HONEYWELL INTERNATIONAL INC
Form 10-Q
July 18, 2008

United States
Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

OR

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

For the transition period from _____ to _____

Commission file number 1-8974

Honeywell International Inc.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	22-2640650 (I.R.S. Employer Identification No.)
101 Columbia Road Morris Township, New Jersey (Address of principal executive offices)	07962 (Zip Code)

(973) 455-2000
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year,
if changed since last report)

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

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

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

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

There were 744,436,457 shares of Common Stock outstanding at June 30, 2008.

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Cautionary Statement about Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are those that address activities, events or developments that we or our management intends, expects, projects, believes or anticipates will or may occur in the future. They are based on management's assumptions and assessments in the light of past experience and trends, current conditions, expected future developments and other relevant factors. They are not guarantees of future performance, and actual results, developments and business decisions may differ from those envisaged by our forward-looking statements. Our forward-looking statements are also subject to risks and uncertainties, which can affect our performance in both the near- and long-term. These forward-looking statements should be considered in the light of the information included in this report and our other filings with the Securities and Exchange Commission, including, without limitation, the Risk Factors, as well as the description of trends and other factors in Management s Discussion and Analysis of Financial Condition and Results of Operations, set forth in our Form 10-K for the year ended December 31, 2007.

PART I. FINANCIAL INFORMATION

The financial information as of June 30, 2008 should be read in conjunction with the financial statements for the year ended December 31, 2007 contained in our Form 10-K filed on February 15, 2008.

ITEM 1. FINANCIAL STATEMENTS

Honeywell International Inc.
Consolidated Statement of Operations
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(Dollars in millions, except per share amounts)			
Product sales	$ 7,832	$ 6,872	$ 14,988	$ 13,322
Service sales	1,842	1,666	3,581	3,257
Net sales	9,674	8,538	18,569	16,579
Costs, expenses and other				
Cost of products sold	6,089	5,318	11,596	10,328
Cost of services sold	1,234	1,173	2,399	2,313
	7,323	6,491	13,995	12,641
Selling, general and administrative expenses	1,290	1,127	2,545	2,216
Other (income) expense	(38)	(20)	(60)	(31)
Interest and other financial charges	115	110	230	207
	8,690	7,708	16,710	15,033
Income before taxes	984	830	1,859	1,546
Tax expense	261	219	493	409
Net income	$ 723	$ 611	$ 1,366	$ 1,137
Earnings per share of common stock-basic:	$ 0.97	$ 0.79	$ 1.84	$ 1.45
Earnings per share of common stock-assuming dilution:	$ 0.96	$ 0.78	$ 1.81	$ 1.44
Cash dividends per share of common stock	$ 0.275	$ 0.25	$ 0.550	$ 0.50

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

Honeywell International Inc.
Consolidated Balance Sheet
(Unaudited)

	June 30, 2008	December 31, 2007
	(Dollars in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,204	$ 1,829
Accounts, notes and other receivables	7,047	6,387
Inventories	3,995	3,861
Deferred income taxes	1,328	1,241
Other current assets	370	354
Assets held for disposal	515	13
Total current assets	15,459	13,685
Investments and long-term receivables	546	500
Property, plant and equipment - net	5,051	4,985
Goodwill	9,673	9,175
Other intangible assets - net	2,123	1,498
Insurance recoveries for asbestos related liabilities	998	1,086
Deferred income taxes	646	637
Prepaid pension benefit cost	1,321	1,256
Other assets	962	983
Total assets	$ 36,779	$ 33,805
LIABILITIES		
Current liabilities:		
Accounts payable	$ 4,211	$ 3,962
Short-term borrowings	90	64
Commercial paper	1,526	1,756
Current maturities of long-term debt	318	418
Accrued liabilities	5,995	5,741
Liabilities related to assets held for disposal	87	-
Total current liabilities	12,227	11,941
Long-term debt	6,575	5,419
Deferred income taxes	1,230	734
Postretirement benefit obligations other than pensions	2,016	2,025
Asbestos related liabilities	1,430	1,405
Other liabilities	3,040	3,059
SHAREOWNERS' EQUITY		
Capital - common stock issued	958	958
- additional paid-in capital	4,089	4,014

Common stock held in treasury, at cost		(9,669)		(9,479)
Accumulated other comprehensive income (loss)		(344)		(544)
Retained earnings		15,227		14,273
Total shareowners' equity		10,261		9,222
Total liabilities and shareowners' equity	$	36,779	$	33,805

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

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

	Six Months Ended June 30, 2008	2007
	(Dollars in millions)	
Cash flows from operating activities:		
Net income	$ 1,366	$ 1,137
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	446	413
Repositioning and other charges	347	304
Net payments for repositioning and other charges	(140)	(173)
Pension and other postretirement expense	53	146
Pension and other postretirement payments	(103)	(108)
Stock compensation expense	76	41
Deferred income taxes	243	197
Excess tax benefits from share based payment arrangements	(19)	(51)
Other	77	26
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts, notes and other receivables	(620)	(352)
Inventories	(344)	(202)
Other current assets	(20)	36
Accounts payable	286	143
Accrued liabilities	115	4
Net cash provided by operating activities	1,763	1,561
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(339)	(283)
Proceeds from disposals of property, plant and equipment	50	82
Decrease in investments	14	-
Cash paid for acquisitions, net of cash acquired	(1,308)	(108)
Proceeds from sales of businesses, net of fees paid	-	52
Other	7	-
Net cash used for investing activities	(1,576)	(257)
Cash flows from financing activities:		
Net (decrease)/increase in commercial paper	(230)	1,913
Net increase in short-term borrowings	21	-
Proceeds from issuance of common stock	126	424
Proceeds from issuance of long-term debt	1,487	988
Payments of long-term debt	(425)	(407)
Excess tax benefits from share based payment arrangements	19	51
Repurchases of common stock	(441)	(3,487)
Cash dividends on common stock	(409)	(392)

Net cash provided by (used for) financing activities		148		(910)
Effect of foreign exchange rate changes on cash and cash equivalents		40		15
Net increase in cash and cash equivalents		375		409
Cash and cash equivalents at beginning of period		1,829		1,224
Cash and cash equivalents at end of period	$	2,204	$	1,633

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

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

NOTE 1. Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of Honeywell International Inc. and its consolidated subsidiaries at June 30, 2008 and the results of operations for the three and six months ended June 30, 2008 and 2007 and cash flows for the six months ended June 30, 2008 and 2007. The results of operations for the three and six month periods ended June 30, 2008 should not necessarily be taken as indicative of the results of operations that may be expected for the entire year.

We report our quarterly financial information using a calendar convention; that is, the first, second and third quarters are consistently reported as ending on March 31, June 30 and September 30, respectively. It has been our practice to establish actual quarterly closing dates using a predetermined fiscal calendar, which requires our businesses to close their books on a Saturday in order to minimize the potentially disruptive effects of quarterly closing on our business processes. The effects of this practice are generally not significant to reported results for any quarter and only exist within a reporting year. In the event that differences in actual closing dates are material to year-over-year comparisons of quarterly or year-to-date results, we will provide appropriate disclosures. Our actual closing dates for the three and six month periods ended June 30, 2008 and 2007 were June 28, 2008 and June 30, 2007, respectively. Our fiscal closing calendar for the years 2000 through 2012 is available on our website at www.Honeywell.com under the heading Investor Relations.

The financial information as of June 30, 2008 should be read in conjunction with the financial statements for the year ended December 31, 2007 contained in our Form 10-K filed on February 15, 2008.

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

NOTE 2. Recent Accounting Pronouncements

Recent Accounting Pronouncements In September 2006, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to U.S. 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 financial assets and financial liabilities for fiscal years beginning after November 15, 2007. Issued in February 2008, FSP 157-1 Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13 removed leasing transactions accounted for under Statement 13 and related guidance from the scope of SFAS No. 157. FSP 157-2 Partial Deferral of the Effective Date of Statement 157 (FSP 157-2), deferred the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008.

The implementation of SFAS No. 157 for financial assets and financial liabilities, effective January 1, 2008, did not have a material impact on our consolidated financial position and results of operations. The Company is currently assessing the impact of SFAS No. 157 for nonfinancial assets and

nonfinancial liabilities on its consolidated financial position and results of operations.

SFAS No. 157, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). SFAS No. 157 classifies the inputs used to measure fair value into the following hierarchy:

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

The Company endeavors to utilize the best available information in measuring fair value. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company has determined that our financial assets and liabilities are level 2 in the fair value hierarchy. The following table sets forth the Company s financial assets and liabilities that were accounted for, at fair value on a recurring basis as of June 30, 2008:

	June 30, 2008
Assets:	
Foreign currency exchange contracts	$ 32
Forward commodity contracts	$ 1
Liabilities:	
Foreign currency exchange contracts	$ 27
Forward commodity contracts	-

As a result of our global operating and financing activities, the Company is 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. When deemed appropriate, we minimize our risks from interest and foreign currency exchange rate and commodity price fluctuations 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. The forward foreign currency exchange contracts and forward commodity purchase agreements are valued using broker quotations, or market transactions in either the listed or over-the counter markets. As such, these derivative instruments are classified within level 2.

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 implementation of this standard did

not have a material impact on our consolidated financial position and results of operations.

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

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

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141R). SFAS No. 141R provides revised guidance on how acquirers recognize and measure the consideration transferred, identifiable assets acquired, liabilities assumed, contingencies, noncontrolling interests, and goodwill acquired in a business combination. SFAS No. 141R also expands required disclosures surrounding the nature and financial effects of business combinations. SFAS No. 141R is effective, on a prospective basis, for fiscal years beginning after December 15, 2008. Upon adoption, this standard will not have a material impact on our consolidated financial position and results of operations. However, if the Company enters into any business combinations after the adoption of SFAS No. 141R, a transaction may significantly impact the Company s consolidated financial position and results of operations as compared to the Company s recent acquisitions, accounted for under existing GAAP requirements, due to the changes described above.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160). SFAS No. 160 establishes requirements for ownership interests in subsidiaries held by parties other than the Company (sometimes called minority interests) be clearly identified, presented, and disclosed in the consolidated statement of financial position within equity, but separate from the parent s equity. All changes in the parent s ownership interests are required to be accounted for consistently as equity transactions and any noncontrolling equity investments in unconsolidated subsidiaries must be measured initially at fair value. SFAS No. 160 is effective, on a prospective basis, for fiscal years beginning after December 15, 2008. However, presentation and disclosure requirements must be retrospectively applied to comparative financial statements. The implementation of this standard will not have a material impact on our consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), Implementation Issue No. E23, Hedging General: Issues Involving the Application of the Shortcut Method under Paragraph 68 (Issue E23). Issue E23 amends SFAS 133 to explicitly permit use of the shortcut method for hedging relationships in which interest rate swaps have nonzero fair value at the inception of the hedging relationship, provided certain conditions are met. Issue E23 was effective for hedging relationships designated on or after January 1, 2008. The implementation of this guidance did not have a material impact on our consolidated financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures About Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 expands quarterly disclosure requirements in SFAS No. 133 about an entity s derivative instruments and hedging activities. SFAS No. 161 is

effective for fiscal years beginning after November 15, 2008. The implementation of this standard will not have a material impact on our consolidated financial position and results of operations.

In April 2008, the FASB issued FSP 142-3, Determination of the Useful Life of Intangible Assets, (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of FSP 142-3 on its consolidated financial position and results of operations.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS No. 162). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS No. 162 is effective 60 days following the SECs approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. The implementation of this standard will not have a material impact on our consolidated financial position and results of operations.

In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1). FSP EITF 03-6-1 clarified that all outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted earnings per share must be applied. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of FSP EITF 03-6-1 on its consolidated financial position and results of operations.

In June 2008, the FASB ratified EITF Issue No. 07-5, Determining Whether an Instrument (or an Embedded Feature) Is Indexed to an Entitys Own Stock (EITF 07-5). EITF 07-5 provides that an entity should use a two step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instruments contingent exercise and settlement provisions. It also clarifies on the impact of foreign currency denominated strike prices and market-based employee stock option valuation instruments on the evaluation. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of EITF 07-5 on its consolidated financial position and results of operations.

In June 2008, the FASB ratified EITF Issue No. 08-3, Accounting for Lessees for Maintenance Deposits Under Lease Arrangements (EITF 08-3). EITF 08-3 provides guidance for accounting for nonrefundable maintenance deposits. It also provides revenue recognition accounting guidance for the lessor. EITF 08-3 is effective for fiscal years beginning after December 15, 2008. The Company is currently assessing the impact of EITF 08-3 on its consolidated financial position and results of operations.

NOTE 3. Acquisitions and Divestitures

In May 2008, the company completed the acquisition of Safety Products Holding, Inc, which through its subsidiary Norcross Safety Products L.L.C. (Norcross) is a leading manufacturer of personal protective equipment. The purchase price, net of cash acquired, was approximately $1.2 billion and was allocated to tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date.

The following table summarizes the estimated fair values of the assets and liabilities acquired as of the acquisition date.

Accounts and other receivables	$	102
Inventories		131
Other current assets		29
Property, plant and equipment		80
Intangible assets		687
Other assets and deferred charges		3
Accounts payable		(27)
Accrued liabilities		(37)
Deferred income taxes		(190)
Other long-term liabilities		(26)
Net assets acquired		752
Goodwill		469
Purchase price	$	1,221

The Company has assigned $687 million to intangible assets, predominantly customer relationships, trade names, and technology. These intangible assets are being amortized over their estimated lives using straight line and accelerated amortization methods. The excess of the purchase price over the estimated fair values of net assets acquired approximating $469 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 June 30, 2008 are included in the Automation and Control Solutions segment and were not material to the consolidated financial statements. As of June 30, 2008, the purchase accounting for Norcross is still subject to final adjustment primarily for useful lives of intangible assets, amounts allocated to intangible assets and goodwill, for certain pre-acquisition contingencies, and for settlement of post closing purchase price adjustments.

In June 2008, the Company entered into a definitive agreement to sell its Consumables Solutions business to B/E Aerospace (B/E) for $1.05 billion, consisting of $800 million in cash and the remainder to be paid in shares of B/E common stock; however, B/E may substitute cash to the extent that the value of six million shares of B/E common stock is less than $250 million. Accordingly, this business has been classified as held for sale in our June 30, 2008 Consolidated Balance Sheet. In connection with the completion of the sale, the Company and B/E will enter into, among other things, exclusive supply and license agreements and a stockholder agreement. Because of the extent of the Company s cash flows associated with the supply and license agreements, the Consumable Solutions business is not classified as discontinued operations. The sale, which is subject to customary closing conditions, is expected to close in the third quarter of 2008. The gain on sale is estimated at $600 million to $640 million, $415 million to $435 million net of tax. The sale of the Consumables Solutions business, within the Aerospace segment, is consistent with the Company s strategic focus on core product areas utilizing advanced technologies.

In July 2008, the Company completed the acquisition of Metrologic Instruments, Inc., a leading manufacturer of data capture and collection hardware and software, which will be integrated into our Automation and Control Solutions segment. The purchase price was approximately $720 million.

NOTE 4. Repositioning and Other Charges

A summary of repositioning and other charges follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Severance	$ 25	$ 45	$ 113	$ 119
Asset impairments	21	4	32	10
Exit costs	16	-	20	5
Adjustments	-	(5)	-	(9)
Total net repositioning charge	62	44	165	125
Asbestos related litigation charges, net of insurance	34	21	62	45
Probable and reasonably estimable environmental liabilities	51	60	117	120
Other	3	-	3	14
Total net repositioning and other charges	$ 150	$ 125	$ 347	$ 304

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Cost of products and services sold	$ 135	$ 114	$ 306	$ 273
Selling, general and administrative expenses	15	11	41	31
	$ 150	$ 125	$ 347	$ 304

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Aerospace	$ 6	$ 5	$ 44	$ 31
Automation and Control Solutions	3	37	38	78
Specialty Materials	2	(1)	2	4
Transportation Systems	69	24	125	55
Corporate	70	60	138	136
	$ 150	$ 125	$ 347	$ 304

In the second quarter of 2008, we recognized a net repositioning charge of $62 million including severance costs of $25 million related to workforce reductions of 607 manufacturing and administrative positions across all of our business segments. The repositioning charge included asset impairments of $21 million related to plant closures in our Transportation Systems segment and the shutdown of certain administrative facilities in our Corporate segment. The repositioning charge also included exit costs of $16 million primarily for environmental

remediation and monitoring costs related to the closure and sale of a plant in our Transportation Systems segment.

In the second quarter of 2007, we recognized a net repositioning charge of $44 million primarily for severance costs related to workforce reductions of 807 manufacturing and administrative positions associated with the rationalization of manufacturing capacity and infrastructure and a plant closure, principally in our Automation and Control Solutions segment.

In the first six months of 2008, we recognized a net repositioning charge of $165 million primarily for severance costs related to workforce reductions of 2,683 manufacturing and administrative positions across all of our business segments. The more significant actions comprising the repositioning charge included the transitioning of manufacturing work to more cost-effective locations, the closure of plants and certain administrative facilities, outsourcing of non-core components, and our functional transformation initiative.

In the first six months of 2007, we recognized a net repositioning charge of $125 million primarily for severance costs related to workforce reductions of 2,142 manufacturing and administrative positions associated with the rationalization of manufacturing capacity and infrastructure and plant closures, principally in our Automation and Control Solutions and Aerospace segments.

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

	Severance Costs	Asset Impairments	Exit Costs	Total
Balance at December 31, 2007	$ 201	$ -	$ 11	$ 212
2008 charges	113	32	20	165
2008 usage	(50)	(32)	(1)	(83)
Adjustments	-	-	-	-
Balance at June 30, 2008	$ 264	$ -	$ 30	$ 294

In the second quarter of 2008, we recognized a charge of $51 million for environmental liabilities deemed probable and reasonably estimable in the quarter. We also recognized a charge of $34 million representing an update to our estimated liability for the resolution of Bendix related asbestos claims as of June 30, 2008, net of probable insurance recoveries. Environmental and Asbestos matters are discussed in detail in Note 14, Commitments and Contingencies.

In the second quarter of 2007, we recognized a charge of $60 million for environmental liabilities deemed probable and reasonably estimable in the quarter. We also recognized a charge of $21 million representing an update to our estimated liability for the resolution of Bendix related asbestos claims as of June 30, 2007, net of probable insurance recoveries.

In the first six months of 2008, we recognized a charge of $117 million for environmental liabilities deemed probable and reasonably estimable in the period. We also recognized a charge of $62 million representing an update to our estimated liability for the resolution of Bendix related asbestos claims as of June 30, 2008, net of probable insurance recoveries.

In the first six months of 2007, we recognized a charge of $120 million for environmental liabilities deemed probable and reasonably estimable in the period. We recognized a charge of $45 million representing an update to our estimated liability for the resolution of Bendix related asbestos claims as of June 30, 2007, net of probable insurance recoveries. We also recognized other charges of $14 million for a business sale tax related to a prior divestiture ($8 million) and for a contemplated settlement of a legal matter ($6 million).

NOTE 5. Other (income) expense.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Equity (income)/loss of affiliated companies	$ (6)	$ (4)	$ (22)	$ (2)
Gain on sale of non-strategic businesses and assets	(12)	(15)	(12)	(15)
Interest income	(29)	(20)	(54)	(39)
Foreign exchange	3	7	14	12
Other (net)	6	12	14	13
	$ (38)	$ (20)	$ (60)	$ (31)

NOTE 6. Earnings Per Share

The details of the earnings per share calculations for the three months and six months ended June 30, 2008 and 2007 are as follows:

	Three Months Ended June 30,			
	2008		2007	
	Basic	Assuming Dilution	Basic	Assuming Dilution
Income				
Net income	$ 723	$ 723	$ 611	$ 611
Average shares				
Average shares outstanding	743.9	743.9	768.3	768.3
Dilutive securities issuable in connection with stock plans	-	9.5	-	10.4
Total average shares outstanding	743.9	753.4	768.3	778.7
Earnings per share of common stock				
Net income	$ 0.97	$ 0.96	$ 0.79	$ 0.78

	Six Months Ended June 30,			
	2008		2007	
	Basic	Assuming Dilution	Basic	Assuming Dilution
Income				
Net income	$ 1,366	$ 1,366	$ 1,137	$ 1,137
Average shares				
Average shares outstanding	743.7	743.7	781.4	781.4
Dilutive securities issuable in connection with stock plans	-	9.4	-	9.0
Total average shares outstanding	743.7	753.1	781.4	790.4
Earnings per share of common stock				
Net income	$ 1.84	$ 1.81	$ 1.45	$ 1.44

The diluted earnings per share calculations exclude the effect of stock options when the options assumed proceeds exceed the average market price of the common shares during the period. For the three months ended June 30, 2008 and 2007, the number of stock options excluded from the computations were 10.3 and 11.6 million, respectively. For the six months ended June 30, 2008 and 2007, the number of stock options excluded from the computations were 8.9 and 11.4 million, respectively. These stock options were outstanding at the end of each of the respective periods.

NOTE 7. Accounts, Notes and Other Receivables

	June 30, 2008	December 31, 2007
Trade	$ 6,628	$ 6,070
Other	602	498
	7,230	6,568
Less - Allowance for doubtful accounts	(183)	(181)
	$ 7,047	$ 6,387

NOTE 8. Inventories

	June 30, 2008	December 31, 2007
Raw materials	$ 1,880	$ 1,692
Work in process	904	870
Finished products	1,375	1,501
	4,159	4,063
Less - Progress payments	(3)	(3)
- Reduction to LIFO cost basis	(161)	(199)
	$ 3,995	$ 3,861

NOTE 9. Goodwill and Other Intangible Assets - Net

The change in the carrying amount of goodwill for the six months ended June 30, 2008 by segment is as follows:

	Dec. 31, 2007	Acquisitions	Divestitures	Currency Translation Adjustment	June 30, 2008
Aerospace	$ 1,939	$ 3	$ (72)	$ 2	$ 1,872
Automation and Control Solutions	5,529	538	-	19	6,086
Specialty Materials	1,156	-	-	9	1,165
Transportation Systems	551	-	-	(1)	550
	$ 9,175	$ 541	$ (72)	$ 29	$ 9,673

Other intangible assets are comprised of:

	June 30, 2008			December 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with determinable lives:						
Patents and technology	$ 1,008	$ (458)	$ 550	$ 965	$ (407)	$ 558
Customer relationships	1,133	(150)	983	682	(113)	569
Trademarks	179	(45)	134	192	(35)	157
Other	469	(361)	108	458	(351)	107
	2,789	(1,014)	1,775	2,297	(906)	1,391
Trademarks with indefinite lives	348	-	348	107	-	107
	$ 3,137	$ (1,014)	$ 2,123	$ 2,404	$ (906)	$ 1,498

Amortization expense related to intangible assets for the six months ended June 30, 2008 and 2007 was $103 and $78 million, respectively.

We completed our annual impairment testing of goodwill and indefinite-lived intangibles as of March 31, 2008 and determined that there was no impairment as of that date.

NOTE 10. Long-term Debt and Credit Agreements

	June 30, 2008	December 31, 2007
6.20% notes due 2008	$	$ 200
7-1/8% notes due 2008		200
Floating rate notes due 2009	300	300
Floating rate notes due 2009	500	500
Zero coupon bonds and money multiplier notes 13.0%-14.26%, due 2009	100	100
Floating rate notes due 2009-2011	195	220
7.50% notes due 2010	1,000	1,000
6-1/8% notes due 2011	500	500
5.625% notes due 2012	400	400
4.25% notes due 2013	600	
5.40% notes due 2016	400	400
5.30% notes due 2017	400	400
5.30% notes due 2018	900	
Industrial development bond obligations, floating rate maturing at various dates through 2037	60	60
6-5/8% debentures due 2028	216	216
9.065% debentures due 2033	51	51
5.70% notes due 2036	550	550
5.70% notes due 2037	600	600
Other (including capitalized leases), 1.54%-12.98% maturing at various dates through 2017	121	140
	6,893	5,837
Less current portion	(318)	(418)
	$ 6,575	5,419

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

	At June 30, 2008
2008	$ 18
2009	1,024
2010	1,104
2011	525
2012	401
Thereafter	3,821
	6,893
Less-current portion	(318)
	$ 6,575

In February 2008, the Company issued $600 million 4.25% Senior Notes due 2013 and $900 million 5.30% Senior Notes due 2018 (collectively, the Senior Notes). The Senior Notes are senior unsecured and unsubordinated obligations of Honeywell and rank equally with all of Honeywells existing and future senior

unsecured debt and senior to all of Honeywell s subordinated debt. The offering resulted in gross proceeds of $1.5 billion, offset by $13 million in discount and issuance costs.

NOTE 11. Other Comprehensive Income/(Loss)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	$ 723	$ 611	$ 1,366	$ 1,137
Foreign exchange translation adjustments	(67)	48	177	66
Pension and postretirement benefit adjustments	12	33	25	78
Change in fair value of effective cash flow hedges	(4)	1	(2)	(4)
	$ 664	$ 693	$ 1,566	$ 1,277

NOTE 12. Segment Financial Data

Honeywell s senior management evaluates segment performance based on segment profit. Segment profit is measured as business unit income (loss) before taxes excluding general corporate unallocated expense, other income (expense), interest and other financial charges, pension and other postretirement benefits (expense), stock compensation expense, repositioning and other charges and accounting changes. Beginning January 1, 2008, consistent with changes made to the measure of segment performance utilized by senior management, segment profit has been adjusted to exclude expense associated with restricted stock units (RSU) and to include equity income/(loss) of affiliated companies. Stock compensation expense, including RSU expense, totaled $32 and $71 million for the three and six months ended June 30, 2007, respectively. Equity income/(loss) of affiliated companies, included in other income (expense), totaled $4 and $2 million for the three and six months ended June 30, 2007, respectively . Both of these changes were applied on a prospective basis beginning January 1, 2008 and are not material to the following reportable segment data:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net Sales				
Aerospace	$ 3,281	$ 3,027	$ 6,311	$ 5,867
Automation and Control Solutions	3,616	3,039	6,796	5,840
Specialty Materials	1,450	1,216	2,859	2,415
Transportation Systems	1,327	1,256	2,603	2,457
Corporate				
	$ 9,674	$ 8,538	$ 18,569	$ 16,579
Segment Profit				
Aerospace	$ 602	$ 523	$ 1,165	$ 1,023
Automation and Control Solutions	390	333	718	607
Specialty Materials	186	175	451	367
Transportation Systems	149	157	298	313
Corporate	(49)	(54)	(105)	(97)
Total Segment Profit	1,278	1,134	2,527	2,213
Other income (expense) (A)	32	20	38	31
Interest and other financial charges	(115)	(110)	(230)	(207)
Stock compensation expense (B), (C)	(35)	(17)	(76)	(41)
Pension and other postretirement expense (B)	(26)	(72)	(53)	(146)
Repositioning and other charges (B)	(150)	(125)	(347)	(304)
Income before taxes	$ 984	$ 830	$ 1,859	$ 1,546

(A) Equity income/(loss) of affiliated companies is included in Segment Profit, on a prospective basis, commencing January 1, 2008. Other income/(expense), as presented above, includes equity income/(loss) of affiliated companies of $4 and $2 million for the three and six months ended June 30, 2007, respectively.

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

(C) Costs associated with restricted stock units (RSU) are excluded from Segment Profit, on a prospective basis, commencing January 1, 2008. Stock compensation expense, including RSU expense, totaled $32 and $71 million for the three and six months ended June 30, 2007, respectively. Stock option expense is included for all periods presented.

NOTE 13. Pension and Other Postretirement Benefits

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Pension Benefits				
Service cost	$ 67	$ 69	$ 134	$ 137
Interest cost	262	238	524	475
Expected return on plan assets	(364)	(336)	(727)	(669)
Amortization of prior service cost	7	7	14	13
Recognition of actuarial losses	12	48	24	96
Settlements and curtailments	-	-	2	-
	$ (16)	$ 26	$ (29)	$ 52

	Three Months Ended June 30,		Three Months Ended June 30,	
	2008	2007	2008	2007
Other Postretirement Benefits				
Service cost	$ 4	$ 4	$ 7	$ 9
Interest cost	33	32	66	64
Amortization of prior service (credit)	(10)	(11)	(20)	(22)
Recognition of actuarial losses	8	12	17	24
	$ 35	$ 37	$ 70	$ 75

NOTE 14. Commitments and Contingencies

Environmental Matters

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

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

	Six Months Ended June 30, 2008
Beginning of period	$ 799
Accruals for environmental matters deemed probable and reasonably estimable	120
Environmental liability payments	(139)
Other adjustments	2
End of period	$ 782

Environmental liabilities are included in the following balance sheet accounts:

	June 30, 2008	December 31, 2007
Accrued liabilities	$ 315	$ 311
Other liabilities	467	488
	$ 782	$ 799

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, known as Study Area 7. These expenditures have been and are expected to continue to be incurred evenly through the remedy s expected completion date in 2010. 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 related groundwater remedial plans approved by the court, as well

as sediment remedial plans, which also have been approved by the court and are presently under review by the U.S. Environmental Protection Agency.

The above-referenced site is the most significant of the twenty-one sites located in Hudson County, New Jersey that are the subject of an Administrative Consent Order (ACO) entered into with the New Jersey Department of Environmental Protection (NJDEP) in 1993. 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-1950s. Honeywell and the two other companies have agreed to settle this litigation with NJDEP, subject to Court approval. Under the settlement, Honeywell would pay $5 million of NJDEPs past costs, as well as accept sole responsibility to remediate 24 of the 53 Publicly Funded Sites (i.e., those sites for which none of the three companies had previously accepted responsibility). Honeywell would also bear 50% of the costs at another 10 Publicly Funded Sites. We have recorded reserves for the Publicly Funded Sites where appropriate under the accounting policy described above.

Lawsuits were previously filed against Honeywell and other landowners by Jersey City and two of its municipal utility authorities, and separately by a citizens group seeking, the cleanup of chromium residue at several of the Honeywell ACO Sites under the federal Resource Conservation and Recovery Act (RCRA). Honeywell, Jersey City, the municipal utility authorities and the citizens group have agreed to settle these claims, which settlement has been approved by the Court. These sites and other related sites have been classified by Jersey City as an area in need of redevelopment and Jersey City has approved a redevelopment plan and agreement regarding these sites. As part of this settlement, Honeywell has also agreed to release claims it may have had against Jersey City and its municipal utility authorities for contamination of river sediments and for the remediation of chrome residue at the Publicly Funded Sites that are sewer lines. The remedial actions contemplated by this settlement are consistent with our recorded reserves. Settlement discussions are also underway with the citizens group with respect to claims regarding certain related sites.

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 a total of approximately 36 months, after which the appropriate remedies will be identified and chosen. We have negotiated a Consent Decree with the MPA and Maryland Department of the Environment (MDE) with respect to the investigation and remediation of the DMT facility. The Consent Decree is being challenged in federal court by BUILD, a Baltimore community group, together with a local church and two individuals (collectively BUILD). In October 2007, the Court dismissed BUILDs state law claims with prejudice and dismissed BUILDs RCRA claims regarding neighborhoods near the DMT facility without prejudice. BUILD has since sent notice letters indicating that they intend to re-file these latter claims, which we will continue to oppose. The Court has scheduled a hearing in the third quarter of 2008 on the Companys motion to dismiss BUILDs remaining claims on the grounds that MDE is diligently prosecuting the investigation and remediation of the DMT. We do not believe that this matter will have a material adverse impact on our consolidated financial position or

operating cash flows. Given the scope and complexity of this project, it is possible that the cost of remediation, when determinable, could have a material adverse impact on our results of operations in the periods recognized.

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.

Asbestos Matters

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

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

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

As a result of the NARCO bankruptcy filing, all of the claims pending against NARCO are automatically stayed pending the reorganization of NARCO. In addition, the bankruptcy court enjoined both the filing and prosecution of NARCO-related asbestos claims against Honeywell. The stay has remained in effect continuously since January 4, 2002. In connection with NARCO s bankruptcy filing,

we paid NARCO s parent company $40 million and agreed to provide NARCO with up to $20 million in financing. We also agreed to pay $20 million to NARCO s parent company upon the filing of a plan of reorganization for NARCO acceptable to Honeywell (which amount was paid in December 2005 following the filing of NARCO s Third Amended Plan of Reorganization), and to pay NARCO s parent company $40 million, and to forgive any outstanding NARCO indebtedness to Honeywell, upon the effective date of the plan of reorganization.

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

In November 2007, the Bankruptcy Court entered an amended order confirming the NARCO Plan without modification and approving the 524(g) trust and channeling injunction in favor of NARCO and Honeywell. In December 2007, certain insurers filed an appeal from the Bankruptcy Court s amended confirmation order. This appeal is pending in the United States District Court for the Western District of Pennsylvania. No assurances can be given as to the time frame or outcome of this appeal. We expect that the stay enjoining litigation against NARCO and Honeywell to remain in effect during the pendency of these proceedings.

Our consolidated financial statements reflect an estimated liability for settlement of pending and future NARCO-related asbestos claims as of June 30, 2008 and December 31, 2007 of $1.1 billion. The estimated liability for pending claims is based on terms and conditions, including evidentiary requirements, in definitive agreements with approximately 260,000 current claimants, and an estimate of the unsettled claims pending as of the time NARCO filed for bankruptcy protection. Substantially all settlement payments with respect to current claims have been made. Approximately $100 million of payments due pursuant to these settlements is due only upon establishment of the NARCO trust.

The estimated liability for future claims represents the estimated value of future asbestos related bodily injury claims expected to be asserted against NARCO through 2018 and the aforementioned obligations to NARCO s parent. In light of the uncertainties inherent in making long-term projections we do not believe that we have a reasonable basis for estimating asbestos claims beyond 2018 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 experience of asbestos claims filing rates in the tort system and in certain operating asbestos trusts, and the claims experience in those forums. The valuation methodology also includes an analysis of the population likely to have been exposed to asbestos containing products, epidemiological studies to estimate the number of people likely to develop asbestos related diseases, NARCO claims filing history, the pending inventory of NARCO asbestos related claims and payment rates expected to be established by the NARCO trust. This methodology used to estimate the liability for future claims has been commonly accepted by numerous courts and is the same methodology that is utilized by an expert who is routinely retained by the asbestos claimants committee in asbestos related bankruptcies.

As of June 30, 2008 and December 31, 2007, our consolidated financial statements reflect an insurance receivable corresponding to the liability for settlement of pending and future NARCO-related asbestos claims of $925 and $939 million, respectively. This coverage reimburses Honeywell for portions of the costs incurred to settle NARCO related claims and court judgments as well as defense costs and is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. At June 30, 2008, a significant portion of this coverage is with insurance companies with whom we have agreements to pay full policy limits based on corresponding Honeywell claims costs. We conduct analyses to determine the amount of insurance that we estimate is probable of recovery in relation to payment of current and estimated future claims. While the substantial majority of our insurance carriers are solvent, some of our individual carriers are insolvent, which has been considered in our analysis of probable recoveries. We made judgments concerning insurance coverage that we believe are reasonable and consistent with our historical dealings with our insurers, our knowledge of any pertinent solvency issues surrounding insurers and various judicial determinations relevant to our insurance programs.

In the second quarter of 2006, Travelers Casualty and Insurance Company (Travelers) filed a lawsuit against Honeywell and other insurance carriers in the Supreme Court of New York, County of New York, disputing obligations for NARCO-related asbestos claims under high excess insurance coverage issued by Travelers and other insurance carriers. Approximately $340 million of coverage under these policies is included in our NARCO-related insurance receivable at June 30, 2008. Honeywell believes it is entitled to the coverage at issue and has filed counterclaims in the Superior Court of New Jersey seeking, among other things, declaratory relief with respect to this coverage. In the third quarter of 2007, Honeywell prevailed in the New York action on a critical choice of law issue concerning the appropriate method of allocating NARCO-related asbestos liabilities to triggered policies. The Court s ruling is subject to appeal. While Honeywell expects to prevail in this matter, an adverse outcome could have a material impact on our results of operations in the period recognized but would not be material to our consolidated financial position or operating cash flows.

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

Friction Products Honeywell s Bendix friction materials (Bendix) business manufactured automotive brake parts that contained chrysotile asbestos in an encapsulated form. There is a group of existing and potential claimants consisting largely of individuals who allege exposure to asbestos from brakes from either performing or being in the vicinity of individuals who performed brake replacements.

From 1981 through June 30, 2008, we have resolved approximately 115,000 Bendix related asbestos claims. Trials covering 128 plaintiffs resulted in 127 favorable verdicts and one mistrial. Trials covering eleven individuals resulted in adverse verdicts; however, two of these verdicts were reversed on appeal, six 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:

	Six Months Ended June 30, 2008	Year Ended December 31, 2007	2006
Claims Activity			
Claims Unresolved at the beginning of period	51,658	57,108	79,502
Claims Filed during the period	2,312	2,771	4,391
Claims Resolved during the period	(1,483)	(8,221)	(26,785)
Claims Unresolved at the end of period	52,487	51,658	57,108

Disease Distribution of Unresolved Claims

	June 30, 2008	December 31, 2007	2006
Mesothelioma and Other Cancer Claims	5,464	5,011	4,843
Other Claims	47,023	46,647	52,265
Total Claims	52,487	51,658	57,108

Approximately 45 percent of the approximately 52,000 pending claims at June 30, 2008 are on the inactive, deferred, or similar dockets established in some jurisdictions for claimants who allege minimal or no impairment. The approximately 52,000 pending claims also include claims filed in jurisdictions such as Texas, Virginia, and Mississippi that historically allowed for consolidated filings. In these jurisdictions, plaintiffs were permitted to file complaints against a predetermined master list of defendants, regardless of whether they have claims against each individual defendant. Many of these plaintiffs may not actually intend to assert 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.

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

	Years Ended December 31, 2007	2006	2005
	(in whole dollars)		
Malignant claims	$ 33,000	$ 33,000	$ 58,000
Nonmalignant claims	$ 500	$ 250	$ 600

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

Our consolidated financial statements reflect an estimated liability for resolution of pending and future Bendix related asbestos claims of $546 and $517 million at June 30, 2008 and December 31, 2007, respectively. The estimated liability for future claims represents the estimated value of future asbestos related bodily injury claims expected to be asserted against Bendix over the next five years. In light of the uncertainties inherent in making long-term projections, as well as certain factors unique to friction product asbestos claims, we do not believe that we have a reasonable basis for estimating asbestos claims beyond the next five years under SFAS No. 5, Accounting for Contingencies. The estimate is based upon Bendix historical experience in the tort system for the three years ended December 31, 2007 with respect to claims filing and resolution values. The methodology used to estimate the liability for future claims has been commonly accepted by numerous courts. It is similar to that used to estimate the future NARCO related asbestos claims liability.

Honeywell currently has approximately $1.9 billion of insurance coverage remaining with respect to pending and potential future Bendix related asbestos claims, of which $123 and $197 million are reflected as receivables in our consolidated balance sheet at June 30, 2008 and December 31, 2007, respectively. This coverage is provided by a large number of insurance policies written by dozens of insurance companies in both the domestic insurance market and the London excess market. Insurance receivables are recorded in the financial statements simultaneous with the recording of the liability for the estimated value of the underlying asbestos claims. The amount of the insurance receivable recorded is based on our ongoing analysis of the insurance that we estimate is probable of recovery. This determination is based on our analysis of the underlying insurance policies, our historical experience with our insurers, our ongoing review of the solvency of our insurers, our interpretation of judicial determinations relevant to our insurance programs, and our consideration of the impacts of any settlements reached with our insurers. Insurance receivables are also recorded when structured insurance settlements provide for future fixed payment streams that are not contingent upon future claims or other events. Such amounts are recorded at the net present value of the fixed payment stream.

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

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

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

Asbestos Related Liabilities

	Six Months Ended June 30, 2008		
	Bendix	**NARCO**	**Total**
Beginning of period	$ 517	$ 1,138	$ 1,655
Accrual for update to estimated liability	78	-	78

Asbestos related liability payments	(49)	(4)	(53)
End of period	$ 546	$ 1,134	$ 1,680

Insurance Recoveries for Asbestos Related Liabilities

	Six Months Ended June 30, 2008		
	Bendix	NARCO	Total
Beginning of period	$ 197	$ 939	$ 1,136
Probable insurance recoveries related to estimated liability	15	-	15
Insurance receipts for asbestos related liabilities	(89)	(14)	(103)
Insurance receivables settlement	1	-	1
Other	(1)	-	(1)
End of period	$ 123	$ 925	$ 1,048

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

	June 30, 2008	December 31, 2007
Other current assets	$ 50	$ 50
Insurance recoveries for asbestos related liabilities	998	1,086
	$ 1,048	$ 1,136
Accrued liabilities	$ 250	$ 250
Asbestos related liabilities	1,430	1,405
	$ 1,680	$ 1,655

Other Matters

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

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

Automotive Latch Systems Limited vs. Honeywell International Inc. Plaintiff alleges breach of a joint development agreement under which the parties sought to develop, produce and sell a universal door latch assembly for automotive applications. Plaintiff seeks lost chance damages of up to GBP 352 million. Trial proceedings in the High Court of Justice, Queens Bench in London were completed in July 2008. A ruling is not

expected until late third quarter or early fourth quarter 2008. We believe plaintiff s claims are without merit and expect to prevail in this matter.

Quick Lube On March 31, 2008, S&E Quick Lube, a filter distributor, filed suit in U.S. District Court for the District of Connecticut alleging that twelve filter manufacturers, including Honeywell, engaged in a conspiracy to fix prices, rig bids and allocate U.S. customers for aftermarket automotive filters. This suit is a purported class action on behalf of direct purchasers of filters from the defendants. Several parallel purported class actions, including on behalf of indirect purchasers of filters, have been filed by other plaintiffs in a variety of jurisdictions in the United States and Canada. We intend to vigorously defend the claims raised in all of these actions. The Antitrust Division of the Department of Justice (DOJ) is also investigating the allegations raised in these suits and has issued subpoenas to certain employees of the defendants including Honeywell. We are fully cooperating with the DOJ investigation.

Gyros In March 2008, the U.S. Department of State advised Honeywell that it is reviewing Honeywell s compliance with applicable U.S. export controls in connection with the Company s export of its GG1320 gyros and related inertial navigation systems under State and Commerce Department licenses. Honeywell is cooperating with the State Department s review. It is not possible at this time to predict the outcome of this review or what action, if any, the State Department may take at the conclusion of its review.

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

Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying consolidated balance sheet of Honeywell International Inc. and its subsidiaries as of June 30, 2008, and the related consolidated statement of operations for each of the three-month and six-month periods ended June 30, 2008 and 2007 and the consolidated statement of cash flows for the six-month periods ended June 30, 2008 and 2007. These interim financial statements are the responsibility of the Company s management.

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

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

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2007, and the related consolidated statements of operations, of shareowners' equity and of cash flows for the year then ended (not presented herein), and in our report dated February 14, 2008, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2007, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PricewaterhouseCoopers LLP

Florham Park, New Jersey
July 18, 2008

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

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

(Dollars in millions, except per share amounts)

The following MD&A is intended to help the reader understand the results of operations and financial condition of Honeywell International Inc. (Honeywell) for the second quarter and six months ended June 30, 2008. The financial information as of June 30, 2008 should be read in conjunction with the financial statements for the year ended December 31, 2007 contained in our Form 10-K filed on February 15, 2008.

A. RESULTS OF OPERATIONS THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2008 COMPARED WITH THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2007

Net Sales

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Net sales	$9,674	$8,538	$18,569	$16,579
% change compared with prior period	13%		12%	

The increase in net sales in the second quarter and six months of 2008 compared with the second quarter and six months of 2007 is attributable to the following:

	Three Months	Six Months
Price	3%	2%
Volume	3	3
Foreign Exchange	3	4
Acquisitions/Divestitures	4	3
	13%	12%

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

Cost of Products and Services Sold

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Cost of products and services sold	$7,323	$6,491	$13,995	$12,641
Gross Margin percentage	24.3%	24.0%	24.6%	23.8%

Gross margin percentage increased by 0.3 percentage points in the second quarter of 2008 compared with the second quarter of 2007 primarily due to higher margins in our Aerospace segment and lower pension expense, partially offset by lower margins in our Transportation Systems and Specialty Materials segments and higher repositioning charges.

Gross margin percentage increased by 0.8 percentage points in the first six months of 2008 compared with the first six months of 2007 primarily due to higher margins in our Aerospace, Automation and Control Solutions and Specialty Materials segments and lower pension expense, partially offset by lower margins in our Transportation Systems segment and higher repositioning charges.

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

Selling, General and Administrative Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Selling, general and administrative expenses	$1,290	$1,127	$2,545	$2,216
Percent of sales	13.3%	13.2%	13.7%	13.4%

Selling, general and administrative expenses as a percentage of sales increased by 0.1 percentage points in the second quarter of 2008 compared with the second quarter of 2007 and by 0.3 percentage points in the first six months of 2008 compared with the first six months of 2007. These increases are primarily due to higher general and administrative costs in our Automation and Control Solutions segment (primarily due to acquisitions) and higher repositioning charges.

Other (Income) Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Equity (income)/loss of affiliated companies	$ (6)	$ (4)	$ (22)	$ (2)
Gain on sale of non-strategic businesses and assets	(12)	(15)	(12)	(15)
Interest income	(29)	(20)	(54)	(39)
Foreign exchange	3	7	14	12
Other (net)	6	12	14	13
	$ (38)	$ (20)	$ (60)	$ (31)

Other income increased by $18 million in the second quarter of 2008 compared with the second quarter of 2007 primarily due to increased interest income (primarily due to higher cash balances) and a loss on the sale of an insurance related receivable in the second quarter of 2007.

Other income increased by $29 million in the first six months of 2008 compared with the first six months of 2007 primarily due to higher income from equity method investments (mainly in our Specialty Materials segment) and increased interest income (primarily due to higher cash balances).

Interest and Other Financial Charges

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Interest and other financial charges	$115	$110	$230	$207
% change compared with prior period	5%		11%	

Interest and other financial charges increased in both the second quarter and first six months 2008 compared with the same periods in the prior year, primarily due to higher debt balances, partially offset by lower borrowing costs.

Tax Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Tax expense	$261	$219	$493	$409
Effective tax rate	26.5%	26.4%	26.5%	26.5%

The effective tax rate in the second quarter of 2008 increased by 0.1 percent compared to the second quarter of 2007 primarily due to the absence of U.S. research and development credits in 2008 partially offset by an increased benefit from the settlement of tax audits.

The effective tax rate in the first six months of 2008 was the same as the first six months of 2007 primarily due to the absence of U.S. research and development credits in 2008 offset by an increased benefit from the settlement of tax audits.

The effective tax rate in both periods was lower than the statutory rate of 35 percent due in part to the increase in foreign earnings, the benefits from the domestic manufacturing deduction and tax planning strategies.

Net Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	$723	$611	$1,366	$1,137
Earnings per share of common stock assuming dilution	$0.96	$0.78	$1.81	$1.44

Earnings per share of common stock assuming dilution increased by $0.18 per share in the second quarter of 2008 compared with the second quarter of 2007 and by $0.37 per share in the first six months of 2008 compared with the first six months of 2007. The increase in both periods is primarily due to increased segment profit, and a reduction in the number of shares outstanding due to the Company s stock repurchase program.

Review of Business Segments

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net Sales				
Aerospace	$ 3,281	$ 3,027	$ 6,311	$ 5,867
Automation and Control Solutions	3,616	3,039	6,796	5,840
Specialty Materials	1,450	1,216	2,859	2,415
Transportation Systems	1,327	1,256	2,603	2,457
Corporate	-	-	-	-
	$ 9,674	$ 8,538	$ 18,569	$ 16,579
Segment Profit				
Aerospace	$ 602	$ 523	$ 1,165	$ 1,023
Automation and Control Solutions	390	333	718	607
Specialty Materials	186	175	451	367
Transportation Systems	149	157	298	313
Corporate	(49)	(54)	(105)	(97)
Total Segment Profit	1,278	1,134	2,527	2,213
Other income (expense) (A)	32	20	38	31
Interest and other financial charges	(115)	(110)	(230)	(207)
Stock compensation expense (B), (C)	(35)	(17)	(76)	(41)
Pension and other postretirement expense (B)	(26)	(72)	(53)	(146)
Repositioning and other charges (B)	(150)	(125)	(347)	(304)
Income before taxes	$ 984	$ 830	$ 1,859	$ 1,546

(A) Equity income/(loss) of affiliated companies is included in Segment Profit, on a prospective basis, commencing January 1, 2008. Other income/(expense), as presented above, includes equity income/(loss) of affiliated companies of $4 and $2 million for the three and six months ended June 30, 2007, respectively. See Note 12 of Notes to Financial Statements.

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

(C) Costs associated with restricted stock units (RSU) are excluded from Segment Profit, on a prospective basis, commencing January 1, 2008. Stock compensation expense, including RSU expense, totaled $32 and $71 million for the three and six months ended June 30, 2007, respectively. Stock option expense is for all periods presented. See Note 12 of Notes to Financial Statements.

Aerospace

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net sales	$ 3,281	$ 3,027	$ 6,311	$ 5,867
% change compared with prior period	8%		8%	
Segment profit	$ 602	$ 523	$ 1,165	$ 1,023
% change compared with prior period	15%		14%	

Aerospace sales by major customer end-markets for the second quarter and six months ended June 31, 2008 and 2007 were as follows:

	Three Months Ended June 30,			Six Months Ended June 30,		
	% of Aerospace Sales		% Changes in Sales	% of Aerospace Sales		% Changes in Sales
Customer End-Markets	2008	2007	2008 Versus 2007	2008	2007	2008 Versus 2007
Commercial:						
Air transport and regional original equipment	16%	16%	8%	17%	16%	10%
Air transport and regional aftermarket	22	22	6	22	23	6
Business and general aviation original equipment	11	11	3	11	11	3
Business and general aviation aftermarket	10	10	8	10	10	10
Defense and Space	41	41	11	40	40	8
Total	100%	100%	8%	100%	100%	8%

Aerospace sales increased by 8 percent in both the second quarter of 2008 compared with the second quarter of 2007 and the first six months of 2008 compared with the first six months of 2007. Details regarding the increase in sales by customer end-markets are as follows:

- Air transport and regional original equipment (OE) sales increased by 8 percent in the second quarter and 10 percent in the first six months driven by increased deliveries to our air transport customers due to higher aircraft production rates at major OE manufacturers, which is expected to continue.
- Air transport and regional aftermarket sales increased by 6 percent in both the second quarter and the first six months primarily as a result of increased volume and price of spare parts and increased maintenance activity relating to an approximate 6 percent increase in global flying hours in both the second quarter and the first six months. We expect the global flying hours growth rate to be slower in the second half of 2008.

- Business and general aviation OE sales increased by 3 percent in both the second quarter and the first six months due to continued strong demand in the business jet end-market as evidenced by an increase in new business jet deliveries, improved pricing, new platform launches and continued additions to the fractional ownership and charter fleets, partially offset by the impact of delayed supplier deliveries.
- Business and general aviation aftermarket sales increased by 8 percent in the second quarter and 10 percent in the first six months primarily due

to increased revenue under maintenance service agreements, higher enginefleet hours and higher sales of spare parts.

- Defense and space sales increased by 11 percent in the second quarter and 8 percent in the first six months, primarily due to the positive impact of the acquisition of Dimensions International, higher sales of certain surface systems and an increase in government funded engineering relating to the Orion (CEV) program and classified space programs.

Aerospace segment profit increased by 15 percent in the second quarter of 2008 compared with the second quarter of 2007 and by 14 percent in the first six months of 2008 compared to the first six months of 2007 due primarily to increased prices, productivity and volume growth partially offset by inflation and higher spending to support new platform growth.

Automation and Control Solutions

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net sales	$ 3,616	$ 3,039	$ 6,796	$ 5,840
% change compared with prior period	19%		16%	
Segment profit	$ 390	$ 333	$ 718	$ 607
% change compared with prior period	17%		18%	

Automation and Control Solutions (ACS) sales increased by 19 percent in the second quarter of 2008 compared with the second quarter of 2007, including net growth from acquisitions and divestitures of 10 percent and 5 percent favorable impact of foreign exchange. This increase reflects sales growth in all regions.

- Sales in our Products businesses grew by 22 percent, including (i) the positive impact of acquisitions, most significantly Norcross Safety Products, Hand Held Products Inc. and Maxon Corporation, (ii) the favorable impact of foreign exchange, (iii) increased sales of our environmental and combustion control products, most significantly in emerging regions and (iv) continued strong demand for our life safety products, particularly fire systems and sensors.
- Sales in our Solutions businesses increased by 15 percent driven by (i) the favorable impact of foreign exchange, (ii) volume growth, driven by continued orders growth and strong conversion to sales from our orders backlog and (iii) the positive impact of acquisitions, most significantly Enraf Holding B.V..

Automation and Control Solutions (ACS) sales increased by 16 percent in the first six months of 2008 compared with the first six months of 2007, including net growth from acquisitions and divestitures of 8 percent and 5 percent favorable impact of foreign exchange. This increase reflects sales growth in all regions.

- Sales in our Products businesses grew by 18 percent, including (i) the positive impact of acquisitions, most significantly Norcross Safety Products, Hand Held Products Inc. and Maxon Corporation, (ii) the favorable impact of foreign exchange, (iii) increased sales of our environmental and combustion control products, most significantly in emerging regions and (iv) continued strong demand for our life safety products, particularly fire systems and sensors.

- Sales in our Solutions businesses increased by 14 percent driven by (i) the favorable impact of foreign exchange, (ii) volume growth, driven by continued orders growth and strong conversion to sales from our orders backlog and (iii) the positive impact of acquisitions, most significantly Enraf Holding B.V..

ACS segment profit increased by 17 percent in the second quarter of 2008 compared with the second quarter of 2007 and increased by 18 percent in the first six months of 2008 compared with the first six months of 2007. These increases are due principally to productivity savings, improved pricing, acquisitions and the favorable impact of foreign exchange, partially offset by inflation.

Specialty Materials

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net sales	$ 1,450	$ 1,216	$ 2,859	$ 2,415
% change compared with prior period	19%		18%	
Segment profit	$ 186	$ 175	$ 451	$ 367
% change compared with prior period	6%		23%	

Specialty Materials sales increased by 19 percent in the second quarter of 2008 compared with the second quarter of 2007 and by 18 percent in the first six months of 2008 compared with the first six months of 2007 with growth in each of our businesses. These increases were primarily driven by (i) a 27 percent second quarter and a 25 percent first six months increase in UOP sales as a result of higher volume in its products business principally due to continued strength in the refining and petrochemical industries, (ii) increased pricing reflecting the pass-through of higher raw material costs (including benefits from formula based pricing arrangements), most significantly in Resins and Chemicals and Fluorine Products and (iii) a 30 percent second quarter and 27 percent first six months increase in Resins and Chemicals sales due to increased pricing (as noted above) and higher volume due to improved plant performance.

Specialty Materials segment profit increased by 6 percent in the second quarter of 2008 compared with the second quarter of 2007 and by 23 percent in the first six months of 2008 compared with the first six months of 2007. These increases are due principally to increased UOP and Resins and Chemicals sales as a result of the factors discussed above. Overall, the effects of increased pricing reflecting the pass-through of higher raw material costs (including benefits from formula based pricing arrangements) and productivity gains more than offset raw material (most significantly sulfur) and other inflation and higher selling expenses.

Transportation Systems

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net sales	$ 1,327	$ 1,256	$ 2,603	$ 2,457
% change compared with prior period	6%		6%	
Segment profit	$ 149	$ 157	$ 298	$ 313
% change compared with prior period	(5%)		(5%)	

Transportation Systems sales increased by 6 percent in the second quarter of 2008 compared with the second quarter of 2007, due to the favorable impact of foreign exchange.

- Turbo Technologies sales increased by 7 percent primarily due to the favorable impact of foreign exchange and higher volume and pricing to commercial engine manufacturers, partially offset by lower sales to European light vehicle manufacturers reflecting a shift in consumer preference towards lower displacement engines as well as the delay of new platform launches.
- Consumer Products Group (CPG) sales decreased by 7 percent primarily due to lower sales of automotive aftermarket products reflecting the impact of higher gasoline prices and lower consumer confidence on discretionary spending, partially offset by higher prices (primarily to pass through ethylene glycol cost increases).
- Friction Materials sales increased by 17 percent primarily due to the favorable impact of foreign exchange.

Transportation Systems sales increased by 6 percent in the first six months of 2008 compared with the first six months of 2007, primarily due to the favorable impact of foreign exchange.

- Turbo Technologies sales increased by 10 percent primarily due to the favorable impact of foreign exchange, higher volume and pricing to commercial engine manufacturers, partially offset by lower sales to European light vehicle manufacturers due to the reasons discussed above.
- CPG sales decreased by 8 percent primarily due to lower sales of automotive aftermarket products due to the reasons discussed above, partially offset by higher prices (primarily to pass through ethylene glycol cost increases).
- Friction Materials sales increased by 11 percent primarily due to the favorable impact of foreign exchange.

Transportation Systems segment profit decreased by 5 percent in both the second quarter of 2008 compared with the second quarter of 2007 and the first six months of 2008 compared with the first six months of 2007. These decreases were primarily due to CPG volume declines, as discussed above, and investments in product development to support future Turbo platforms. These factors were partially offset by increased productivity in our Turbo Technologies business and the favorable impact of foreign exchange.

Repositioning and Other Charges

See Note 4 of Notes to Financial Statements for a discussion of repositioning and other charges incurred in the second quarter and six months ended June 30, 2008 and 2007. Our repositioning actions are expected to generate incremental pretax savings of approximately $110 million in 2008 compared with 2007 principally from planned workforce reductions. Cash expenditures for severance and other exit costs necessary to execute these actions were $51 million in the first six months of 2008 and were funded through operating cash flows. Cash expenditures for severance and other costs necessary to execute the remaining actions will approximate a total of $125 million in 2008 and will be funded through operating cash flows.

B. LIQUIDITY AND CAPITAL RESOURCES

Cash Flow Summary

Our cash flows from operating, investing and financing activities, as reflected in the Consolidated Statement of Cash Flows for the six months ended June 30, 2008 and 2007, are summarized as follows:

	2008	2007
Cash provided by (used for):		
Operating activities	$ 1,763	$ 1,561
Investing activities	(1,576)	(257)
Financing activities	148	(910)
Effect of exchange rate changes on cash	40	15
Net increase in cash and cash equivalents	$ 375	$ 409

Cash provided by operating activities increased by $202 million during the first six months of 2008 compared with the first six months of 2007 primarily due to increased earnings, increased accrued expenses of $111 million (primarily accrued income taxes), lower cash payments for asbestos of $52 million, and increased deferred income tax expense of $46 million partially offset by an increase in working capital of $267 million (higher accounts and other receivables, higher inventory, partially offset by higher accounts payable).

Cash used for investing activities increased by $1,319 million during the first six months of 2008 compared with the first six months of 2007 due primarily to a $1,200 million increase in cash paid for acquisitions (most significantly the acquisition of Norcross in the second quarter of 2008), increased expenditures for property, plant, and equipment of $56 million, and lower proceeds from sales of businesses of $52 million.

Financing activities provided $148 million of cash during the first six months of 2008, compared to a use of $910 million in the first six months of 2007. The change of $1,058 million is primarily due to a decrease in repurchases of common stock of $3,046 million partially offset by a decrease in net proceeds from debt (including commercial paper) of $1,641 million and a decrease in proceeds from issuance of common stock primarily related to stock option exercises of $298 million.

Liquidity

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

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

In February 2008, the Company issued $600 million 4.25% Senior Notes due 2013 and $900 million 5.30% Senior Notes due 2018 (collectively, the Senior Notes). The Senior Notes are senior unsecured and unsubordinated obligations of Honeywell and rank equally with all of Honeywells existing and future senior unsecured debt and senior to all of Honeywells subordinated debt. The offering resulted in gross proceeds of $1.5 billion, offset by $13 million in discount and issuance costs. Proceeds from the Senior Notes were used to repay outstanding commercial paper.

In May 2008, the company completed the acquisition of Safety Products Holding, Inc, which through its subsidiary Norcross Safety Products L.L.C. (Norcross) is a leading manufacturer of personal protective equipment. The purchase price, net of cash acquired, was approximately $1.2 billion and was funded using a combination of available cash and commercial paper.

In June 2008, the Company entered into a definitive agreement to sell its Consumables Solutions business to B/E Aerospace (B/E) for $1.05 billion, consisting of $800 million in cash and the remainder to be paid in shares of B/E common stock; however, B/E may substitute cash to the extent that the value of six million shares of B/E common stock is less than $250 million. The sale, which is subject to customary closing conditions, is expected to close in the third quarter of 2008 and as discussed in Note 3 of Notes to Financial Statements is expected to result in a significant gain. The use of proceeds are being contemplated as we continue to balance our cash and financing uses through investment in our existing core businesses, acquisition activity, share repurchases and dividends. The type and volume of actions taken to reinvest in our existing core businesses (e.g. repositioning actions) and for other general corporate purposes may result in significant charges during the third quarter of 2008.

In July 2008, the Company completed the acquisition of Metrologic Instruments, Inc., a leading manufacturer of data capture and collection hardware and software, which will be integrated into our Automation and Control Solutions segment. The purchase price was approximately $720 million and was funded using a combination of available cash and commercial paper.

C. OTHER MATTERS

Litigation

We are subject to a number of lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of our business. See a discussion of environmental, asbestos and other litigation matters in Note 14 of Notes to Financial Statements.

Critical Accounting Policies

The financial information as of June 30, 2008 should be read in conjunction with the financial statements for the year ended December 31, 2007 contained in our Form 10-K filed on February 15, 2008.

For a discussion of the Company s critical accounting policies, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K filed on February 15, 2008.

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See our 2007 Annual Report on Form 10-K (Item 7A). As of June 30, 2008, there has been no material change in this information.

ITEM 4. CONTROLS AND PROCEDURES

Honeywell management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that such disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on From 10-Q to ensure information required to be disclosed in the reports that Honeywell files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission rules and forms. There have been no changes that have materially affected, or are reasonably likely to materially affect, Honeywell s internal control over financial reporting that have occurred during the period covered by this Quarterly Report on Form 10-Q.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

General Legal Matters

We are subject to a number of lawsuits, investigations and claims (some of which involve substantial amounts) arising out of the conduct of our business. See a discussion of environmental, asbestos and other litigation matters in Note 14 of Notes to Financial Statements.

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

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. ADEQ's most significant allegations have been dismissed with prejudice and that dismissal has been appealed. The state has voluntarily dismissed its remaining claims without prejudice pending the resolution of the appeal. In February 2007, ADEQ demanded penalties for alleged violations by Honeywell of the state's underground storage tank regulations at the Company's aircraft engines plant in Phoenix, Arizona. ADEQ subsequently added claims relating to other alleged environmental violations at the aircraft engines plant. Honeywell and ADEQ have reached a settlement in principle that would resolve all of the above allegations in return for payment by Honeywell of $5 million in penalties and a $1 million donation to the Western Governor's Associations Climate Initiative Program. This settlement is being reviewed by the Arizona Attorney General.

Honeywell received Notices of Violation from the Maricopa County Air Quality Department with respect to various air permitting compliance matters at facilities located in Maricopa County, Arizona. Honeywell believes it has taken appropriate corrective and preventive actions to address the concerns raised by the County. Honeywell and the County have reached a settlement under which Honeywell will pay $3.025 million through a combination of a cash penalty and performance of certain supplemental environmental projects.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Shareowners of Honeywell held on April 28, 2008, the following matters set forth in our Proxy Statement dated March 13, 2008, which was filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, were voted upon with the results indicated below.

1. The nominees listed below were elected directors with the respective votes set forth opposite their names:

	FOR	AGAINST
Gordon M. Bethune	642,138,961	18,948,728
Jaime Chico Pardo	639,259,257	21,828,432
David M. Cote	639,855,169	21,232,520
D. Scott Davis	647,402,855	13,684,834
Linnet F. Deily	647,248,519	13,839,170
Clive R. Hollick	642,489,910	18,597,779
Bradley T. Sheares	645,944,969	15,142,720
Eric K. Shinseki	647,214,170	13,873,519
John R. Stafford	618,312,389	42,775,300
Michael W. Wright	646,071,741	15,015,948

2. A proposal seeking approval of the appointment of PricewaterhouseCoopers LLP as independent accountants for 2008 was approved, with 638,441,262 votes cast FOR, 15,713,726 votes cast AGAINST, and 6,932,701 abstentions;

3. A proposal regarding approval of an amendment to the Restated Certificate of Incorporation providing the holders of at least 25 percent of the outstanding shares the right to call a special meeting of shareowners was approved, with 641,148,703 votes cast FOR, 12,711,598 votes cast AGAINST and 7,227,388 abstentions; and

4. A shareowner proposal regarding the adoption of a pay-for-superior-performance principle for senior executives was not approved, with 206,346,604 votes cast FOR, 363,649,876 votes cast AGAINST, 8,869,867 abstentions and 82,221,342 broker non-votes.

ITEM 6. EXHIBITS

(a) Exhibits. See the Exhibit Index on page 45 of this Quarterly Report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Honeywell International Inc.

Date: July 18, 2008

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

EXHIBIT INDEX

Exhibit Number	Description
2	Omitted (Inapplicable)
3 (i)	Amended and Restated Certificate of Incorporation of Honeywell International Inc., as amended April 28, 2008 (incorporated by reference to Exhibit 3(i) to Honeywell s Form 8-K filed May 1, 2008)
3 (ii)	By-laws of Honeywell International Incl., as amended April 28, 2008 (incorporated by reference to Exhibit 3(ii) to Honeywell s Form 8-K filed May 1, 2008)
4	Omitted (Inapplicable)
10.1	Stock and Asset Purchase Agreement dated June 9, 2008, by and between Honeywell International Inc. and BE Aerospace, Inc. (incorporated by reference to Exhibit 10.1 to Honeywell s Form 8-K filed June 11, 2008)
11	Computation of Per Share Earnings (1)
12	Computation of Ratio of Earnings to Fixed Charges (filed herewith)
15	Independent Accountants Acknowledgment Letter as to the incorporation of their report relating to unaudited interim financial statements (filed herewith)
18	Omitted (Inapplicable)
19	Omitted (Inapplicable)
22	Omitted (Inapplicable)
23	Omitted (Inapplicable)
24	Omitted (Inapplicable)
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

99 Omitted (Inapplicable)

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