severance benefits become payable under the terms of the severance plan. If your employment is terminated under any other circumstances and you are not entitled to severance benefits under a severance plan of the Company or an Affiliate, "Termination of Employment" refers to the last day you actively perform services for the Company and its Affiliates.

8. **Retirement, Death or Disability.** If your Termination of Employment occurs because of your death or Disability, any remaining restrictions on Restricted Units [and accrued Dividend Equivalents (and earnings thereon)] will lapse, and payment will be made in accordance with Section 4. 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.

If your Termination of Employment occurs solely because of your Full Retirement, you will receive (a) [plus (b)], where (a) [and (b)] equal[s] the following:

(a) a pro-rata payment of Restricted Units equal to (i) times (ii), where:

i. equals the number of Restricted Units set forth in Section 1 above, and

ii. equals the ratio of your complete years of service as an employee of the Company or its Affiliate between the Date of Grant and your Termination of Employment, and three (3)[, and

(b) a pro-rata payment of accrued Dividend Equivalents (and the earnings thereon) equal to (i) times (ii), where:

i. equals the value of your accrued Dividend Equivalents (and the earnings thereon) as of your Termination of Employment, and

ii. equals the ratio of your complete years of service as an employee of the Company or its Affiliate between the Date of Grant and your Termination of Employment, and three (3)].

Payment will be made in accordance with Section 4.

9. 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 the sum of (a) a single payment in cash equal to the product of the number of outstanding Restricted Units as of the date of the Change in Control (including any Restricted Units that vest pursuant to this Section 9) and a multiplication factor, as set forth in the Plan[, and (b) a single payment in cash equal to any accrued Dividend Equivalents (and the earnings thereon) as of the date of the Change in Control]. [If you deferred payment of any portion of your Restricted Units as described in Section 6, you may elect not to accelerate payment in the event of a Change in Control.]

10. Withholdings. The Company will have the right, prior to any issuance or delivery of Shares on Restricted Units [or of payment of accrued Dividend Equivalents (and earnings thereon)], to withhold or require from you the amount necessary to satisfy applicable tax requirements, as determined by the Committee.

11. Transfer of Award. You may not transfer the Restricted Units[, Dividend Equivalents (or earnings thereon)] or any interest in the Restricted Units [or Dividend Equivalents (or earnings thereon)] except by will or the laws of descent and distribution [FOLLOWING INCLUDED AT COMMITTEE'S DISCRETION: or except as permitted by the Committee as specified in the Plan]. Any other attempt to dispose of your interest will be null and void.

12. 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 agreement or arrangement in writing.

(b) If the Committee determines, in its sole judgment, that you have engaged in an act that violates subparagraph (a) prior to the 24-month anniversary of your Termination of Employment, your outstanding Restricted Units 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. [You also hereby agree and promise immediately to repay the value of any accrued Dividend Equivalents (and earnings thereon) for which you received payment during the period beginning six (6) months prior to your Termination of Employment and ending on the date of the Committee's determination.]

13. **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 New York Stock Exchange, 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.

14. **Adjustments.** Any adjustments to the Restricted Units will be governed by Section 5.3 of the Plan.

15. **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.

16. **Plan Terms Govern.** The vesting and redemption of Restricted Units, the disposition of any Shares received for Restricted Units, the treatment of gain on the disposition of these Shares, [and the treatment of Dividend Equivalents (and earnings thereon)] 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 that the Plan and the Plan prospectus, as in effect on the date of this Agreement, have been made available to you for your review.

17. Personal Data.

(a) By entering into this Agreement, and as a condition of the grant of the Restricted Units, you expressly consent to the collection, use, and transfer of personal data as described in this Section to the full extent permitted by and in full compliance with applicable law.

(b) You understand that your local employer holds, by means of an automated data file, certain personal information about you, including, but not limited to, name, home address and telephone number, date of birth, social insurance number, salary, nationality, job title, any shares or directorships held in the Company, details of all restricted units or other entitlement to shares awarded, canceled, exercised, vested, unvested, or outstanding in your favor, for the purpose of managing and administering the Plan ("Data").

(c) You further understand that part or all of your Data may be also held by the Company or its Affiliates, pursuant to a transfer made in the past with your consent, in respect of any previous grant of restricted units or awards, which was made for the same purposes of managing and administering of previous award/incentive plans, or for other purposes.

(d) You further understand that your local employer will transfer Data to the Company or its Affiliates among themselves as necessary for the purposes of implementation, administration, and management of the your participation in the Plan, and that the Company or its Affiliates may transfer data among themselves, and/or each, in turn, further transfer Data to any third parties assisting the Company in the implementation, administration, and management of the Plan ("Data Recipients").

(e) You understand that the Company or its Affiliates, as well as the Data Recipients, are or may be located in your country of residence or elsewhere, such as the United States. You authorize the Company or its Affiliates, as well as the Data Recipients, to receive, possess, use, retain, and transfer Data in electronic or other form, for the purposes of implementing, administering, and managing your participation in the Plan, including any transfer of such Data, as may be required for the administration of the Plan 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.

18. **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 United States law will govern all Restricted Units granted under the Plan.

(c) Benefits and rights provided under the Plan are wholly discretionary and, although provided by the Company, do not constitute regular or periodic payments.

(d) The benefits and rights provided under the Plan are not to be considered part of your salary or compensation under your employment with your local employer for purposes of calculating any severance, resignation, redundancy or other end of service payments, vacation, bonuses, long-term service awards, indemnification, pension or retirement benefits, or any other payments, benefits or rights of any kind. You waive any and all rights to compensation or damages as a result of the termination of employment with your local employer for any reason whatsoever insofar as those rights result, or may result, from the loss or diminution in value of such rights under the Plan or your ceasing to have any rights under, or ceasing to be entitled to any rights under, the Plan as a result of such termination.

(e) The grant of Restricted Units 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 by the Company will be deemed to create any obligation to make any future grants, whether or not such a reservation is explicitly stated at the time of such a grant. The Company has the right, at any time and/or on an annual basis, to amend, suspend or terminate the Plan; provided, however, that no such amendment, suspension, or termination will adversely affect your rights hereunder.

(f) The Plan will not be deemed to constitute, and will not be construed by you to constitute, part of the terms and conditions of employment. Neither the Company nor your local employer will 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 will not be deemed to constitute, and will not be deemed by you to constitute, an employment or labor relationship of any kind with the Company.

19. **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.

20. **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.

21. **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.

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

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, the Plan and the Plan's prospectus; 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 must accept this Award by signing the Agreement below and, by signing this Agreement, you will be deemed to consent to the application of the terms and conditions set forth in this Agreement and the Plan. If you do not wish to accept this Award, you must 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.

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

I Accept

Signature Date

Exhibit 10.30

Honeywell EID Number: _______

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

PERFORMANCE SHARE AGREEMENT

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

1. **Grant of Awards.** The Company has granted to you [NUMBER] Performance Shares, subject to the terms of this Agreement and the terms of the 2006 Stock Incentive Plan of Honeywell International Inc. and Its Affiliates (the "Stock Plan").

2. **Target and Actual Awards.** The number of Performance Shares awarded to you represents a target award for the Performance Cycle (as defined below) (the "Target Award"). Each Performance Share represents one (1) Share of Common Stock. Your actual earned award (the "Actual Award") is equal to the product of (i) the Plan Payout Percentage, and (iii) your Target Award. 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 [DESCRIBE PERFORMANCE MEASURES AND PERCENTAGE PAYOUT SCHEDULE TO BE USED] (collectively the "Performance Measures") for the Performance Cycle.

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

5. **Timing of Payments.** The payment of Performance Shares [and Dividend Shares] 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 Performance Shares[and Dividend Shares]. To the extent Performance Shares [and Dividend Shares] are earned, you will receive them in two installments (subject, of course, to the active employment criteria described herein). One-half of your Actual Award [and Dividend Shares] will be paid in [MONTH, YEAR] ; the second half of your Actual Award [and Dividend Shares] will be paid in [MONTH, YEAR] ; 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.** Performance Shares [and Dividend Shares] will be paid in shares of the Company's common stock ("Shares") except as may otherwise provided in Section 11 below.

7. **[FOLLOWING INCLUDED AT COMMITTEE'S DISCRETION: Dividend Shares.** You will earn dividend equivalents in the form of additional shares ("Dividend Shares") based on your Actual Award. The number of Dividend Shares will be calculated by dividing the sum of cash dividends that you would have earned on your Actual Award had you held those earned Shares throughout the Performance Cycle by the average Honeywell closing Share price for the 30 trading days preceding [LAST DAY OF PERFORMANCE CYCLE], with any fractional Shares rounded up to the nearest whole Share. Dividend Shares will be paid in accordance with Section 5.]

8. **Termination of Employment.** If your employment with the Company is terminated for any reason other than death or Disability prior to the date an Actual Award payment is to be made pursuant to Section 5 above, any unpaid Actual Award [and Dividend Shares] shall be forfeited and your rights with respect to any award under this Agreement will terminate unless the Committee, or its designee, determines otherwise in its sole and absolute discretion.

9. **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, as your Actual Award for the Performance Cycle, the greater of (i) your Actual Award determined pursuant to Section 2 above at the time the death or Disability occurs, or (ii) your Target Award. [No Dividend Shares will be paid in this case. OR Dividend Shares will be calculated as provided in Section 7.] The Actual Award[and Dividend Shares] will be payable in a single lump sum at the time the first installment payment is scheduled to be paid under Section 5.

   If your death or Disability occurs after the first installment payment of your Actual Award (determined in accordance with Section 2) [and unpaid Dividend Shares] 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.

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

    OR

    Deferral of Payment. If you would like to defer payment of the Actual Award, you may make a request to the Committee in writing in the form and at the time designated by the Committee. You must submit a suggested payment schedule with the request for deferral. The Committee may, in its sole discretion, determine whether to permit deferral of payment in the manner requested. If the Committee does not accept your proposed payment schedule, then payment will be made as provided in Section 5. You cannot defer payment of Dividend Shares.]

11. **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 Plan Payout Percentage of 100%. In such case, you shall receive both installments of your Actual Award [and Dividend Shares] 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 will be in cash or Shares, as determined by the Committee.

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

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

14. **Personal Data.** By accepting the Performance Share 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.

15. **Discretionary Nature and Acceptance of Award**. By accepting this Performance Share 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 Performance Shares hereunder, and any future grant of Performance Shares under the Stock Plan, is entirely voluntary and at the complete and sole discretion of the Company. Neither the grant of these Performance Shares nor any future grant of Performance Shares by the Company shall be deemed to create any obligation to grant any further Performance Shares, 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, except as provided in Section 17, no such amendment, suspension, or termination shall adversely affect your rights hereunder.

16. **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.

17. **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, the Stock Plan and the Stock Plan prospectus; 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 Performance Shares, and that any prior agreements, commitments or negotiations concerning such Performance Shares 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: /s/ David M. Cote

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 Performance Shares. This Agreement and the Stock Plan should be read in conjunction with one another 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 10.31

AMENDMENT TO THE
2006 STOCK PLAN
FOR
NON-EMPLOYEE DIRECTORS OF
HONEYWELL INTERNATIONAL INC.

The 2006 Stock Plan for Non-Employee Directors of Honeywell International Inc. ("the Plan"), is hereby amended effective December 8, 2006, by replacing Section 9 of the Plan in its entirety with the following paragraph:

"**9. Adjustment Upon Certain Changes**

(a) *Shares Available for Grants*. In the event of any change in the number of Shares outstanding by reason of any stock dividend or split, recapitalization, merger, consolidation, combination or exchange of Shares or similar corporate change, the maximum aggregate number of Shares with respect to which the Committee may grant Awards and the maximum aggregate number of Shares with respect to which the Committee may grant Awards to any individual Eligible Director in any calendar year shall be appropriately adjusted by the Committee. In the event of any change in the number of Shares outstanding by reason of any other similar event or transaction, the Committee may, to the extent deemed appropriate by the Committee, make such adjustments in the number and class of Shares with respect to which Awards may be granted.

(b) *Increase or Decrease in Issued Shares Without Consideration*. Subject to any required action by the shareowners of the Company, in the event of any increase or decrease in the number of issued Shares resulting from a subdivision or consolidation of Shares or the payment of a stock dividend (but only on the Shares), or any other increase or decrease in the number of such Shares effected without receipt or payment of consideration by the Company, the Committee shall equitably adjust the number of Shares subject to each outstanding Award and the Exercise Price per Share of each such Award.

(c) *Certain Mergers*. Subject to any required action by the shareowners of the Company, in the event that the Company shall be the surviving corporation in any merger, consolidation or similar transaction as a result of which the holders of Shares receive consideration consisting exclusively of securities of such surviving corporation, the Committee shall have the power to adjust each Award outstanding on the date of such merger or consolidation so that it pertains and applies to the securities which a holder of the number of Shares subject to such Award would have received in such merger or consolidation.

(d) *Certain Other Transactions*. In the event of (i) a dissolution or liquidation of the Company, (ii) a sale of all or substantially all of the Company's assets (on a consolidated basis), (iii) a merger, consolidation or similar transaction involving the Company in which the Company is not the surviving corporation or (iv) a merger, consolidation or similar transaction involving the Company in which the Company is the surviving corporation but the holders of Shares receive securities of another corporation and/or other property, including cash, the Committee shall, in its sole discretion, have the power to:

(1) cancel, effective immediately prior to the occurrence of such event, each Award (whether or not then exercisable), and, in full consideration of such cancellation, pay to the Participant to whom such Award was granted an amount in cash, for each Share subject to such Award equal to the value, as determined by the Committee in its reasonable discretion, of such Award, provided that with respect to any outstanding Stock Option such value shall be equal to the excess of (A) the value, as determined by the Committee in its reasonable discretion, of the property (including cash) received by the holder of a Share as a result of such event over (B) the Exercise Price of such Stock Option; or

(2) provide for the exchange of each Award (whether or not then exercisable or vested) for an Award with respect to, as appropriate, some or all of the property which a holder of the number of Shares subject to such Award would have received in such transaction and, incident thereto, make an equitable adjustment as determined by the Committee in its reasonable discretion in the Exercise Price of the Award, or the number of Shares or amount of property subject to the Award or, if appropriate, provide for a cash payment to the Participant to whom such Award was granted in partial consideration for the exchange of the Award.

(e) *Other Changes*. In the event of any change in the capitalization of the Company or corporate change other than those specifically referred to in subsections (b), (c) or (d), the Committee shall make equitable adjustments in the number and class of shares subject to Awards outstanding on the date on which such change occurs and in such other terms of such Awards.

(f) *No Other Rights*. Except as expressly provided in the Plan, no Eligible Director shall have any rights by reason of any subdivision or consolidation of shares of stock of any class, the payment of any dividend, any increase or decrease in the number of shares of stock of any class or any dissolution, liquidation, merger or consolidation of the Company or any other corporation. Except as expressly provided in the Plan, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number of shares or amount of other property subject to, or the terms related to, any Award."

AMENDMENT TO THE
2006 STOCK PLAN
FOR
NON-EMPLOYEE DIRECTORS OF
HONEYWELL INTERNATIONAL INC.

The 2006 Stock Plan for Non-Employee Directors of Honeywell International Inc. ("the Plan"), is hereby amended effective January 1, 2007 replacing in its entirety the second paragraph of Schedule A with the following new paragraph:

> *Grant of Stock Options*. Each Eligible Director who continues in office following the Annual Meeting of Shareowners will receive a grant of 5,000 Stock Options with an Exercise Price equal to the Fair Market Value as of such date. The Stock Options will vest in cumulative installments of 25% on April 1 of the first year following the date of grant, an additional 25% on April 1 of the second and third years following the date of grant, and the remaining 25% on April 1 of the fourth year following the date of grant.

EXHIBIT 12

HONEYWELL INTERNATIONAL INC.
STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

	2006	2005	2004	2003	2002
			(In millions)		
Determination of Earnings:					
Income (loss) from continuing operations before taxes	$ 2,798	$ 2,296	$ 1,623	$ 1,583	$ (1,000)
Add (Deduct):					
Amortization of capitalized interest	22	22	24	24	24
Fixed charges	488	465	438	440	435
Equity income, net of distributions	(7)	(30)	(75)	(38)	(42)
Total earnings, as defined	$ 3,301	$ 2,753	$ 2,010	$ 2,009	$ (583)
Fixed Charges:					
Rents(a)	$ 114	$ 109	$ 107	$ 105	$ 91
Interest and other financial charges	374	356	331	335	344
	488	465	438	440	435
Capitalized interest	22	17	18	15	21
Total fixed charges	$ 510	$ 482	$ 456	$ 455	$ 456
Ratio of earnings to fixed charges	6.47	5.71	4.41	4.42	(1.28)(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 year ended December 31, 2002. In order to have achieved a ratio of earnings to fixed charges of 1:1, we would have had to have generated an additional $1,039 million of earnings in the year ended December 31, 2002.

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

Name	Country or State of Incorporation	Securities Owned: Class	Securities Owned: Percent Ownership
Honeywell Aerospace UK	United Kingdom	Common Stock	100
Honeywell ACSA Inc.	Canada	Common Stock	100
Honeywell Asia Pacific Inc.	Delaware	Common Stock	100
Honeywell Electronic Materials Inc.	Washington	Common Stock	100
Honeywell GmbH	Germany	Common Stock	100
Honeywell HomeMed L.L.C.	Delaware	Common Stock	100
Honeywell Intellectual Properties Inc.	Arizona	Common Stock	100
Honeywell Limited	Canada	Common Stock	100
Honeywell Resins & Chemicals L.L.C.	Delaware	Common Stock	100
Honeywell Specialty Materials, L.L.C.	Delaware	Common Stock	100
Honeywell Technologies S.r.l.	Switzerland	Common Stock	100
Honeywell Technology Solutions Inc.	Delaware	Common Stock	100
Honeywell UK Limited	United Kingdom	Common Stock	100
AlliedSignal Aerospace Service Corporation	Delaware	Common Stock	100
Grimes Aerospace Company	Delaware	Common Stock	100
Novar Controls Corporation	Delaware	Common Stock	100
Phoenix Controls Corporation	Massachusetts	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. 033-14071, 033-55425, 333-22355, 333-49455, 333-68847, 333-74075, 333-34760, 333-86874 and 333-101455), Form S-8 (Nos. 033-09896, 033-51455, 033-55410, 033-58347, 333-57515, 333-57517, 333-57519, 333-83511, 333-34764, 333-49280, 333-57868, 333-91582, 333-91736, 333-105065, 333-108461, 333-136083, and 333-136086), and Form S-4 (No. 333-82049) of Honeywell International Inc. of our report dated February 15, 2007 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
February 15, 2007

Exhibit 24

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, 2006,

(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-in-fact 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
Gordon M. Bethune, Director

/s/ Jaime Chico Pardo
Jaime Chico Pardo, Director

/s/ D. Scott Davis
D. Scott Davis, Director

/s/ Linnet F. Deily
Linnet F. Deily, Director

/s/ Clive R. Hollick
Clive R. Hollick, Director

/s/ James J. Howard
James J. Howard, Director

/s/ Russell E. Palmer
Russell E. Palmer, Director

/s/ Ivan G. Seidenberg
Ivan G. Seidenberg, Director

/s/ Bradley T. Sheares
Bradley T. Sheares, Director

/s/ Eric K. Shinseki
Eric K. Shinseki, Director

/s/ John R. Stafford
John R. Stafford, Director

/s/ Michael W. Wright
Michael W. Wright, Director

Dated: February 16, 2007

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, and to file the same together with all exhibits thereto, under the Securities Act of 1933, including any amendment thereto or 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, the Honeywell Supplemental Savings Plan, the 1993 Stock Plan for Employees of Honeywell International Inc. and its Affiliates, the Stock Plan for Non-Employee Directors of Honeywell International Inc., the 2006 Stock Plan for Non-Employee Directors of Honeywell International Inc., the 2003 Stock Incentive Plan of Honeywell International Inc. and its Affiliates, the 2006 Stock Incentive Plan of Honeywell International Inc. and its Affiliates, the 2007 Honeywell Global Employee Stock Plan (including any and all sub-plans), and any plan which is a successor to such plans or is a validly authorized plan pursuant to which securities of the Company 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-in-fact full power and authority to perform every act necessary to be done in connection with the foregoing as fully as I might do in person, hereby ratifying and confirming all that said attorneys-in-fact, or any of them or their substitutes, may lawfully do or cause to be done.

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
Gordon M. Bethune, Director

/s/ Jaime Chico Pardo
Jaime Chico Pardo, Director

/s/ D. Scott Davis
D. Scott Davis, Director

/s/ Linnet F. Deily
Linnet F. Deily, Director

/s/ Clive R. Hollick
Clive R. Hollick, Director

/s/ James J. Howard
James J. Howard, Director

/s/ Russell E. Palmer
Russell E. Palmer, Director

/s/ Ivan G. Seidenberg
Ivan G. Seidenberg, Director

/s/ Bradley T. Sheares
Bradley T. Sheares, Director

/s/ Eric K. Shinseki
Eric K. Shinseki, Director

/s/ John R. Stafford
John R. Stafford, Director

/s/ Michael W. Wright
Michael W. Wright, Director

Dated: February 16, 2007

POWER OF ATTORNEY

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(i) debt securities of the Company, with such terms as may be from time to time specified in such registration statement or any amendment or post-effective amendment;

(ii) shares of the Company's common stock, par value, $1.00 per share;

(iii) shares of the Company's preferred stock, without par value; and

(iv) such other securities of the Company, its subsidiaries, joint ventures or affiliates or another person or entity, as may be specified in any such registration statement or amendment, all in accordance with the Securities Act of 1933 and the rules and regulations thereunder;

I hereby grant to each such attorney-in-fact full power and authority to perform every act necessary to be done in connection with the foregoing as fully as I might do in person, hereby ratifying and confirming all that said attorneys-in-fact, or any of them or their substitutes, may lawfully do or cause to be done.

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
Gordon M. Bethune, Director

/s/ Jaime Chico Pardo
Jaime Chico Pardo, Director

/s/ D. Scott Davis
D. Scott Davis, Director

/s/ Linnet F. Deily
Linnet F. Deily, Director

/s/ Clive R. Hollick
Clive R. Hollick, Director

/s/ James J. Howard
James J. Howard, Director

/s/ Russell E. Palmer
Russell E. Palmer, Director

/s/ Ivan G. Seidenberg
Ivan G. Seidenberg, Director

/s/ Bradley T. Sheares
Bradley T. Sheares, Director

/s/ Eric K. Shinseki
Eric K. Shinseki, Director

/s/ John R. Stafford
John R. Stafford, Director

/s/ Michael W. Wright
Michael W. Wright, Director

Dated: February 16, 2007

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, and to file the same together with all exhibits thereto, under the Securities Act of 1933, including any amendment thereto or 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, with such terms as may be from time to time specified in such registration statement or any amendment or post-effective amendment;

(ii) shares of the Company's common stock, par value, $1.00 per share;

(iii) shares of the Company's preferred stock, without par value; and

(iv) such other securities of the Company, its subsidiaries, joint ventures or affiliates or another person or entity, as may be specified in any such registration statement or amendment, all in accordance with the Securities Act of 1933 and the rules and regulations thereunder;

I hereby grant to each such attorney-in-fact full power and authority to perform every act necessary to be done in connection with the foregoing as fully as I might do in person, hereby ratifying and confirming all that said attorneys-in-fact, or any of them or their substitutes, may lawfully do or cause to be done.

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: February 16, 2007

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, 2006,

(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-in-fact 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

February 16, 2007

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, and to file the same together with all exhibits thereto, under the Securities Act of 1933, including any amendment thereto or 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, the Honeywell Supplemental Savings Plan, the 1993 Stock Plan for Employees of Honeywell International Inc. and its Affiliates, the Stock Plan for Non-Employee Directors of Honeywell International Inc., the 2006 Stock Plan for Non-Employee Directors of Honeywell International Inc., the 2003 Stock Incentive Plan of Honeywell International Inc. and its Affiliates, the 2006 Stock Incentive Plan of Honeywell International Inc. and its Affiliates, the 2007 Honeywell Global Employee Stock Plan (including any and all sub-plans), and any plan which is a successor to such plans or is a validly authorized plan pursuant to which securities of the Company 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-in-fact full power and authority to perform every act necessary to be done in connection with the foregoing as fully as I might do in person, hereby ratifying and confirming all that said attorneys-in-fact, or any of them or their substitutes, may lawfully do or cause to be done.

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

February 16, 2007

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: February 15, 2007 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: February 15, 2007 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, 2006 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

February 15, 2007

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, 2006 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

February 15, 2007