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.

Honeywell International Inc.
Index

Page No.

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 Managements 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, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 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