HONEYWELL INTERNATIONAL INC
Form 10-Q
April 21, 2011

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 March 31, 2011

OR

o 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 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 787,008,455 shares of Common Stock outstanding at March 31, 2011.

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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 economic and industry 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, 2010.

PART I. FINANCIAL INFORMATION

The financial information as of March 31, 2011 should be read in conjunction with the financial statements for the year ended December 31, 2010 contained in our Form 10-K filed on February 11, 2011.

ITEM 1. FINANCIAL STATEMENTS

Honeywell International Inc.
Consolidated Statement of Operations
(Unaudited)

	Three Months Ended March 31,	
	2011	2010
	(Dollars in millions, except per share amounts)	
Product sales	$ 7,050	$ 6,047
Service sales	1,859	1,729
Net sales	8,909	7,776
Costs, expenses and other		
Cost of products sold	5,380	4,687
Cost of services sold	1,230	1,171
	6,610	5,858
Selling, general and administrative expense	1,254	1,111
Other (income) expense	(29)	(2)
Interest and other financial charges	99	107
	7,934	7,074
Income before taxes	975	702
Tax expense	267	206
Net income	708	496
Less: Net Income attributable to the noncontrolling interest	3	7
Net income attributable to Honeywell	$ 705	$ 489
Earnings per share of common stock- basic	$ 0.90	$ 0.63
Earnings per share of common stock- assuming dilution	$ 0.88	$ 0.63
Cash dividends per share of common stock	$ 0.3325	$ 0.3025

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

Honeywell International Inc.
Consolidated Balance Sheet
(Unaudited)

	March 31, 2011	December 31, 2010
	(Dollars in millions)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,076	$ 2,650
Accounts, notes and other receivables	7,201	7,068
Inventories	4,290	3,958
Deferred income taxes	882	877
Investments and other current assets	582	458
Total current assets	16,031	15,011
Investments and long-term receivables	476	616
Property, plant and equipment - net	4,832	4,840
Goodwill	11,805	11,597
Other intangible assets - net	2,456	2,574
Insurance recoveries for asbestos related liabilities	825	825
Deferred income taxes	1,232	1,218
Other assets	1,245	1,153
Total assets	$ 38,902	$ 37,834
LIABILITIES		
Current liabilities:		
Accounts payable	$ 4,308	$ 4,344
Short-term borrowings	59	67
Commercial paper	300	299
Current maturities of long-term debt	516	523
Accrued liabilities	6,587	6,484
Total current liabilities	11,770	11,717
Long-term debt	6,763	5,755
Deferred income taxes	671	636
Postretirement benefit obligations other than pensions	1,461	1,477
Asbestos related liabilities	1,556	1,557
Other liabilities	4,871	5,905
SHAREOWNERS EQUITY		
Capital - common stock issued	958	958
- additional paid-in capital	4,036	3,977
Common stock held in treasury, at cost	(8,155)	(8,299)
Accumulated other comprehensive income (loss)	(687)	(1,067)
Retained earnings	15,538	15,097
Total Honeywell shareowners equity	11,690	10,666
Noncontrolling interest	120	121
Total shareowners equity	11,810	10,787
Total liabilities and shareowners equity	$ 38,902	$ 37,834

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

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

	Three Months Ended March 31,	
	2011	2010
	(Dollars in millions)	
Cash flows from operating activities:		
Net income attributable to Honeywell	$ 705	$ 489
Adjustments to reconcile net income attributable to Honeywell to net cash provided by operating activities:		
Depreciation and amortization	242	233
Gain on sale of non-strategic businesses and assets	(44)	
Repositioning and other charges	133	142
Net payments for repositioning and other charges	(109)	(119)
Pension and other postretirement expense	54	33
Pension and other postretirement benefit payments	(1,037)	(36)
Stock compensation expense	49	50
Deferred income taxes	68	72
Excess tax benefits from share based payment arrangements	(13)	(2)
Other	95	(96)
Changes in assets and liabilities, net of the effects of acquisitions and divestitures:		
Accounts, notes and other receivables	(152)	90
Inventories	(342)	(122)
Other current assets	(22)	(28)
Accounts payable	(19)	(80)
Accrued liabilities	(51)	117
Net cash (used for)/provided by operating activities	(443)	743
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(124)	(70)
Proceeds from disposals of property, plant and equipment	1	1
Increase in investments	(164)	(296)
Decrease in investments	62	
Cash paid for acquisitions, net of cash acquired	(7)	
Proceeds from sales of businesses, net of fees paid	217	
Other	31	(16)
Net cash provided by/(used for) investing activities	16	(381)
Cash flows from financing activities:		
Net increase in commercial paper	1	950
Net decrease in short-term borrowings	(9)	(1)
Proceeds from issuance of common stock	101	32
Proceeds from issuance of long-term debt	1,381	
Payments of long-term debt	(437)	(1,001)
Excess tax benefits from share based payment arrangements	13	2
Cash dividends paid	(264)	(231)
Net cash provided by/(used for) financing activities	786	(249)
Effect of foreign exchange rate changes on cash and cash equivalents	67	(63)

Net increase in cash and cash equivalents	426	50
Cash and cash equivalents at beginning of period	2,650	2,801
Cash and cash equivalents at end of period	$ 3,076	$ 2,851

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, 2011 and the results of operations for the three months ended March 31, 2011 and 2010 and cash flows for the three months ended March 31, 2011 and 2010. The results of operations for the three months ended March 31, 2011 should not necessarily be taken as indicative of the results of operations that may be expected for the entire year. We have evaluated subsequent events through the date of issuance of our consolidated financial statements.

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 provide appropriate disclosures. Our actual closing dates for the three months ended March 31, 2011 and 2010 were April 2, 2011 and April 3, 2010, respectively.

The financial information as of March 31, 2011 should be read in conjunction with the financial statements for the year ended December 31, 2010 contained in our Form 10-K filed on February 11, 2011.

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

Note 2. Recent Accounting Pronouncements

Changes to accounting principles generally accepted in the United States of America (U.S. GAAP) are established by the Financial Accounting Standards Board (FASB) in the form of accounting standards updates (ASU s) to the FASB s Accounting Standards Codification.

The Company considers the applicability and impact of all ASU s. ASU s not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position and results of operations.

In October 2009, the FASB issued amendments to the accounting and disclosure for revenue recognition. These amendments, effective for fiscal years beginning on or after June 15, 2010 (early adoption is permitted), modify the criteria for recognizing revenue in multiple element arrangements and the scope of what constitutes a non-software deliverable. The Company has elected to early adopt this guidance, on a prospective basis for applicable transactions originating or materially modified after January 1, 2010. The implementation of this amended accounting guidance did not have a material impact on our consolidated financial position and results of operations in the period of adoption. Adoption impacts in future periods will vary based upon the nature and volume of new or materially modified transactions but are not expected to have a significant impact on sales.

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

Note 3. Repositioning and Other Charges

A summary of repositioning and other charges follows:

	Three Months Ended March 31,	
	2011	**2010**
Severance	$ 27	$ 33
Asset impairments	10	8
Exit costs	11	4
Adjustments	(4)	(5)
Total net repositioning charge	44	40
Asbestos related litigation charges, net of insurance	38	38
Probable and reasonably estimable environmental liabilities	51	46
Other		18
Total net repositioning and other charges	$ 133	$ 142

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

	Three Months Ended March 31,	
	2011	**2010**
Cost of products and services sold	$ 118	$ 139
Selling, general and administrative expenses	15	3
	$ 133	$ 142

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

	Three Months Ended March 31,	
	2011	**2010**
Aerospace	$	$
Automation and Control Solutions	33	24
Specialty Materials	13	11
Transportation Systems	36	59
Corporate	51	48

	$ 133	$ 142

In the quarter ended March 31, 2011, we recognized repositioning charges totaling $ 48 million including severance costs of $ 27 million related to workforce reductions of 586 manufacturing and administrative positions in our Automation and Control Solutions and Specialty Materials segments. The workforce reductions were related to factory transitions in connection with acquisition-related synergies in our Automation and Control Solutions segment, the exit from and/or rationalization of certain product lines and markets in our Specialty Materials and Automation and Control Solutions segments, and an organizational realignment of a business in our Automation and Control Solutions segment. The repositioning charge included asset impairments of $ 10 million principally related to manufacturing plant and equipment associated with the exit of a product line and a factory transition as discussed above. The repositioning charge also included exit costs of $ 11 million principally for

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costs to terminate contracts, including an operating lease, related to the exit of a market and a factory transition as discussed above.

In the quarter ended March 31, 2010 we recognized repositioning charges totaling $ 45 million including severance costs of $ 33 million related to workforce reductions of 617 manufacturing and administrative positions primarily in our Automation and Control Solutions and Transportation Systems segments. The workforce reductions were primarily related to the planned shutdown of certain manufacturing facilities in our Automation and Control Solutions and Transportation Systems segments. The repositioning charge also included asset impairments of $ 8 million principally related to manufacturing plant and equipment in facilities scheduled to close.

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

	Severance Costs	Asset Impairments	Exit Costs	Total
December 31, 2010	$ 276	$	$ 34	$ 310
Charges	27	10	11	48
Usage - cash	(39)		(3)	(42)
Usage - noncash		(10)		(10)
Foreign currency translation	2		1	3
Adjustments	(4)			(4)
March 31, 2011	$ 262	$	$ 43	$ 305

Certain repositioning projects in our Aerospace, Automation and Control Solutions and Transportation Systems segments included exit or disposal activities, the costs related to which will be recognized in future periods when the actual liability is incurred. The nature of these exit or disposal costs includes asset set-up and moving, product recertification and requalification, and employee retention, training and travel. The following tables summarize by segment, expected, incurred and remaining exit and disposal costs related to 2011 and 2010 repositioning actions which we were not able to recognize at the time the actions were initiated.

2011 Repositioning Actions	**Automation and Control Solutions**
Expected exit and disposal costs	$ 2
Costs incurred during	
Current year-to-date	
Remaining exit and disposal costs	$ 2

2010 Repositioning Actions	**Aerospace**	**Automation and Control Solutions**	**Transportation Systems**	**Total**
Expected exit and disposal costs	$ 10	$ 10	$ 3	$ 23
Costs incurred during				
Year ended December 31, 2010				
Current year-to-date		(1)		(1)

Remaining exit and disposal costs	$ 10	$ 9	$ 3	$ 22

In the quarter ended March 31, 2011, we recognized a charge of $ 51 million for environmental liabilities deemed probable and reasonably estimable in the quarter. We also recognized a charge of $ 38 million primarily

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representing an update to our estimated liability for the resolution of Bendix related asbestos claims as of March 31, 2011, net of probable insurance recoveries. Environmental and Asbestos matters are discussed in detail in Note 14, Commitments and Contingencies.

In the quarter ended March 31, 2010, we recognized a charge of $ 46 million for environmental liabilities deemed probable and reasonably estimable in the quarter. We also recognized a charge of $ 38 million primarily representing an update to our estimated liability for the resolution of Bendix related asbestos claims as of March 31, 2010, net of probable insurance recoveries. We also recognized other charges of $18 million in connection with the evaluation of potential resolution of certain legal matters.

Note 4. Other (income) expense

	Three Months Ended March 31,	
	2011	2010
Equity (income)/loss of affiliated companies	$ (9)	$ (4)
Gain on sale of non-strategic businesses and assets	(44)	
Interest income	(13)	(9)
Foreign exchange	8	11
Other, net	29	
	$ (29)	$ (2)

Gain on non-strategic businesses and assets in the three months ended March 31, 2011 includes a $39 million pre-tax gain, $24 million net of tax, related to the divestiture of the automotive on-board sensor products business within our Automation and Control Solutions segment.

Other, net in the three months ended March 31, 2011 includes a loss of $29 million resulting from early redemption of debt. See Note 9 Long-term Debt and Credit Agreements for further details.

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Note 5. Earnings Per Share

The details of the earnings per share calculations for the three months ended March 31, 2011 and 2010 are as follows:

	Three Months Ended March 31	
	2011	2010
Basic		
Net income attributable to Honeywell	$ 705	$ 489
Weighted average shares outstanding	785.5	765.7
Earnings per share of common stock	$ 0.90	$ 0.63

	Three Months Ended March 31	
	2011	2010
Assuming Dilution		
Net income attributable to Honeywell	$ 705	$ 489
Average Shares		
Weighted average shares outstanding	785.5	765.7
Dilutive securities issuable - stock plans	12.2	6.0
Total weighted average shares outstanding	797.7	771.7
Earnings per share of common stock	$ 0.88	$ 0.63

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 March 31, 2011 and 2010, the number of stock options excluded from the computations were 7.1 and 18.4 million, respectively. These stock options were outstanding at the end of each of the respective periods.

Note 6. Accounts, Notes and Other Receivables

	March 31, 2011	December 31, 2010
Trade	$ 6,853	$ 6,698
Other	611	647
	7,464	7,345
Less - Allowance for doubtful accounts	(263)	(277)
	$ 7,201	$ 7,068

Trade Receivables includes $1,403, and $1,307 million of unbilled balances under long-term contracts as of March 31, 2011 and December 31, 2010, respectively. These amounts are billed in accordance with the terms of customer contracts to which they relate.

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(Dollars in millions, except per share amounts)

Note 7. Inventories

	March 31, 2011	December 31, 2010
Raw materials	$ 1,303	$ 1,158
Work in process	858	810
Finished products	2,298	2,144
	4,459	4,112
Reduction to LIFO cost basis	(169)	(154)
	$ 4,290	$ 3,958

Note 8. Goodwill and Other Intangible Assets - Net

The change in the carrying amount of goodwill for the three months ended March 31, 2011 by segment is as follows:

	December 31, 2010	Acquisitions	Divestitures	Currency Translation Adjustment	March 31, 2011
Aerospace	$ 1,883	$	$	$ 7	$ 1,890
Automation and Control Solutions	7,907	45	(12)	157	8,097
Specialty Materials	1,291			7	1,298
Transportation Systems	516			4	520
	$ 11,597	$ 45	$ (12)	$ 175	$ 11,805

Other intangible assets are comprised of:

	March 31, 2011			December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Determinable life intangibles:						
Patents and technology	$ 1,096	$ (689)	$ 407	$ 1,101	$ (676)	$ 425
Customer relationships	1,659	(424)	1,235	1,688	(399)	1,289
Trademarks	243	(98)	145	186	(84)	102
Other	212	(134)	78	512	(404)	108
	3,210	(1,345)	1,865	3,487	(1,563)	1,924
Indefinite life intangibles:						
Trademarks	591		591	650		650
	$ 3,801	$ (1,345)	$ 2,456	$ 4,137	$ (1,563)	$ 2,574

Amortization expense related to intangible assets for the three months ended March 31, 2011 and 2010 was $65 and $60 million, respectively.

We completed our annual impairment testing of goodwill and indefinite-lived intangibles as of March 31, 2011 and determined that there was no impairment as of that date.

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Note 9. Long-term Debt and Credit Agreements

	March 31, 2011	December 31, 2010
6.125% notes due 2011	$ 500	$ 500
5.625% notes due 2012		400
4.25% notes due 2013	600	600
3.875% notes due 2014	600	600
5.40% notes due 2016	400	400
5.30% notes due 2017	400	400
5.30% notes due 2018	900	900
5.00% notes due 2019	900	900
4.25% notes due 2021	800	
5.375% notes due 2041	600	
Industrial development bond obligations, floating rate maturing at various dates through 2037	39	46
6.625% 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), 0.6%-15.5% maturing at various dates through 2023	123	115
	7,279	6,278
Less current portion	(516)	(523)
	$ 6,763	$ 5,755

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

	March 31, 2011
2011	$ 516
2012	11
2013	610
2014	607
2015	1
Thereafter	5,534
	7,279
Less-current portion	(516)
	$ 6,763

In February 2011, the Company issued $800 million 4.25% Senior Notes due 2021 and $600 million 5.375% Senior Notes due 2041 (collectively, the Notes). The Notes are senior unsecured and unsubordinated obligations of Honeywell and rank equally with all of Honeywell s existing and future senior unsecured debt and senior to all of Honeywell s subordinated debt. The offering resulted in gross proceeds of $1,400 million, offset by $19 million in discount and closing costs related to the offering.

In the first quarter of 2011, the Company repurchased the entire outstanding principal amount of its $400 million 5.625% Notes due 2012 via a cash tender offer and a subsequent optional redemption. The cost relating to the early redemption of the Notes, including the make-whole premium , was $29 million.

In March 2011, the Company entered into a $2,800 million Five Year Credit Agreement (Credit Agreement) with a syndicate of banks. Commitments under the Credit Agreement can be increased pursuant to the terms of

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the Credit Agreement to an aggregate amount not to exceed $3,500 million. The Credit Agreement is maintained for general corporate purposes, including support for the issuance of commercial paper, and replaces the previous $2,800 million five year credit agreement dated May 14, 2007 (Prior Agreement). There have been no borrowings under the Credit Agreement or the Prior Agreement. The Credit Agreement does not restrict the Company s ability to pay dividends, nor does it contain financial covenants.

As a source of liquidity, we sell interests in designated pools of trade accounts receivables to third parties. As of March 31, 2011 and December 31, 2010 none of the receivables in the designated pools had been sold to third parties. When we sell receivables, they are over-collateralized and we retain a subordinated interest in the pool of receivables representing that over-collateralization as well as an undivided interest in the balance of the receivables polls. The terms of the trade accounts receivable program permit the repurchase of receivables from the third parties at our discretion, providing us with an additional source of revolving credit. As a result, program receivables remain on the Company s balance sheet with a corresponding amount recorded as either Short-term borrowings or Long-term debt.

Note 10. Financial Instruments and Fair Value Measures

Credit and Market Risk Financial instruments, including derivatives, expose us to counterparty credit risk for nonperformance and to market risk related to changes in interest and currency exchange rates and commodity prices. We manage our exposure to counterparty credit risk through specific minimum credit standards, diversification of counterparties, and procedures to monitor concentrations of credit risk. Our counterparties in derivative transactions are substantial investment and commercial banks with significant experience using such derivative instruments. We monitor the impact of market risk on the fair value and cash flows of our derivative and other financial instruments considering reasonably possible changes in interest rates, currency exchange rates and commodity prices and restrict the use of derivative financial instruments to hedging activities.

We continually monitor the creditworthiness of our customers to which we grant credit terms in the normal course of business. The terms and conditions of our credit sales are designed to mitigate or eliminate concentrations of credit risk with any single customer. Our sales are not materially dependent on a single customer or a small group of customers.

Foreign Currency Risk Management We conduct our business on a multinational basis in a wide variety of foreign currencies. Our exposure to market risk for changes in foreign currency exchange rates arises from international financing activities between subsidiaries, foreign currency denominated monetary assets and liabilities and transactions arising from international trade. Our objective is to preserve the economic value of non-functional currency denominated cash flows. We attempt to hedge transaction exposures with natural offsets to the fullest extent possible and, once these opportunities have been exhausted, through foreign currency exchange forward and option contracts with third parties.

We hedge monetary assets and liabilities denominated in non-functional currencies. Prior to conversion into U.S. dollars, these assets and liabilities are remeasured at spot exchange rates in effect on the balance sheet date. The effects of changes in spot rates are recognized in earnings and included in Other (Income) Expense. We partially hedge forecasted sales and purchases, which predominantly occur in the next twelve months and are denominated in non-functional currencies, with currency forward contracts. Changes in the forecasted non-functional currency cash flows due to movements in exchange rates are substantially offset by changes in the fair value of the currency forward contracts designated as hedges. Market value gains and losses on these contracts are recognized in earnings when the hedged transaction is recognized. Open foreign currency exchange forward contracts mature predominantly in the next twelve months. At March 31, 2011 and December 31, 2010, we had contracts with notional amounts of $5,833 million and $5,733, million respectively, to exchange foreign currencies, principally the U.S. dollar, Euro, British pound, Canadian dollar, Hong Kong dollar, Mexican peso, Swiss franc, Czech koruna, Chinese renminbi, Indian rupee, Singapore dollar, Swedish krona and Korean won.

Commodity Price Risk Management Our exposure to market risk for commodity prices can result in changes in our cost of production. We primarily mitigate our exposure to commodity price risk through the use of long-term, fixed-price contracts with our suppliers and formula price agreements with suppliers and customers.

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We also enter into forward commodity contracts with third parties designated as hedges of anticipated purchases of several commodities. Forward commodity contracts are marked-to-market, with the resulting gains and losses recognized in earnings when the hedged transaction is recognized. At March 31, 2011 and December 31, 2010, we had contracts with notional amounts of $34 million and $23 million, respectively, related to forward commodity agreements, principally base metals and natural gas.

Interest Rate Risk Management We use a combination of financial instruments, including long-term, medium-term and short-term financing, variable-rate commercial paper, and interest rate swaps to manage the interest rate mix of our total debt portfolio and related overall cost of borrowing. At March 31, 2011 and December 31, 2010, interest rate swap agreements designated as fair value hedges effectively changed $1,400 and $600 million, respectively, of fixed rate debt at an average rate of 4.09 and 3.88 percent, respectively, to LIBOR based floating rate debt. Our interest rate swaps mature at various dates through 2021.

Fair Value of Financial Instruments The FASB s accounting guidance 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). The FASB s guidance 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 and nonfinancial 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 available for sale investments are level 1 and our remaining 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, 2011 and December 31, 2010:

	March 31, 2011	December 31, 2010
Assets:		
Foreign currency exchange contracts	$ 53	$ 16
Available for sale investments	412	322
Interest rate swap agreements	31	22
Forward commodity contracts	4	2
Liabilities:		
Foreign currency exchange contracts	$ 50	$ 14
Forward commodity contracts		2

The foreign currency exchange contracts, interest rate swap agreements, and forward commodity contracts 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. The Company also holds investments in marketable equity securities, commercial paper, certificates of deposits, and time deposits that are designated

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as available for sale and are valued using market transactions in over-the-counter markets. As such, these investments are classified within level 2.

The carrying value of cash and cash equivalents, trade accounts and notes receivables, payables, commercial paper and short-term borrowings contained in the Consolidated Balance Sheet approximates fair value. The following table sets forth the Company s financial assets and liabilities that were not carried at fair value:

	March 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Long-term receivables	$ 139	$ 132	$ 203	$ 199
Liabilities				
Long-term debt and related current maturities	$ 7,279	$ 7,773	$ 6,278	$ 6,835

As of March 31, 2011, the Company had nonfinancial assets, specifically property, plant and equipment, with a net book value of $10 million which were accounted for at fair value on a nonrecurring basis. These assets were tested for impairment and based on the fair value of these assets the Company recognized losses of $10 million in the three months ended March 31, 2011, primarily in connection with our repositioning actions (see Note 3 Repositioning and Other Charges). The Company has determined that the fair value measurements of these nonfinancial assets are level 3 in the fair value hierarchy. As of March 31, 2010, the Company had nonfinancial assets, specifically property, plant and equipment, software and intangible assets, with a net book value of $14 million that were accounted for at fair value on a nonrecurring basis. Based on the fair value of these assets the Company recognized losses of $13 million in the three months ended March 31, 2010.

The derivatives utilized for risk management purposes as detailed above are included on the Consolidated Balance Sheet and impacted the Statement of Operations as follows:

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Fair value of derivatives classified as assets consist of the following:

Designated as a Hedge	Balance Sheet Classification	March 31, 2011	December 31, 2010
Foreign currency exchange contracts	Accounts, notes, and other receivables	$ 51	$ 10
Interest rate swap agreements	Other assets	31	22
Commodity contracts	Accounts, notes, and other receivables	4	2
Not Designated as a Hedge	**Balance Sheet Classification**		
Foreign currency exchange contracts	Accounts, notes, and other receivables	$ 2	$ 6

Fair value of derivatives classified as liabilities consist of the following:

Designated as a Hedge	Balance Sheet Classification	March 31, 2011	December 31, 2010
Foreign currency exchange contracts	Accrued liabilities	$ 46	$ 9
Commodity contracts	Accrued liabilities		2
Not Designated as a Hedge	**Balance Sheet Classification**		
Foreign currency exchange contracts	Accrued liabilities	$ 4	$ 5

Gains (losses) recognized in OCI (effective portion) consist of the following:

Designated Cash Flow Hedge	Three Months Ended March, 31 2011	2010
Foreign currency exchange contracts	$ 8	$ 20
Commodity contracts	3	(2)

Gains (losses) reclassified from AOCI to income consist of the following:

Designated Cash Flow Hedge	Income Statement Location	Three Months Ended March 31, 2011	2010
Foreign currency exchange contracts	Product sales	$ 6	$ (3)
	Cost of products sold	(5)	2
	Sales & general administrative	2	1
Commodity contracts	Cost of products sold	$ (1)	$ (1)

Ineffective portions of commodity derivative instruments designated in cash flow hedge relationships were insigificant in the three months ended March 31, 2011 and 2010 and are located in cost of products sold. Foreign currency exchange contracts designated in cash flow hedge relationships qualify as critical matched terms hedge relationships and as a result have no ineffectiveness.

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Interest rate swap agreements are designated as hedge relationships with gains or (losses) on the derivative recognized in Interest and other financial charges offsetting the gains and losses on the underlying debt being hedged. Gains on interest rate swap agreements recognized in earnings were $9 million in the three months ended March 31, 2011. These gains were fully off-set by losses on the underlying debt being hedged. Gains on interest rate swap agreements recognized in earnings were $4 million in the three months ended March 31, 2010. These gains were fully off-set by losses on the underlying debt being hedged.

We also economically hedge our exposure to changes in foreign exchange rates principally with forward contracts. These contracts are marked-to-market with the resulting gains and losses recognized in earnings offsetting the gains and losses on the non-functional currency denominated monetary assets and liabilities being hedged. For the three months ended March 31, 2011 and 2010, we recognized $23 million and $22 million of expense, respectively in Other (Income) Expense.

Note 11. Comprehensive Income/(Loss)

Comprehensive income/(loss) consists of the following:

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net income	$ 708	$ 496
Foreign exchange translation adjustments	391	(284)
Pension and postretirement benefit adjustments	3	11
Change in fair value of effective cash flow hedges	6	7
Change in unrealized gains/(losses) on available for sale investments	(20)	49
	1,088	279
Less: Comprehensive Income attributable to noncontrolling interest[(a)]	3	7
Comprehensive Income/(Loss) attributable to Honeywell	$ 1,085	$ 272

(a) Comprehensive Income/(Loss) attributable to noncontrolling interest consisted predominately of net income.

Changes in Noncontrolling Interest consist of the following:

December 31, 2010	$ 121
Comprehensive Income/(Loss) attributable to noncontrolling interest	3
Acquisitions	(1)
Dividends paid	(2)
Other owner changes	(1)
March 31, 2011	$ 120

In the three months ended March 31, 2011 there were no increases or decreases to Honeywell additional paid in capital for purchases or sales of existing noncontrolling interests.

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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.

	Three Months Ended March 31,	
	2011	**2010**
Net Sales		
Aerospace		
Product	$ 1,466	$ 1,317
Service	1,230	1,189
Total	2,696	2,506
Automation and Control Solutions		
Product	3,136	2,647
Service	520	477
Total	3,656	3,124
Specialty Materials		
Product	1,246	1,076
Service	109	63
Total	1,355	1,139
Transportation Systems		
Product	1,202	1,007
Service		
Total		