

HONEYWELL INTERNATIONAL INC
Form 10-Q
April 18, 2008

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

Form 10-Q

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

For the quarterly period ended March 31, 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

22-2640650

(State or other jurisdiction of
incorporation or organization)

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

101 Columbia Road
Morris Township, New Jersey

07962

(Address of principal executive offices)

(Zip Code)

(973) 455-2000

(Registrant's telephone number, including area code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90

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days. Yes No

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

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

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

There were 741,524,440 shares of Common Stock outstanding at March 31, 2008.

Honeywell International Inc.

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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 March 31, 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 March 31,	
	2008	2007
	(Dollars in millions, except per share amounts)	
Product sales	\$ 7,156	\$ 6,450
Service sales	1,739	1,591
Net sales	8,895	8,041
Costs, expenses and other		
Cost of products sold	5,507	5,010
Cost of services sold	1,165	1,140
	6,672	6,150
Selling, general and administrative expenses	1,255	1,089
Other (income) expense	(22)	(11)
Interest and other financial charges	115	97
	8,020	7,325
Income before taxes	875	716
Tax expense	232	190
Net income	\$ 643	\$ 526
Earnings per share of common stock-basic	\$ 0.87	\$ 0.66
Earnings per share of common stock-assuming dilution	\$ 0.85	\$ 0.66
Cash dividends per share of common stock	\$ 0.275	\$ 0.25

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

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Honeywell International Inc.
Consolidated Balance Sheet
(Unaudited)

	March 31, 2008	December 31, 2007
(Dollars in millions)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,234	\$ 1,829
Accounts, notes and other receivables	6,604	6,387
Inventories	4,149	3,861
Deferred income taxes	1,338	1,241
Other current assets	418	367
Total current assets	14,743	13,685
Investments and long-term receivables	522	500
Property, plant and equipment - net	5,012	4,985
Goodwill	9,251	9,175
Other intangible assets - net	1,492	1,498
Insurance recoveries for asbestos related liabilities	1,007	1,086
Deferred income taxes	676	637
Prepaid pension benefit cost	1,268	1,256
Other assets	973	983
Total assets	\$ 34,944	\$ 33,805
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 4,097	\$ 3,962
Short-term borrowings	62	64
Commercial paper	896	1,756
Current maturities of long-term debt	518	418
Accrued liabilities	5,759	5,741
Total current liabilities	11,332	11,941
Long-term debt	6,576	5,419
Deferred income taxes	952	734
Postretirement benefit obligations other than pensions	2,012	2,025
Asbestos related liabilities	1,419	1,405
Other liabilities	3,017	3,059
SHAREOWNERS' EQUITY		
Capital - common stock issued	958	958
- additional paid-in capital	4,059	4,014
Common stock held in treasury, at cost	(9,807)	(9,479)

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Accumulated other comprehensive income (loss)	(285)	(544)
Retained earnings	14,711	14,273
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Total shareowners' equity	9,636	9,222
	<hr/>	<hr/>
Total liabilities and shareowners' equity	\$ 34,944	\$ 33,805
	<hr/>	<hr/>

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

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

	Three Months Ended March 31,	
	2008	
	(Dollars in millions)	
Cash flows from operating activities:		
Net income	\$	643
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization		217
Repositioning and other charges		197
Net payments for repositioning and other charges		(21)
Pension and other postretirement expense		27
Pension and other postretirement payments		(61)
Stock compensation expense		41
Deferred income taxes		108
Excess tax benefits from share based payment arrangements		(7)
Other		45
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts, notes and other receivables		(224)
Inventories		(289)
Other current assets		(35)
Accounts payable		135
Accrued liabilities		(55)
Net cash provided by operating activities		721
Cash flows from investing activities:		
Expenditures for property, plant and equipment		(150)
Proceeds from disposals of property, plant and equipment		12
Decrease in investments		6
Cash paid for acquisitions, net of cash acquired		(55)
Proceeds from sales of businesses, net of fees paid		□
Other		(2)
Net cash used for investing activities		(189)
Cash flows from financing activities:		
Net(decrease)/increase in commercial paper		(860)
Net(decrease)/increase in short-term borrowings		(3)
Proceeds from issuance of common stock		51
Proceeds from issuance of long-term debt		1,487
Payments of long-term debt		(225)
Excess tax benefits from share based payment arrangements		7

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Repurchases of common stock	(441)	
Cash dividends on common stock	(204)	
	<u> </u>	<u> </u>
Net cash used for financing activities	(188)	
	<u> </u>	<u> </u>
Effect of foreign exchange rate changes on cash and cash equivalents	61	
	<u> </u>	<u> </u>
Net increase in cash and cash equivalents	405	
Cash and cash equivalents at beginning of period	1,829	
	<u> </u>	<u> </u>
Cash and cash equivalents at end of period	\$ 2,234	\$
	<u> </u>	<u> </u>

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

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

NOTE 1. Basis of Presentation

In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of Honeywell International Inc. and its consolidated subsidiaries at March 31, 2008 and the results of operations for the three months ended March 31, 2008 and 2007 and cash flows for the three months ended March 31, 2008 and 2007. The results of operations for the three month period ended March 31, 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 month periods ended March 31, 2008 and 2007 were March 29, 2008 and March 31, 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 March 31, 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

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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 March 31, 2008:

	March 31, 2008
Assets:	
Foreign currency exchange contracts	\$41
Forward commodity contracts	\$1
Liabilities:	
Foreign currency exchange contracts	\$33
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 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 acquirors recognize and measure the consideration transferred, identifiable assets acquired, liabilities assumed, 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. The Company is currently assessing the impact of SFAS No. 141R on its consolidated financial position and results of operations.

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 Company is currently assessing the impact of SFAS No. 160 on its 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 Company is currently assessing the impact of SFAS No. 161 on its consolidated financial position and results of operations.

NOTE 3. Repositioning and Other Charges

A summary of repositioning and other charges follows:

	Three Months Ended March 31,	
	2008	2007
Severance	\$ 88	\$ 74
Asset impairments	11	6
Exit costs	4	5
Adjustments	□	(4)
Total net repositioning charge	103	81
Asbestos related litigation charges, net of insurance	28	24
Probable and reasonably estimable environmental liabilities	66	60
Other	□	14
Total net repositioning and other charges	\$ 197	\$ 179

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

**Three Months Ended
March 31,**
