SI INTERNATIONAL INC
Form 10-K
March 11, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ý **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 27, 2003

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
000-50080

SI International, Inc.

(Exact name of Registrant as Specified in Its Charter)

Delaware	**52-2127278**
(State of Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
12012 Sunset Hills Road, Reston, Virginia	**20190-5869**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: **(703) 234-7000**

Securities to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities to be registered pursuant to Section 12(g) of the Act:

Common Stock, $0.01 par value per share
(Title of Class)

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES o NO ý

The aggregate market value of SI International, Inc. Common Stock held by non-affiliates of the registrant as of June 27, 2003 was $59,858,992.

As of March 4, 2004, there were 8,461,122 shares of SI International, Inc. Common Stock, $0.01 par value per share outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

(1) Certain portions of the registrant's annual report to stockholders for the fiscal year ended December 27, 2003 are incorporated by reference into Part II of this Form 10-K. Certain portions of the definitive proxy statement to be used in connection with SI International, Inc.'s annual meeting of stockholders, which is expected to be filed not later than 120 days after the registrant's fiscal year ended December 27, 2003, are incorporated by reference into Part III of this Form 10-K.

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BUSINESS INFORMATION

Throughout this document, we occasionally distinguish between SI International, Inc., as a company separate from its subsidiaries, and SI International, Inc., as a company combined with its subsidiaries. In order to clarify which entity we are referring to in various discussions, we use the terms "SI International, Inc." and "SI International" to refer to SI International, Inc. without its subsidiaries. All other references, including "SI," "the Company," "we" and "us" refer to SI International and its subsidiaries.

PART I

Item 1. Business

SI International, Inc. was organized as a Delaware corporation under the name of "SI International Incorporated" on October 14, 1998. SI conducts operations both in its own name and through subsidiaries, each of which is located in the U.S. but some of which have international operations.

Some of the statements under "Business," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this Form 10-K constitute forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will," and "would" or similar words. You should read statements that contain these words carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward-looking information. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to predict accurately or control. The factors listed in the section captioned "Business-Risk Factors," as well as any cautionary language in this Form 10-K, provide examples of risks, uncertainties, and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-K. Subsequent events and developments may cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we specifically disclaim any obligation to do so.

Recent Events

On January 21, 2004, we completed the purchase of Matcom International Corporation, or Matcom, a provider of information technology, systems engineering, logistics, and training. The acquisition supports our strategic growth plan to expand into new vertical markets and enhance the portfolio of capabilities it provides to the Federal Government. We are currently in the process of integrating Matcom into our business. Under the terms of the merger agreement, we acquired Matcom for $65.8 million in cash. The transaction also included an earnout provision of $7.9 million in the form of subordinated notes of SI International if Matcom achieves certain short-term revenue objectives.

The transaction was funded through cash-on-hand and borrowings under our credit facility, which was increased from $35 million to $80 million contemporaneously with the closing of the acquisition of Matcom. In addition to amending and restructuring our prior credit facility in order to increase our

borrowing capacity, we extended the term of the credit facility, which consists of both revolving credit and term loans, to January 21, 2008.

As a result of our acquisition of Matcom, we gained approximately 600 additional employees and increased our leased space to 24 offices and 2 warehouses at various U.S. locations for an aggregate of approximately 329,300 square feet in 13 states (including 3 offices (8,750 square feet) that are sub-leased through the remaining term of our primary leases).

Based upon pro forma consolidated (unaudited) revenue for fiscal year 2003, the end clients from our top 10 contracts, including Matcom, comprised approximately 46% of our fiscal year 2003 and listed as follows:

Department of Defense	*Federal civilian agencies*
U.S. Air Force Space Command	Department of Agriculture
U.S. Army	Department of Homeland Security Customs & Border Protection
U.S. Navy	
	Department of State Federal Retirement Thrift Investment Board

Overview

We are a provider of mission critical information technology and network solutions primarily to the Federal Government. Our business is guided by our experienced team of six executive officers, who have an average of 19 years of executive level experience in our industry. Our next level of senior management is comprised of seven individuals who have an average of 28 years of experience in managing government information technology businesses. As of the end of fiscal year 2003, we employed over 1,300 employees, and, following the acquisition of Matcom on January 21, 2004, we have approximately 1,900 employees. Approximately 65% of our employees, including those of Matcom, hold Federal Government security clearances or have passed National Agency Checks. Over 19% of our employees, including those of Matcom, hold Top Secret security clearances. A significant portion of our employees who hold Top Secret security clearances also hold Sensitive Compartmental Information clearances, which permit us to bid on highly classified projects.

Our broad set of contract vehicles gives us extensive reach and enables us to deliver a full range of our services and solutions to the Federal Government. As of December 27, 2003, we had over 560 active engagements. The strength of our service offerings and information technology expertise allows us to maintain substantial relationships with clients, some of whom have been clients of ours, or of one of our acquired businesses, for over 15 years. In fiscal 2003 and fiscal 2002, we derived approximately 84% and 83%, respectively, of our revenue from contracts on which we acted as prime contractor. Acting as a prime contractor provides us with stronger client relationships and visibility and access to new work that are not available when acting as a subcontractor. Our total backlog as of December 27, 2003 was approximately $337 million, of which approximately $58 million was funded. See " Backlog" for a discussion of how we calculate backlog.

The Federal Government Technology Services Market

The ongoing transformation of the Federal Government's information systems and communication networks is creating an increase in its demand for information technology services. According to INPUT, an independent market research firm, Federal Government contracted information technology spending is projected to increase from $45.4 billion in government fiscal 2003 to $68.2 billion in government fiscal 2008, representing a compounded annual growth rate of approximately 8.5%.

We expect that the Federal Government's high-priority IT programs, with which SI International is aligned, will continue to grow in the foreseeable future. INPUT forecasts that the percentage of IT spending that is contracted out by the Federal Government will reach a high of 87% of total IT spending in government fiscal 2008.

We believe the following industry trends will also continue to drive the Federal Government technology services market:

Continued focus on mission-critical initiatives. Since the events of September 11, 2001, the Federal Government has made the transformation of its information technology infrastructure a major priority. We believe our core areas of focus are aligned with the most urgent current national priorities. According to INPUT, the information technology services "commercial" segment, which is comprised of software development, design, and consulting, education and training, systems integration, outsourcing, maintenance and processing services, is expected to experience healthy growth, at a 9.9%

compounded annual growth rate from government fiscal 2003 through government fiscal 2008. The commercial segment spending for government fiscal 2003 was $18.8 billion and INPUT believes it should exceed $30 billion by government fiscal 2008.

Increased Federal Government reliance on outsourcing. According to INPUT, outsourcing services are expected to exhibit high growth rates over the next five years, as much as 12.6% compounded annual growth rate from government year 2003 to government year 2008. Also according to INPUT, the federal outsourcing expenditures were expected to total $8.9 billion in 2003 and can be expected to reach $16.1 billion by 2008.

We believe that the Federal Government is increasingly turning to the information technology industry to execute support processes and functions that were traditionally performed in-house. In October 2001, the General Accounting Office, or GAO, published a report stating that, of the total Federal Government fiscal 2000 information technology expenditures of $42.3 billion, the Federal Government purchased $13.4 billion of information technology services from outside contractors, compared to $3.7 billion in 1990, representing a compound annual growth rate of 14%. According to INPUT, the size of the Federal Government workforce decreased by 1.1 million workers during the period 1990 through 2000, representing a 22% decline. The General Accounting Office has warned of further attrition due to retirement of Federal Government workers during the period 2003 through 2006.

We believe that homeland security will have the greatest impact on three specific segments of the IT market: information security, communications, and knowledge management. We believe that the rapid pace of technological innovations and the Federal Government's increasing reliance on complex information technology infrastructure, combined with a decline in executive branch civilian employees, make it increasingly difficult for many governmental agencies to operate and upgrade their information technology systems. We expect that several trends will contribute to the Federal Government's increased use of service providers to fulfill a larger portion of its information technology responsibilities, and we believe that we will continue to gain new engagements to the extent that the Federal Government increases its reliance on outsourcing for its information technology needs. These trends include:

The aging of the Federal Government's workforce. According to INPUT, the average age of Federal Government employees increased from 42 years of age in 1990 to 46 years of age in 2003, and that the government has estimated that more than 30% of current personnel in supervisory positions will be eligible for retirement by 2007. In April 2001, the GAO concluded in a report that the Federal Government's human capital challenges are adversely affecting the ability of many agencies to carry out their missions.

Increased Federal Government emphasis on competitive sourcing. The current administration has made competitive sourcing a major initiative of its management agenda. According to the President's Management Agenda, which was issued in 2001 and for which progress reports continue to be issued, including most recently during 2003, nearly half of all U.S. government employees perform tasks that are available in the commercial marketplace. To the extent that the Federal Government workforce declines, we believe that the Federal Government will have an increased need for entities that offer the technical skills, familiarity with government processes and procedures and skilled personnel that are necessary to meet the diverse information technology requirements of the various Federal Government agencies.

Increased spending on homeland security and intelligence.

In the wake of the terrorist attacks on September 11, 2001, there has been an increased emphasis on homeland security, intelligence and national defense, including the protection of critical infrastructure. According to INPUT, the IT budget request for the Department of Homeland Security, as identified by the Office of Management and Budget, increased 25% from government fiscal 2003 to government fiscal 2004. The total addressable IT budget for the Department of Homeland Security was set at $2.6 billion in fiscal year 2003 and is expected to grow to $4.9 billion in fiscal year 2008, assuming a compound annual growth rate of 13.2%.

As part of this additional proposed spending, on April 18, 2002 the government announced a new Unified Command, the U.S. Northern Command, which is headquartered in Colorado Springs, Colorado. The U.S. Northern Command's "mission is homeland defense and civil support, specifically: conduct operations to deter, prevent, and defeat threats and aggression aimed at the United States, its territories, and interests within the assigned area of responsibility; and as directed by the President or Secretary of Defense, provide military assistance to civil authorities including consequence management operations.

Although the total amount to be spent for intelligence applications is classified, based on available information, INPUT believes that the unreported IT spending in the intelligence community may be as much as $10 billion in fiscal year 2003. We believe that there will continue to be increases in spending on federal intelligence activities, which are expected to represent significant opportunities for us.

Increased simplicity of procurement. Through changes that began with the Federal Acquisition Streamlining Act of 1994, or FASA 94, the Federal Government has developed a variety of accelerated contracting methods. Federal Governmental agencies have increasingly been able to rely on multiple contracting vehicles to procure needed services in an expedient manner. According to INPUT, the average time to procure products and services was approximately 55% less in government fiscal 2001 than it was in government fiscal 1995.

Our Core Strengths

We strategically built our business to respond specifically to the federal information technology marketplace. We believe that our core strengths position us to respond to the long-term trends and changing demands of our market.

Our Experienced Management Team

Our business is guided by our experienced team of six executive officers who have an average of 19 years of executive level experience in our industry and a history of successfully growing information technology service providers. Our principal founders, Ray Oleson and Walter Culver, each have more than 34 years of managerial experience in our industry. Our executive officers have served as presidents, chief operating officers, and chief financial officers at Fortune 500 and industry-leading public companies. Our executive officers also have strong backgrounds in identifying, acquiring and

integrating businesses. Members of our management team have acquired and successfully integrated, in the aggregate, 20 businesses, four of them since our formation in 1998 and are in the process of integrating our most recent acquisition, Matcom, which we acquired in January 2004. In addition to our strong team of executive officers, our senior management is comprised of seven individuals who have an average of 28 years experience in managing government information technology businesses.

Our Corporate Culture

Our corporate culture is based on respect for clients, personnel, business partners and management. We view our commitment to this culture of respect as a cornerstone of our company. We believe that our culture helps us build the relationships necessary to gain an in-depth understanding of our clients' needs, business practices and information technology and network systems. Further, we believe our culture is a factor in helping our employee turnover rate remain low compared to other companies in our industry, helping us to maintain client domain knowledge and provide consistent service to our clients. Further, we believe that our commitment to respect, combined with quality of performance, is an important factor in retaining clients and winning new referrals.

Focus on Information Technology Services

We deliver a full spectrum of information technology services and solutions that address challenges common to many Federal Government agencies and commercial companies. Our capabilities position us to capitalize on the Federal Government's increasing demand for information technology services. We integrate our technical areas of expertise into comprehensive solutions covering information technology applications, systems engineering, network and telecommunications engineering and outsourcing. Our focus on end-to-end information technology solutions allows us to leverage our knowledge and experience to provide best practices across many Federal Government agencies and industries.

Our skilled employees use their advanced technological training and extensive experience to implement our state-of-the-practice solutions. As of the end of fiscal year 2003, we employed over 1,300 employees, many of whom possess security clearances and National Agency Checks that allow us to bid on and perform classified work for the Federal Government.

Knowledge of Federal Government Contracting and Federal Agencies

We believe that our in-depth knowledge of Federal Government contracting and the governmental agencies we serve and their procurement processes allows us to provide better solutions for our clients' needs. Our experienced team of executive officers and senior managers brings to us their many years of experience and extensive contacts in the industry. They provide us with an understanding of our clients' needs and procedures, as well as valuable mission-specific information. We believe that the insight provided by our officers and managers allows us to

design solutions that are responsive to our clients' mission-critical needs.

Successful Integration of Acquired Businesses

We believe that a critical component of our success is our ability to identify, acquire and integrate companies that build or expand our suite of services to serve our clients' needs more effectively. Prior to the formation of SI International in 1998, members of our management team participated in a total of 16 acquisitions. We believe that this experience provides a basis for our disciplined approach to identifying acquisition candidates and integrating acquired companies. By integrating corporate infrastructures such as marketing and sales, accounting, human resources and internal networks, we can save the expense of redundant functions. In addition, by integrating operations, we establish a

corporate-wide mission which can reduce internal competition and promote the cross-selling of newly augmented skill sets to increase our client base.

Within the 15-month period from January 1999 through March 2000, we identified, acquired and integrated four Federal Government information technology services companies with aggregate revenues of approximately $105 million, measured for the 12 months prior to their respective acquisition dates. Through each of these acquisitions, we built and expanded our information technology capabilities and expanded our client relationships. We applied our disciplined acquisition processes to integrate the acquired companies and successfully grew these businesses. We are applying similar processes to integrate Matcom, which we acquired in January 2004.

Our Growth Strategy

We have implemented the following strategies in order to reach our goal of becoming a leading provider of information technology and network solutions to our clients:

Maintain and expand our existing client relationships. We maintain relationships with our existing clients by adhering to our culture of respect and providing quality performance. We believe this helps us win renewals of our engagements. In addition, we use our knowledge of our clients' needs to identify additional opportunities and cross-sell new services to them.

Leverage our existing client base to win new clients. We believe satisfied clients are one of our most effective marketing tools. Since FASA 94 went into effect, client referrals have become a crucial component of expedited procurement processes and are key to our winning new contracts. Since we focus on technology infrastructure improvement, we are able to transfer our skills readily from client to client. We plan to continue building a network of clients and leveraging these relationships to gain access to new clients. We have launched a Major Programs initiative through which we intend to compete for large contracts over longer procurement periods. We believe that favorable client referrals are strategically important to our winning these opportunities.

Pursue strategic acquisitions. We plan to continue utilizing our disciplined methodology to identify, evaluate and integrate strategic acquisitions. We have acquired and successfully integrated four businesses since 1999 and we are in the process of integrating our fifth acquisition, Matcom, which we acquired in January 2004. These acquisitions have positioned us with strategically important technical skills in important client areas. For example, in mid-1999 we recognized that functional skills in military space applications in Colorado Springs would be an important growth area. We acquired SI International Engineering, Inc., formerly System Technology Associates, Inc., headquartered in Colorado Springs, which positions us to respond to the needs of the recently formed U.S. Northern Command, which is headquartered in that city.

Our Areas of Practice

We provide information technology and network solutions in the following eight practice areas to supplement our clients needs in Defense Transformation, Homeland Defense, Mission Critical Outsourcing and Federal Information Technology (IT) Modernization.

Software Development. Our software development practice delivers custom software integrated with commercial off-the-shelf products to meet our clients' software requirements. We bring an understanding of complex software development and integration techniques for detailed design, implementation, testing, configuration control and documentation. We also provide enterprise-wide data management as well as testing

and independent verification and validation services. Our technical staff is skilled in state-of-the-practice technologies such as C++, J2EE, Power Builder and Oracle Tools.

Our software development process had been externally assessed at the Software Engineering Institute Capability Maturity Model for Software Level 2 indicating standardized, repeatable processes are utilized.

Systems Consulting. Our systems consulting practice supports the modeling, simulation and prototyping of solutions. Our work includes feasibility studies, strategic planning, systems development consulting, quality assurance, project management, organizational assessment, system and transition planning and acquisition support. To aid us in our work, we utilize state-of-the-practice technologies such as enterprise architecture modeling tools and StarSafe, a software tool suite we developed for use in designing secure system solutions.

eSolutions. Our eSolutions practice delivers software implementation services that web-enable legacy applications intended to leverage an organization's utilization of the worldwide web (internet, intranet or extranet) to facilitate its business strategies and processes. We provide our clients with feasibility studies, system planning, systems development, migration planning, quality assurance, systems integration and user training. Our technical staff utilizes tools such as Microsoft.Net, Oracle Tools and Microsoft Visual Basic and Front Page, to help them deliver software integration services.

Information Security. Our information security practice delivers analyses, methods and technologies that enable our clients to secure their information against unauthorized access and service disruption. Our solutions are designed to protect and defend information systems against malicious actions, reduce the threat to system security and proactively manage risk. We provide security policy and procedure development, threat determination and risk assessment, vulnerability analysis, system security engineering, network defense, secure document processing, applications and web security, security evaluation and accreditation and training.

Learning Solutions. Our learning solutions practice designs, develops and delivers training and performance support to meet our clients' individual and organizational learning and performance needs. We provide distance learning, web-based training, computer-based training, instructor-led training, electronic performance support, performance-centered interface design, knowledge management, help desk staffing and management and local area network operations. Our technical staff is skilled in instructional systems design, usability engineering, software engineering, multimedia and graphic design and online documentation.

Systems Engineering. Our systems engineering practice delivers mission and requirements analysis, operational architecture modeling and development, system design, validation and verification, integrated logistics support, life cycle engineering and complex simulation and modeling. Our technical staff is skilled in command, control, communications, computer and intelligence, engineering, object oriented analysis and design, system testing, requirements traceability and specialty disciplines, including electro-magnetic pulse engineering, reliability/maintainability/availability engineering and safety and environmental engineering. Many of these skills are focused on space applications.

Network Solutions. Our network solutions practice designs, develops and deploys a full range of telecommunications network and infrastructure solutions for our government and commercial clients. These solutions span voice, narrowband, broadband and wireless technologies. Applications include large scale enterprise networks for government, highly secure networks and central office build-outs for commercial carriers.

Mission-Critical Outsourcing. Our mission-critical outsourcing practice uses our domain expertise to operate our systems and processes that are vital to our clients' businesses. We offer professional services to perform network operations, sustaining engineering, administrative processing and overall program management.

Clients

We provide our services primarily to Federal Government clients such as the U.S. Air Force Space Command, U.S. Army, the Department of State, the Immigration and Naturalization Service which has now transitioned to become the Bureau of Citizenship and Immigration Services in the Department of Homeland Security, and the intelligence community. In fiscal 2003, we derived approximately 94% of our total revenue from Federal Governmental agencies and approximately 6% of our total revenue from commercial clients.

Our largest client is the Department of Defense. We derived approximately 55% of our total revenue in fiscal 2003 and approximately 49% of our total revenue in fiscal 2002 from the Department of Defense and the intelligence community. In fiscal 2003 and fiscal 2002, services we provided to the U.S. Air Force Space Command represented 38% and 37% of our total revenue, respectively, and consisted of approximately 300 separate engagements. We also derived approximately 20% of each of our fiscal 2003 and 2002 revenue from the Department of State. Each of these entities consists of a substantial number of separate offices, each of which typically exercises independent decision making and funding authority. We believe our contract base among these separate offices is well diversified. As of December 27, 2003, we had over 560 active engagements. In fiscal 2003 and fiscal 2002, we derived approximately 84% and 83%, respectively, of our revenue from contracts on which we acted as prime contractor and derived approximately 16% and 17%, respectively, of our revenue from contracts on which we acted as a subcontractor.

We often subcontract portions of work to be performed under a contract or task order under which we are the prime contractor. Approximately 13% of our total revenue in fiscal 2003 and fiscal 2002, respectively, was generated by work performed by subcontractors. The subcontractors are sometimes responsible for critical portions of the contracted services. Our subcontracting arrangements typically specify that all terms of the primary contract pass down to the subcontractor. We are not dependent upon any one subcontractor or group of subcontractors to provide a substantial degree of work for us. In addition, it is typical that a subcontractor on one engagement may be a competitor or a client in other situations. We believe that cultivating good relationships with our subcontractors is necessary to maintain our competitive position as well as to facilitate meeting performance obligations under our contracts.

Backlog

Backlog is our estimate of the amount of revenue we expect to realize over the remaining life of awarded contracts and task orders we have in hand as of the measurement date. Our total backlog consists of funded and unfunded backlog. We define funded backlog as estimated future revenue under government contracts and task orders for which funding has been appropriated by Congress and authorized for expenditure by the applicable agency, plus our estimate of future revenue we expect to realize from our commercial contracts. Unfunded backlog is the difference between total backlog and funded backlog. Unfunded backlog reflects our estimate of future revenue under awarded government contracts and task orders for which either funding has not yet been appropriated or expenditure has not yet been authorized. Our total backlog does not include estimates of revenue from Government-wide acquisition contracts, or GWAC contracts, or General Services Administration, or GSA, schedules beyond awarded or funded task orders, but our unfunded backlog does include estimates of revenue beyond awarded or funded task orders for other types of indefinite delivery, indefinite quantity, or ID/IQ, contracts, such as our contract with the U.S. Air Force Space Command.

Our total backlog as of December 27, 2003 was approximately $337 million, of which approximately $58 million was funded. However, there can be no assurance that we will receive the amounts we have included in our backlog or that we will ultimately recognize the full amount of our

funded backlog as of December 27, 2003 that we estimate will be recognized as revenue during fiscal 2004 or thereafter.

We believe that backlog is not necessarily indicative of the future revenue that we will actually receive from contract awards that are included in calculating our backlog. We assess the potential value of contracts for purposes of backlog based upon several subjective factors. These subjective factors include our judgments regarding historical trends (i.e., how much revenue we have received from similar contracts in the past), competition (i.e., how likely are we to successfully keep all parts of the work to be performed under the contract) and budget availability (i.e., how likely is it that the entire contract will receive the necessary funding). If we do not accurately assess each of these factors, or if we do not include all the variables that affect the revenue that we recognize from our contracts, the potential value of our contracts, and accordingly, our backlog, will not reflect the actual revenue received from contracts and task orders. As a result, there can be no assurance that we will receive amounts included in our backlog or that monies will be appropriated by Congress or otherwise made available to finance contracts and task orders included in our backlog. Many factors that affect the scheduling of projects could alter the actual timing of revenue on projects included in backlog. There is always the possibility that the contracts could be adjusted or cancelled. We adjust our backlog on a quarterly basis to reflect modifications to or renewals of existing contracts, awards of new contracts or approvals of expenditures. See "Risk Factors The calculation of our backlog is subject to numerous uncertainties, and we may not receive the full amounts of revenue estimated under the contracts included in our backlog, which could reduce our revenue in future periods."

Competition

We operate in markets that are highly competitive and include a large number of participants. We compete with many companies, both large and small, for our contracts. We do not have a consistent number of competitors against whom we repeatedly compete. If we anticipate that our combined resources may create a competitive advantage, we may team with other companies to perform work under contracts. These and

other companies in our market may compete more effectively than we can because they are larger, have greater financial and other resources, have better or more extensive relationships with governmental officials involved in the procurement process and have greater brand or name recognition.

As a result of the diverse requirements of the Federal Government and our commercial clients, we frequently form teams with the companies in our markets in order to compete for large procurements, while bidding against them in other situations.

In each of our practice areas, we generally bid against companies of varying sizes and specialties, from small businesses to multi-billion dollar corporations. Because of the current industry trend toward consolidation, some of these companies may emerge better able to compete with us. Therefore, it is essential that we differentiate ourselves from these companies. We believe that our technical abilities, client relationships, past performance, cost containment, reputation and ability to provide quality personnel give us a strong presence in the markets we serve. In addition, we believe that our culture of respect for and commitment to our clients and business partners greatly aids our business. While we believe these factors help to set us apart from other companies in our markets, we may not be able to continue to maintain our competitive position, as new companies enter the marketplace and alliances and consolidations among competitors emerge. Some companies in our markets have longer operating histories, greater financial and technological capabilities, greater brand or name recognition and larger client bases than we have.

Government Contracting and Regulatory Processes

For fiscal 2003, approximately 94% of our revenue was derived from work performed under Federal Government contracts. The government contracting process differs in many ways from commercial contracting, and involves a high degree of Federal Government regulation and oversight.

Historically, agencies of the Federal Government wishing to procure services from contractors have been required to prepare a request for proposal, known as an RFP, or some similar form of solicitation. The RFP is typically an extensive document describing the services desired and the terms and conditions that form the final agreement, including the criteria the soliciting agency will use to select the service provider. Interested parties submit proposals in response to the RFP, which the agency evaluates, often requesting additional information and multiple discussions with bidders prior to final award of the contract.

In recent years, the Federal Government has taken steps to streamline the procurement process. For example, in 1994, the enactment of the FASA 94 made the procurement process substantially faster and less burdensome for companies that qualify for a bidders list. FASA 94 was the first of several statutory and regulatory changes in recent years that significantly altered government procurement practices by increasing the number and types of procurement contract "vehicles" available to Federal Government clients to satisfy their requirements. Federal Governmental agencies are now more likely to use flexible contract vehicles that permit a number of firms to compete for specific orders. The General Services Administration Multiple Award Schedule, or GSA MAS, Program is an example of a flexible contract vehicle employed by the Federal Government. Under the MAS Program, GSA contracts with multiple vendors to provide goods and services, at predetermined prices, to specified authorized buyers. GSA schedules are listings of services and products, along with their respective prices, offered by approved contractors. The schedules are maintained by the GSA for use by any federal agency or other authorized entity. A contractor must successfully complete a pre-qualification process in order to be selected by the GSA for inclusion of the contractor's goods or services on a GSA Schedule. When an agency selects services under a GSA schedule contract, the soliciting agency, or the GSA on its behalf, conducts a bidding process, limited to qualified GSA schedule contractors. The process typically involves substantially less time and cost than the historical, non-GSA bidding process.

In addition to the GSA MAS program, we also hold other ID/IQ contracts with other individual agencies, which are generally known as task order contracts. These are essentially umbrella contracts that set forth the basic terms and conditions under which the agency may order goods and services from one, and in some cases, more than one, contractor. Contractors undergo a competitive pre-selection process to become eligible to perform work under ID/IQ contracts. A soliciting agency issues task orders for goods or services to be performed or provided under a contract. When task orders are issued under multiple award ID/IQ contracts, each awardee typically has an opportunity to be considered for the task order. The agency desiring contract services may conduct a competition among the interested awardees, resulting in the issuance of a task order to a single contractor. These contracts have increased competition and pricing pressure by concentrating work under fewer contracts, and requiring competition both prior to the initial award of the contract and throughout the term of the contract in order to obtain task orders for the services we provide, requiring that we make sustained post-award marketing efforts to realize revenue under each such contract. Moreover, even if we are qualified to work on a particular new contract or a contract subject to renewal, we might not be awarded business because of the Federal Government's policy and practice of procuring goods and services from multiple contractors in order to maintain a diverse base of contractors. In addition, ID/IQ contracts do not obligate the Federal Government to purchase goods or services above the minimum levels set forth in the contract.

A task order calls for a specific set of services to be delivered by the contractor to a particular client agency. In our experience, the key factors in bidding successfully for these task orders are

technical merit, cost, relevant past performance considerations and client trust. From time to time we are also party to GWACs, which are ID/IQ contracts that permit the aggregation of multiple agencies' requirements in a single contract, in order to encourage contractors to offer the best possible prices and to reduce the costs associated with multiple acquisitions.

For single-award large scale contracts, such as those targeted by our Major Program initiative, interested contractors submit information indicating their desire to perform the required services. The agency then solicits competitive proposals or bids from qualified contractors by providing them with a formal RFP, or similar solicitation. The RFP typically describes the desired services, terms and conditions, and evaluation criteria the agency will use. Bidders then submit proposals in response to the RFP, and the agency evaluates the proposals and makes the award determination. Agencies are encouraged to award contracts on a "best value" basis. This means that the contractor selected for the award should, in the agency's judgment, provide the greatest overall benefit in response to the requirement, including technical merit, cost and relevant past performance considerations. The entire bid process can sometimes take a year or more.

The competitive bidding process presents a number of risks, including the following:

- we expend substantial funds, managerial time and effort to prepare bids and proposals for contracts that we may not win;
- we may be unable to estimate accurately the resources and cost that will be required to service any contract we win, which could result in substantial cost overruns; and
- we may encounter expense and delay if our competitors protest or challenge awards of contracts to us in competitive bidding, and any such protest or challenge could result in a requirement to resubmit bids on modified specifications or in the termination, reduction or modification of the awarded contract.

The government contracts for which we compete typically have multiple year terms, and if we are unable to win a particular contract, we generally will be foreclosed from competing again for that contract until its expiration several years later. In addition, upon the expiration of a contract, if the client requires further services of the type provided by the contract, there is frequently a competitive rebidding process.

Laws and Regulations Affecting Our Business

Federal Government contracts are subject to a number of federal laws and regulations, including the Federal Acquisition Regulation, or FAR, and Cost Accounting Standards. These statutes and regulations contain several rules that may affect us significantly.

The Anti-Deficiency Act prohibits Federal Government employees from committing government funds, by contract or otherwise, in excess or in advance of appropriations, unless authorized by a specific statute. Since Congress usually appropriates funds on a fiscal year basis, many of our contracts are funded by the applicable agency annually as Congress makes appropriations for future fiscal years. In addition, since funds are often allocated to agencies by the Office of Management and Budget, many of our contracts are incrementally funded.

Disappointed bidders and contractors excluded from competing for government contracts and task orders may submit an objection to a contracting officer or the GAO within time limits specified under FAR and GAO bid protest remedies. The U.S. Court of Federal Claims also has bid protest jurisdiction. Performance under a contract being protested may be suspended while the protest is pending, and in cases where the contract is found to have been improperly awarded, the contract may be terminated.

Certain FAR clauses, such as the Limitation of Cost and Limitation of Funds clauses, limit the Federal Government's liability for expenditures or obligations beyond those authorized by the applicable contract. In many cases, contracts are awarded for only one year with a

number (in a number of cases, four) of successive option years. Agencies are not obligated to exercise these option years, but in our experience, most renewal options under our contracts have been exercised. In addition, certain FAR clauses allow the Federal Government to terminate contracts for convenience (i.e., at will), although the Federal Government is obligated to pay for costs incurred.

Larger contracts may also be subject to the Truth in Negotiations Act and Cost Accounting Standards. The Truth in Negotiations Act requires us to provide current, accurate and complete cost or pricing data in connection with the negotiation of a contract, modification or task order that is not subject to full and open competition or other exceptions to the Act. Cost Accounting Standards are applicable to certain contracts and require the contractor to apply consistent accounting practices and comply with specific cost accounting criteria. "Contract Cost Principles and Procedures" sets forth the rules regarding the allocability and allowability of costs incurred in connection with Federal Government contracts.

The FAR restricts government contractors from participating in procurements when there is an Organizational Conflict of Interest, or OCI, and, establishes rules for avoiding, mitigating and neutralizing conflicts of interest in the issuance of contracts by the Federal Government. Virtually all government contracts, including ours, are subject to the OCI rules. An OCI may arise because the nature of the work to be performed by a contractor has the potential, absent some restriction on future activities, to result in an unfair competitive advantage to the contractor or impair the contractor's objectivity in performing the contract or providing assistance or advice to the Federal Government. The government contracting officer is responsible for resolving any significant potential OCIs before a contract award is made. Federal Government contractors have an obligation to manage and, if necessary, report an OCI to the contracting officer. We have a company-wide policy regarding care in the acceptance of and compliance with contractual OCI provisions, which includes awareness training programs and coordination and reporting systems. We review new contracts and task orders at the time we receive them for potential OCI issues. Accordingly, we believe that as a result of the systems we have in place, our backlog will not be affected by OCI issues.

Our books and records are subject to audit by the Defense Contract Audit Agency, or DCAA, and other governmental audit agencies, to ensure that the costs and hourly rates for which we invoice the Federal Government under cost reimbursable and time and materials contracts are in compliance with the Cost Principles, Cost Accounting Standards and FAR invoicing regulations. Each fiscal year, we must submit final cost data to the Federal Government indicating our actual costs incurred for the prior year, exclusive of certain costs that are not recoverable by Federal Government contractors. This data is audited, and subject to adjustments by the auditing agency based upon established guidance, which may affect our recovery on cost reimbursable contracts for prior fiscal years. These audits may also result in assessment of penalties, interest costs and, in extreme cases, debarment. The Federal Government retains a portion of the fee earned by us under cost reimbursable contracts until contract completion and audit by the DCAA. Audits of our business units by the DCAA have been completed for all fiscal years through 2001 without material adjustments. In the opinion of management, the audits for other fiscal years through fiscal year 2003 will not result in adjustments that would have a material adverse effect on our financial position or results of operations; however, future material adjustments are possible.

Our conduct and performance is also subject to the False Claims Act. The False Claims Act prohibits contractors from knowingly submitting false or fraudulent claims to the Federal Government. We have established standards of conduct for our employees and a reporting mechanism that any of our employees can use to report inappropriate or illegal activities.

Risk Factors

Risks Related to Our Industry

We depend on contracts with the Federal Government for most of our revenue, and our business would be seriously harmed if the government ceased doing business with us or significantly decreased the amount of business it does with us.

We derived 93.7% and 92.1% of our total revenue in fiscal 2003 and in fiscal 2002, respectively, from Federal Government contracts, either as a prime contractor or a subcontractor. This includes 54.3% and 49.0% of our total revenue in fiscal 2003 and in fiscal 2002, respectively, that we derived, either as a prime contractor or a subcontractor, from contracts with agencies of the Department of Defense and intelligence community. We expect that we will continue to derive most of our revenue for the foreseeable future from work performed under Federal Government contracts. If we were suspended or prohibited from contracting with the Federal Government generally, or with any significant agency of the Department of Defense or the intelligence community, or if our reputation or relationship with the Federal Government or any significant agency of the Department of Defense or the intelligence community were impaired, or if any of the foregoing otherwise ceased doing business with us or significantly decreased the amount of business it does with us, our business, prospects, financial condition and operating results would be materially adversely affected.

Our two largest contracts, in terms of revenues, are the contract with the U.S. Air Force Space Command for communications and computer infrastructure for command and control, information management and intelligence and for surveillance and reconnaissance, or C4I2SR, and the National Visa Center, or NVC, contract with the Department of State. The C4I2SR contract generated 22.1% of our total revenues in fiscal 2003 and 23.1% of our total revenues in fiscal 2002. The NVC contract generated 13.9% of our total revenues in fiscal 2003 and 11.0% of our total revenues in fiscal 2002. The C4I2SR and NVC contracts expire in September 2004. Although the NVC contract expires in 2004, aggregate expenditures under this contract are capped at $88 million. We currently are awaiting notification of award by the government of the C4I2TSR contract, which is the successor contract to the C4I2SR contract. We expect to receive a solicitation from the government for the recompetition of the NVC contract during fiscal year 2004. Our third largest contract, in terms of revenues, is our contract with the Department of State for application development services, or ADP/ITPS. The ADP contract generated 5.1% of our total revenues in fiscal 2003 and 7.9% of our total revenues in fiscal 2002. We won the ITPS contract with the Department of State as the follow on contract vehicle to the ADP contract vehicle, which expired in June 2003. The ITPS contract has a five year term, including unexercised options through June 2008. We cannot guarantee that we will win the recompete for the C412TSR and NVC contracts. If we fail to win the recompete for any of these contracts or any of our other major contracts, our business would be materially adversely affected.

Our business could be adversely affected by changes in budgetary priorities of the Federal Government.

Because we derive a significant portion of our revenue from contracts with the Federal Government, we believe that the success and development of our business will continue to depend on our successful participation in Federal Government contract programs. Changes in Federal Government budgetary priorities could directly affect our financial performance. A significant decline in government expenditures, a shift of expenditures away from programs which call for the types of services that we provide or a change in Federal Government contracting policies, could cause Federal Governmental agencies to reduce their expenditures under contracts, to exercise their right to terminate contracts at any time without penalty, not to exercise options to renew contracts or to delay or not enter into new contracts. Any of those actions could seriously harm our business, prospects, financial condition or operating results. Moreover, although our contracts with governmental agencies often contemplate that our services will be performed over a period of several years, Congress usually must approve funds for

a given program each government fiscal year and may significantly reduce or eliminate funding for a program. Significant reductions in these appropriations by Congress could have a material adverse effect on our business. Additional factors that could have a serious adverse effect on our Federal Government contracting business include:

- changes in Federal Government programs or requirements;
- budgetary priorities limiting or delaying Federal Government spending generally, or by specific departments or agencies in particular, and changes in fiscal policies or available funding, including potential governmental shutdowns;
- reduction in the Federal Government's use of technology solutions firms; and
- an increase in the number of contracts reserved for small businesses, or small business set asides, which could result in our inability to compete directly for these prime contracts.

Our contracts with the Federal Government may be terminated or adversely modified prior to completion, which could adversely affect our business.

Federal government contracts generally contain provisions, and are subject to laws and regulations, that give the Federal Government rights and remedies not typically found in commercial contracts, including provisions permitting the Federal Government to:

- terminate our existing contracts;
- reduce potential future income from our existing contracts;

modify some of the terms and conditions in our existing contracts;

suspend or permanently prohibit us from doing business with the Federal Government or with any specific government agency;

impose fines and penalties;

subject us to criminal prosecution;

subject the award of some contracts to protest or challenge by competitors, which may require the contracting federal agency or department to suspend our performance pending the outcome of the protest or challenge and which may also require the government to solicit new bids for the contract or result in the termination, reduction or modification of the awarded contract;

suspend work under existing multiple year contracts and related task orders if the necessary funds are not appropriated by Congress;

decline to exercise an option to extend an existing multiple year contract; and

claim rights in technologies and systems invented, developed or produced by us.

The Federal Government may terminate a contract with us either "for convenience" (for instance, due to a change in its perceived needs or its desire to consolidate work under another contract) or if we default by failing to perform under the contract. If the Federal Government terminates a contract with us for convenience, we generally would be entitled to recover only our incurred or committed costs, settlement expenses and profit on the work completed prior to termination. If the Federal Government terminates a contract with us based upon our default, we generally would be denied any recovery for undelivered work, and instead may be liable for excess costs incurred by the Federal Government in procuring undelivered items from an alternative source. As is common with government contractors, we have experienced and continue to experience occasional performance issues under some of our contracts. We may in the future receive show-cause or cure notices under contracts that, if not

addressed to the Federal Government's satisfaction, could give the government the right to terminate those contracts for default or to cease procuring our services under those contracts.

Our Federal Government contracts typically have terms of one or more base years and one or more option years. Many of the option periods cover more than half of the contract's potential term. Federal governmental agencies generally have the right not to exercise options to extend a contract. A decision to terminate or not to exercise options to extend our existing contracts could have a material adverse effect on our business, prospects, financial condition and results of operations.

Certain of our Federal Government contracts also contain "organizational conflict of interest" clauses that could limit our ability to compete for certain related follow-on contracts. For example, when we work on the design of a particular solution, we may be precluded from competing for the contract to install that solution. While we actively monitor our contracts to avoid these conflicts, we cannot guarantee that we will be able to avoid all organizational conflict of interest issues.

If we fail to establish and maintain important relationships with government entities and agencies, our ability to successfully bid for new business may be adversely affected.

To develop new business opportunities, we primarily rely on establishing and maintaining relationships with various government entities and agencies. We may be unable to successfully maintain our relationships with government entities and agencies, and any failure to do so could materially adversely affect our ability to compete successfully for new business.

We derive significant revenue from contracts and task orders awarded through a competitive bidding process. If we are unable to win new awards or successfully compete for renewal contracts, our business and prospects may be adversely affected.

A significant number of our contracts and task orders with the Federal Government are awarded through a competitive bidding process. We expect that much of the business that we will seek in the foreseeable future will continue to be awarded through competitive bidding of new contracts and task orders and contracts subject to renewal. Recently, members of Congress and administration officials have authorized changes to the procurement process intended to increase competition among suppliers to the Federal Government. Budgetary pressures and reforms in the procurement process have caused many Federal Government clients to increasingly purchase goods and services through indefinite delivery/indefinite quantity, or ID/IQ, contracts, including General Services Administration contracts, or GSA contracts, and other government-wide acquisition contracts, or GWACs. These contracts have increased competition and pricing pressure by concentrating work under fewer contracts, and requiring competition both prior to the initial award of the contract and throughout the term of the contract in order to obtain task orders for the services we provide, requiring that we make sustained post-award marketing efforts to realize revenue under each such contract. These contracts generally approve particular contractors to provide specified goods and services to the applicable governmental agency but generally do not obligate the agency to purchase any particular amount of goods or services. To procure goods or services under the contract, the agency generally awards task orders to perform specified services or to supply specified goods pursuant to competitive bidding among approved contractors. Thus, the existence of a contract does not ensure future revenue; rather, the contract merely provides us the opportunity to compete for additional work. An agency may administer an ID/IQ contract in which it procures goods and services for itself. Under the same contract, other federal agencies may also procure goods and services. These contracts are known as GWACs. When multiple prime contractors hold GWACs for the same goods and services, all of them are eligible to supply goods and services under the contract. As a result, qualified contractors often compete with each other to obtain task orders under a GWAC. Similarly, GSA contracts, including contracts commonly known as GSA Schedule contracts, are procurement contracts administered by the GSA on behalf of the entire Federal Government. Like GWACs, multiple contractors may be awarded GSA contracts for the same goods and services. As a result, an agency may procure goods and services from any contractor awarded the

GSA contract at the prices and on the terms stated in the contract. Moreover, even if we are highly qualified to work on a particular new contract or a contract subject to renewal, we might not be awarded business because of the Federal Government's policy and practice of procuring goods and services from multiple contractors in order to maintain a diverse base of contractors.

The competitive bidding process presents a number of risks, including the following:

- we expend substantial funds, managerial time and effort to prepare bids and proposals for contracts that we may not win;
- we may be unable to estimate accurately the resources and cost that will be required to service any contract we win, which could result in substantial cost overruns; and
- we may encounter expense and delay if our competitors protest or challenge awards of contracts to us in competitive bidding, and any such protest or challenge could result in a requirement to resubmit bids on modified specifications or in the termination, reduction or modification of the awarded contract.

The government contracts for which we compete typically have multiple year terms, and if we are unable to win a particular contract, we generally will be foreclosed from competing again for that contract until its expiration several years later. If we are unable to win new contract awards, our business and prospects will be adversely affected. In addition, upon the expiration of a contract, if the client requires further services of the type provided by the contract, there is frequently a competitive rebidding process. Approximately 36% of our revenue recognized during fiscal 2003 was derived from contracts that we expected to become subject to recompetition bids prior to the end of government fiscal 2004 (ending September 30, 2004). There can be no assurance that we will win any particular bid or recompetition bid, or that we will be able to replace business lost upon expiration or completion of a contract, and the termination or nonrenewal of any of our significant contracts or a substantial portion of our other contracts could materially adversely affect our operating results.

Our business may suffer if our facilities or our employees are unable to obtain or retain the security clearances or other qualifications needed to perform services for our clients.

Many of our Federal Government contracts require employees and facilities used in specific engagements to hold security clearances and to clear National Agency Checks and Defense Security Service checks. Many of our contracts require us to employ personnel with specified levels

of education, work experience and security clearances. Depending on the level of clearance, security clearances can be difficult and time-consuming to obtain. If our employees or our facilities lose or are unable to obtain necessary security clearances or successfully clear necessary National Agency or Defense Security Service checks, we may not be able to win new business and our existing clients could terminate their contracts with us or decide not to renew them. To the extent we cannot obtain or maintain the security clearances necessary for our facilities or our employees working on a particular contract or to the extent our facilities or our employees do not successfully clear necessary National Agency Checks or Defense Security Service checks, we may not derive the revenue anticipated from the contract, and our operating results could be materially adversely affected.

We must comply with a variety of laws, regulations and procedures and our failure to comply could harm our operating results.

We must observe laws and regulations relating to the formation, administration and performance of Federal Government contracts which affect how we do business with our clients and impose added costs on our business. For example, the Federal Acquisition Regulation and the industrial security regulations of the Department of Defense and related laws include provisions that:

- allow our Federal Government clients to terminate or not renew our contracts if we come under foreign ownership, control or influence;

- require us to disclose and certify cost and pricing data in connection with contract negotiations;
- require us to prevent unauthorized access to classified information; and
- require us to comply with laws and regulations intended to promote various social or economic goals.

We are subject to industrial security regulations of the Department of Defense and other federal agencies that are designed to safeguard against foreigners' access to classified information. If we were to come under foreign ownership, control or influence, we could lose our facility security clearances, which could result in our Federal Government customers terminating or deciding not to renew our contracts, and could impair our ability to obtain new contracts.

In addition, our employees often must comply with procedures required by the specific agency for which work is being performed, such as time recordation or prohibition on removal of materials from a location.

Our failure to comply with applicable laws, regulations or procedures, including federal procurement regulations and regulations regarding the protection of classified information, could result in contract termination, loss of security clearances, suspension or prohibition from contracting with the Federal Government, civil fines and damages and criminal prosecution and penalties, any of which could materially adversely affect our business.

The Federal Government may revise its procurement or other practices in a manner adverse to us.

The Federal Government may revise its procurement practices or adopt new contracting rules and regulations, such as cost accounting standards. It could also adopt new contracting methods relating to GSA contracts, GWACs or other government-wide contracts, or adopt new standards for contract awards intended to achieve certain social or other policy objectives, such as establishing new set-aside programs for small or minority-owned businesses. In addition, the Federal Government may face restrictions from new legislation or regulations, as well as pressure from government employees and their unions, on the nature and amount of services the Federal Government may obtain from private contractors. These changes could impair our ability to obtain new contracts or contracts under which we currently perform when those contracts are put up for recompetition bids. Any new contracting methods could be costly or administratively difficult for us to implement, and, as a result, could harm our operating results. For example, the Truthfulness, Responsibility and Accountability in Contracting Act, proposed in 2001, would have limited and severely delayed the Federal Government's ability to use private service contractors. Although this proposal was not enacted, it or similar legislation could be proposed at any time. Any reduction in the Federal Government's use of private contractors to provide federal information technology services could materially adversely impact our business.

Our contracts and administrative processes and systems are subject to audits and cost adjustments by the Federal Government, which could reduce our revenue, disrupt our business or otherwise adversely affect our results of operations.

Federal governmental agencies, including the Defense Contract Audit Agency, or DCAA, routinely audit and investigate government contracts and government contractors' administrative processes and systems. These agencies review our performance on contracts, pricing practices and cost structure. They also review our compliance with applicable laws, government regulations, policies and standards and the adequacy of our internal control systems and policies, including our purchasing, property, estimating, compensation and management information systems. Any costs found to be improperly allocated to a specific contract will not be reimbursed, and any such costs already reimbursed must be refunded. Moreover, if any of our administrative processes and systems are found not to comply with the applicable requirements, we may be subjected to increased government scrutiny or required to obtain additional governmental approvals that could delay or otherwise adversely affect our ability to compete

for or perform contracts. Therefore, an unfavorable outcome to an audit by the DCAA or another government agency, such as the Defense Security Service, or DSS, which verifies security compliance, could materially adversely affect our competitive position and result in a substantial reduction of our revenues. If a government investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or debarment from doing business with the Federal Government. In addition, we could suffer serious reputational harm if allegations of impropriety were made against us.

Failure to maintain strong relationships with other government contractors could result in a decline in our revenue.

We derived 15.7% of our total revenue in fiscal 2003 and 17.1% of our total revenue in fiscal 2002 from contracts under which we acted as a subcontractor or from "teaming" arrangements in which we and other contractors jointly bid on particular contracts or programs. As a subcontractor or team member, we often lack control over fulfillment of a contract, and poor performance on the contract could tarnish our reputation, even when we perform as required. We expect to continue to depend on relationships with other contractors for a portion of our revenue in the foreseeable future. Moreover, our revenue and operating results could be materially adversely affected if any prime contractor or teammate chooses to offer a client services of the type that we provide or if any prime contractor or teammate teams with other companies to independently provide those services.

The calculation of our backlog is subject to numerous uncertainties, and we may not receive the full amounts of revenue estimated under the contracts included in our backlog, which could reduce our revenue in future periods.

Backlog is our estimate of the amount of revenue we expect to realize over the remaining life of the awarded contracts and task orders we have in hand as of the measurement date. Our total backlog consists of funded and unfunded backlog. We define funded backlog as estimated future revenues under government contracts and task orders for which funding has been appropriated by Congress and authorized for expenditure by the applicable agency, plus estimated future revenues we expect to receive under signed purchase orders with commercial clients. Unfunded backlog is the difference between total backlog and funded backlog. Unfunded backlog reflects our estimate of future revenues under awarded government contracts and task orders for which either funding has not been appropriated or expenditures have not been authorized. Our total backlog does not include estimates of revenue from GWAC or GSA schedules beyond contract or task order awards, but our unfunded backlog does include estimates of revenue beyond contract or task order awards for other types of ID/IQ contracts, including our C4I2SR contract with the U.S. Air Force Space Command.

The calculation of backlog is highly subjective and is subject to numerous uncertainties and estimates, and there can be no assurance that we will in fact receive the amounts we have included in our backlog. Our assessment of a contract's potential value is based upon factors such as historical trends, competition and budget availability. In the case of contracts which may be renewed at the option of the applicable agency, we generally calculate backlog by assuming that the agency will exercise all of its renewal options; however, the applicable agency may elect not to exercise its renewal options. In addition, federal contracts typically are only partially funded at any point during their term, and all or some of the work to be performed under a contract may remain unfunded unless and until Congress makes subsequent appropriations and the procuring agency allocates funding to the contract. Our estimate of the portion of backlog from which we expect to recognize revenues in fiscal 2004 or any future period is likely to be inaccurate because the receipt and timing of any of these revenues is dependent upon subsequent appropriation and allocation of funding and is subject to various contingencies, such as timing of task orders, many of which are beyond our control. In addition, we may never receive revenues from some of the engagements that are included in our backlog and this

risk is greater with respect to unfunded backlog. The actual receipt of revenues on engagements included in backlog may never occur or may change because a program schedule could change, the program could be canceled, the governmental agency could elect not to exercise renewal options under a contract or could select other contractors to perform services, or a contract could be reduced, modified or terminated. We adjust our backlog on a quarterly basis to reflect modifications to or renewals of existing contracts or task orders, awards of new contracts or task orders, or approvals of expenditures. Additionally, the maximum contract value specified under a government contract or task order awarded to us is not necessarily indicative of the revenues that we will realize under that contract. We also derive revenues from ID/IQ contracts, which typically do not require the government to purchase a specific amount of goods or services under the contract other than a minimum quantity which is generally very small. If we fail to realize revenue included in our backlog, our revenues and operating results for the then current fiscal year as well as future reporting periods could be materially adversely affected.

Loss of our GSA contracts or GWACs would impair our ability to attract new business.

We are a prime contractor under several GSA contracts and GWAC schedule contracts. We believe that our ability to continue to provide services under these contracts will continue to be important to our business because of the multiple opportunities for new engagements each contract provides. If we were to lose our position as prime contractor on one or more of these contracts, we could lose substantial revenues and our operating results could suffer. GSA contracts and other GWACs typically have a one or two-year initial term with multiple options exercisable at the government client's discretion to extend the contract for one or more years. We cannot be assured that our government clients will continue to exercise the options remaining on our current contracts, nor can we be assured that our future clients will exercise options on any contracts we may receive in the future.

Risks Associated with International Operations.

Our international business exposes us to additional risks including exchange rate fluctuations, foreign tax and legal regulations and political or economic instability that could materially adversely affect our operating results.

In connection with our international operations (including international operations under U.S. government contracts), we are subject to risks associated with operating in and selling to foreign countries, including:

- devaluations and fluctuations in currency exchange rates;
- changes in or interpretations of foreign regulations that may adversely affect our ability to sell all of our products or repatriate profits to the United States;
- imposition of limitations on conversions of foreign currencies into dollars;
- imposition of limitations on or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries or joint ventures;
- compliance with the local labor laws of the countries in which we operate;
- hyperinflation or political instability in foreign countries;
- potential personal injury to our personnel who may be exposed to military conflict situations in foreign countries;
- imposition or increase of investment and other restrictions or requirements by foreign governments; and

- U.S. arms export control regulations and policies, which govern our ability to supply foreign affiliates and customers.

Although our international operations are not currently substantial, to the extent we expand our international operations, these and other risks associated with international operations are likely to increase. Although such risks have not harmed our operating results in the past, no assurance can be given that such risks will not materially adversely affect our operating results in the future.

If subcontractors on our prime contracts are able to secure positions as prime contractors, we may lose revenue.

For each of the past several years, as the GSA schedule contracts and GWACs have increasingly been used as contract vehicles, we have received substantial revenue from government clients relating to work performed by other information technology providers acting as subcontractors to us. In some cases, companies that have not held GSA schedule contracts or secured positions as prime contractors on GWACs have approached us in our capacity as a prime contractor, seeking to perform services as our subcontractor for a government client. Some of these providers that are currently acting as subcontractors to us may in the future secure positions as prime contractors upon renewal of the GSA schedule or a GWAC contract. If one or more of our current subcontractors are awarded prime contractor status in the future, it could reduce or eliminate our revenue for the work they were performing as subcontractors to us. Revenue derived from work performed by our subcontractors represented approximately 13% of our revenue for each of fiscal 2002 and 2003.

Risks Related to Our Business

We have incurred net losses in the past and our revenue and operating results could be volatile.

In fiscal 2003 and 2002, we had net income attributable to common stockholders of $7.4 million and $529,000, respectively. We incurred net losses attributable to common stockholders of $2.8 million and $2.3 million for fiscal 2001 and 2000, respectively. We cannot assure you that we will not incur net losses attributable to common stockholders in the future.

Our revenue and operating results may vary significantly from quarter to quarter. In particular, if the Federal Government does not pass, or delays passing, an appropriation act for each government fiscal year beginning on October 1, or fails to pass a resolution maintaining current funding levels until passage of an appropriation act, federal agencies may be forced to suspend our contracts, delay payments for work performed and delay the award of new and follow-on contracts and task orders due to a lack of funding. We are unable to predict the amount and timing of equipment purchases required by the U.S. Air Force Space Command C4I2SR contract. The timing of purchases under this contract affects our revenue and operating results, sometimes substantially, and we expect that these fluctuations will continue for the term of the contract. Further, the rate at which the Federal Government procures technology may be negatively affected depending on priorities of presidential administrations or senior government officials. Therefore, our historical operating results may not be a good indication of our future performance. Our quarterly operating results may not meet the expectations of securities analysts or investors, which in turn may have an adverse effect on the market price of our common stock. Our quarterly operating results may also fluctuate due to impairment of goodwill charges required by recent changes in accounting standards.

We may lose money or generate less than anticipated profits if we do not accurately estimate the cost of our performance under fixed price or time and materials contracts.

Some of our contracts require that we perform on a fixed price basis. We derived 26.6% of our total revenue in fiscal 2003 and 17.3% of our total revenue in fiscal 2002 from fixed price contracts. A fixed price contract generally provides that we will receive a specified price for our performance under the contract, regardless of the cost to us of such performance. This requires that we accurately estimate

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the cost that we will incur to perform our obligations under any contract at the time that we submit our proposal or offer to the applicable government agency. When making proposals for engagements on a fixed price basis, we rely on our estimates of costs and timing for completing the projects. These estimates are subject to numerous variables and uncertainties, and there can be no assurance that the costs of performing under any fixed price contract will not exceed, perhaps substantially, our estimates. Any increased or unexpected costs or unanticipated delays in connection with the performance of fixed price contracts, including costs and delays caused by factors outside our control, could make these contracts less profitable than anticipated or could cause us to incur losses, which could be substantial, on these contracts. In the past, we have from time to time incurred losses on some fixed price contracts and our profits on some fixed price contracts have been less than anticipated. Our operating results could be materially adversely affected if the actual costs of performing under these contracts exceed our estimates.

Many of our contracts are performed on a time and materials basis. A time and materials contract typically provides that we are paid a fixed hourly rate for direct labor costs expended and reimbursed for allowable materials, costs and expenses. We derived 35.1% of our total revenues in fiscal 2003 and 42.1% of our total revenues for fiscal 2002 from time and materials contracts. While time and materials contracts are

generally subject to less uncertainty than fixed price contracts, to the extent that our actual labor costs are higher than the contract rates, we may lose money on the contract.

Our margins and operating results may suffer if cost reimbursable contracts increase as a percentage of our total government contracts.

In general, cost reimbursable contracts are the least profitable of our government contracts. Our cost reimbursable contracts generally provide for reimbursement of costs, which are determined to be reasonable, allowable and allocable to the contract, as well as payment of a fee representing the profit margin negotiated between us and the contracting agency, which may be fixed or performance based. Our time and materials contracts generally are more profitable than our cost reimbursable contracts. Cost reimbursable contracts contributed 38.3% and 40.6% of our total revenues in fiscal 2003 and fiscal 2002, respectively. To the extent that cost reimbursable contracts represent an increased proportion of our total government contracts, our operating results could be materially adversely affected.

Our markets are highly competitive, and many of the companies we compete against have substantially greater resources.

We operate in highly competitive markets that include a large number of participants and involve intense competition to win contracts. Many of our competitors may compete more effectively than we can because they are larger, have greater financial and other resources, have better or more extensive relationships with government officials involved in the procurement process and have greater brand or name recognition. In order to stay competitive in our industry, we must attract and retain the highly skilled employees necessary to provide our services and keep pace with changing technologies and client preferences. In addition, some of our competitors have established alliances or strategic relationships among themselves or with third parties in order to increase their ability to address client needs. As a result, new competitors or alliances among competitors may emerge and compete more effectively than we can. There is also a significant industry trend towards consolidation which may result in the emergence of larger companies that may be better able to compete with us. If we are unable to compete effectively, our business could be materially adversely affected.

Our failure to attract and retain qualified employees, including our executive and senior management team, may adversely affect our business.

Our continued success depends to a substantial degree on our ability to recruit and retain the technically skilled personnel we need to serve our clients effectively. Our business involves the development of tailored technology solutions for our clients, a process that relies heavily upon the expertise and services of our employees. Competition for skilled personnel in the information technology services industry is intense, and technology service companies often experience high attrition among their skilled employees. Recruiting and training these employees require substantial resources. Our failure to attract and retain technical personnel could increase our costs of performing our contracts, reduce our ability to meet our clients' needs, limit our ability to win new business and constrain our ability to grow.

Certain types of services are subject to the Service Contract Act and the Davis-Bacon Act. These Acts require that the contractor pay to all personnel assigned to the contract at least the prevailing wage and fringe benefits, as established by and in accordance with the regulations promulgated by the U.S. Department of Labor. We have an established policy pursuant to which we evaluate RFP's that include Service Contract Act and Davis-Bacon Act requirements and, in the event of an award to us, ensure our compliance with these requirements.

Employees

As of December 27, 2003, we had over 1,300 employees. We have no unionized employees and do not have any collective bargaining agreements. However, we may pursue contracts that will require us to have unionized employees. We believe we have a good relationship with our employees. On January 21, 2004, we acquired Matcom and added approximately 600 employees.

In addition to attracting and retaining qualified technical personnel, we believe that our success will depend on the continued employment of our executive and senior management team and its ability to generate new business and execute projects successfully. We believe that the personal reputations of our management team members and the business relationships between individual members of our management team and governmental officials involved in the procurement process and related areas are critical elements of obtaining and maintaining client engagements in our industry, particularly with agencies performing classified operations. To create and maintain these client relationships, identify potential business opportunities and establish our reputation among our current and potential clients, we depend on our senior management team. The loss of any of our senior executives could cause us to lose client relationships or new business opportunities, which could materially adversely affect our business.

A substantial majority of our historical growth has been due to acquisitions and we may have difficulty identifying and executing future acquisitions on favorable terms, which may adversely affect our results of operations and stock price.

A substantial majority of our historical growth was the result of acquisitions, and the selective pursuit of acquisitions remains one of our key growth strategies. We cannot assure you that we will be able to identify and execute suitable acquisitions in the future on terms that are favorable to us, or at all.

We may encounter other risks in executing our acquisition strategy, including:

- increased competition for acquisitions which may increase the price of our acquisitions; and

- our failure to discover material liabilities during the due diligence process, including the failure of prior owners of any acquired businesses or their employees to comply with applicable laws or regulations such as the Federal Acquisition Regulation and health, safety, employment and environmental laws, or their failure to fulfill their contractual obligations to the Federal Government or other clients.

In connection with any future acquisitions, we may decide to consolidate the operations of any acquired business with our existing operations or to make other changes with respect to the acquired business, which could result in special charges or other expenses. Our results of operations also may be adversely affected by expenses we incur in making acquisitions and, in the event that any goodwill resulting from present or future acquisitions is found to be impaired, by goodwill impairment charges. As of December 27, 2003, we had approximately $39.8 million of goodwill resulting from acquisitions on our balance sheet and, to the extent we make future acquisitions, the amount of goodwill could increase, perhaps substantially. Any of the businesses we acquire may also have liabilities or adverse operating issues.

In addition, our ability to make future acquisitions may require us to obtain additional financing and we may be materially adversely affected if we cannot obtain additional financing for any future acquisitions. To the extent that we seek to acquire other businesses in exchange for our common stock, fluctuations in our stock price could have a material adverse effect on our ability to complete acquisitions and the issuance of common stock to acquire other businesses could be dilutive to our stockholders. To the extent that we use borrowings to acquire other businesses, our debt service obligations could increase substantially and relevant debt instruments may, among other things, impose additional restrictions on our operations, require us to comply with additional financial covenants or require us to pledge additional assets to secure our borrowings.

We may have difficulty integrating the operations of any companies we acquire, which may adversely affect our results of operations.

The success of our acquisition strategy will depend upon our ability to successfully integrate any businesses we may acquire in the future. The integration of these businesses into our operations may result in unforeseen events or operating difficulties, absorb significant management attention and require significant financial resources that would otherwise be available for the ongoing development of our business. These integration difficulties could include the integration of personnel with disparate business backgrounds, the transition to new information systems, coordination of geographically dispersed organizations, loss of key employees of acquired companies and reconciliation of different corporate cultures. For these or other reasons, we may be unable to retain key clients or to retain or renew contracts of acquired companies. Moreover, any acquired business may fail to generate the revenue or net income we expected or produce the efficiencies or cost-savings that we anticipated. Any of these outcomes could materially adversely affect our operating results.

If we are unable to manage our growth, our business may be adversely affected.

Sustaining our growth has placed significant demands on our management, as well as on our administrative, operational and financial resources. If we continue to grow, we must improve our operational, financial and management information systems and expand, motivate and manage our workforce. If we are unable to do so, or if new systems that we implement to assist in managing any future growth do not produce the expected benefits, our business, prospects, financial condition or operating results could be materially adversely affected.

Systems failures may disrupt our business and have an adverse effect on our results of operations.

Any systems failures, including failure of network, software or hardware systems, whether caused by us, a third-party service provider, unauthorized intruders and hackers, computer viruses, natural disasters, power shortages or terrorist attacks, could cause loss of data and interruptions or delays in our business or that of our clients. In addition, the failure or disruption of mail, communications or utilities could cause us to interrupt or suspend our operations or otherwise harm our business. Our property and business interruption insurance may be inadequate to compensate us for losses that may occur as a result of any system or operational failure or disruption, and insurance to cover these types of risks

may not be available in the future on terms that we consider acceptable, if at all.

The systems and networks that we maintain for our clients, although redundant in their design, could also fail. If a system or network we maintain were to fail or experience service interruptions, we might experience loss of revenue or face claims for damages or contract termination. Our liability insurance may be inadequate to compensate us for damages that we might incur and liability insurance to cover these types of risks may not be available in the future on terms that we consider acceptable, or at all.

If our subcontractors fail to perform their contractual obligations, our performance as a prime contractor and our ability to obtain future business could be materially and adversely impacted.

Approximately 13% of our total revenue in each of fiscal 2003, fiscal 2002 and fiscal 2001 was generated by work performed by subcontractors who perform a portion of the work we are obligated to deliver to our clients. A failure by one or more of our subcontractors to satisfactorily deliver on a timely basis the agreed-upon supplies and/or perform the agreed-upon services may materially and adversely affect our ability to perform our obligations as a prime contractor. In extreme cases, a subcontractor's performance deficiency could result in the Federal Government terminating our contract for default. A default termination could expose us to liability for excess costs of reprocurement by the government and have a material adverse effect on our ability to compete for future contracts and task orders.

Our indebtedness and debt service obligations may increase substantially and we will be subject to restriction under debt instruments.

As of February 20, 2004, we had approximately $49 million of debt outstanding under our credit facility. Contemporaneously with the closing of our acquisition of Matcom on January 21, 2004, we amended and restructured our prior credit facility and increased the borrowing capacity to $80 million, which consists of both revolving credit and term loans. Borrowings available under our amended credit facility were used as part of the acquisition of Matcom and will also be used to finance our future business needs, including acquisitions, when and if we identify suitable acquisition targets. Our leverage may increase as a result of any future acquisitions and, accordingly, the amount of our indebtedness will likely increase, perhaps substantially.

Our indebtedness could have significant negative consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring that a substantial portion of our cash flow from operations be applied to pay our debt service obligations, thus reducing cash available for other purposes;
- limiting our flexibility in planning for or reacting to changes in our business or in the industry in which we compete; and
- placing us at a possible disadvantage compared to our competitors with less leverage or better access to capital.

Our credit facility bears interest at variable rates based upon prevailing market interest rates, which exposes us to the risk of increased interest rates. Also, our credit facility requires that we comply with various financial covenants and impose restrictions on us, including restrictions on, among other things, our ability to incur additional indebtedness or liens, make acquisitions and pay dividends on our capital stock.

Our ability to make scheduled payments of the principal of, to pay interest on, or to refinance, our debt will depend primarily on our future performance, which to a certain extent is subject to the economic, financial, competitive and other factors beyond our control. There can be no assurance that our business will continue to generate sufficient cash flow from operations in the future to service our debt or meet our other cash needs. If we are unable to generate this cash flow from our business, we may be required to refinance all or a portion of our existing debt, sell assets or obtain additional financing to meet our debt obligations and other cash needs. We cannot assure you that any such refinancing, sale of assets or additional financing would be possible on terms that we would find acceptable.

If we fail to comply with the financial covenants in our new credit facility, our lenders may exercise remedies, including requiring immediate repayment of all outstanding amounts. The financial covenants in our new credit facility include the following:

- a leverage ratio that requires us to maintain a ratio of funded debt to consolidated EBITDA for such period, on a consolidated basis for the twelve month period ending on the last day of any fiscal quarter, of no more than 3.00 to 1.0 through September 30, 2004, 2.75 to 1.0 from October 1, 2004 through September 30, 2005, and 2.50 to 1.0 from October 1, 2005 and thereafter;

- a fixed charge coverage ratio that requires us to maintain a ratio, on a consolidated basis for the twelve month period ending on the last day of any fiscal quarter, of (i) consolidated EBITDA less consolidated capital expenditures for such period, to (ii) the sum of consolidated interest expense plus scheduled funded debt payments plus cash taxes for such period, of greater than or equal to 1.10 to 1.0;

- the amount of consolidated capital expenditures made in cash during any fiscal year is limited to 2.00% of consolidated gross revenues plus the unused portion on consolidated capital expenditures that would have been permitted in the previous fiscal year in an amount not to exceed $1,000,000; and

- the amount of consolidated net worth must be equal to or greater than the sum of (i) $69,000,000, (ii) on a cumulative basis as of the end of each fiscal quarter beginning with the quarter ending March 31, 2004, 50% of consolidated net income for the fiscal quarter then ended, and (iii) 100% of the net cash proceeds from any equity issuance occurring after January 21, 2004.

The borrowings and other amounts due under our new credit facility are secured by substantially all of our current and future tangible and intangible assets, including accounts receivable, inventory and capital stock of our existing or future subsidiaries. Our ability to obtain other debt financing may therefore be adversely affected because the lenders under our new credit facility will have a prior lien on our assets to secure amounts we owe to them. In addition, upon the occurrence of specified events of default under the new credit facility, the lenders would be entitled to demand immediate repayment of all borrowings and other amounts outstanding under the facility and to realize upon the collateral pledged under the facility to satisfy our obligations to them.

The credit facility also requires us to comply with certain covenants, including, among others, provisions:

- relating to the maintenance of our assets securing the debt;
- restricting our ability to pledge assets or create other liens;
- restricting our ability to incur additional debt beyond certain levels and in certain circumstances;
- restricting our ability to make certain distributions, investments and restricted payments, including dividend payments on our equity securities;
- restricting our ability to alter the conduct of our business or corporate existence;
- restricting our ability to amend, modify, cancel, terminate or fail to renew material contracts;
- restricting our ability to enter into transactions with affiliates;
- restricting our ability to consolidate, merge, or sell our assets;
- restricting our ability to purchase property or assets other than in the ordinary course of business; and
- restricting our ability to amend, modify or change our organizational documents, including our charter and bylaws.

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Risks Related to Our Common Stock and any Offering Made Pursuant to a Registration Statement

Ownership of our stock is concentrated and this small group of stockholders may exercise substantial control over our actions.

Based on shares outstanding as of February 20, 2003, investment partnerships and a limited liability company managed by Frontenac Company beneficially own approximately 33.0% of our outstanding common stock, and our officers and directors beneficially own, in the aggregate, approximately 40.7% of our outstanding stock. The percentage of our shares owned by our directors and officers as set forth in the preceding sentence includes the shares owned by partnerships and a limited liability company managed by Frontenac Company because two of our directors are affiliates of Frontenac Company and are therefore deemed to beneficially own those shares. These stockholders, if acting together, have the ability to substantially influence the election of directors and other corporate actions. In addition, these partnerships and this limited liability company, if acting together, also have the ability to substantially influence the election of directors and other corporate actions. This concentration of ownership may also have the effect of delaying or preventing a change in our control.

Our management could apply the proceeds of any offering made pursuant to a registration statement to uses that do not increase our market value or improve our operating results.

We intend to apply the net proceeds from any offering made pursuant to a registration statement to repay debt, to acquire other business and technologies and for working capital and other general corporate purposes. We have not reserved or allocated the net proceeds for any specific purpose, and we cannot state with certainty how our management will use the net proceeds. Accordingly, our management will have considerable discretion in applying the net proceeds. We may use the net proceeds for purposes that do not result in any increase in our market value or improve our results of operations.

Provisions of our charter and bylaws and Delaware law make a takeover of our company more difficult.

Our basic corporate documents and Delaware law contain provisions that might enable our management to resist an attempt to take over our company. For example, our board of directors can issue shares of common stock and preferred stock without stockholder approval, and the board could issue stock to dilute and adversely affect various rights of a potential acquiror. Other provisions of our charter and bylaws that could deter or prevent a third party from acquiring us include:

- the division of our board of directors into three separate classes serving staggered three-year terms;
- the absence of cumulative voting in the election of our directors, which means that the holders of a majority of the voting power of our outstanding capital stock have the power to elect all of our directors;
- limitations on the ability of our stockholders to remove directors and the provisions requiring that vacancies in our board of directors must be filled by the remaining directors;
- prohibitions on our stockholders from acting by written consent or calling special meetings; and
- procedures for advance notification of stockholder nominations.

We are subject to Section 203 of the Delaware General Corporation Law that, subject to exceptions, would prohibit us from engaging in any business combination with any interested stockholder, as defined in that section, for a period of three years following the date on which that stockholder became an interested stockholder.

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The board could use these and other provisions to discourage, delay or prevent a change in the control of our company or a change in our management. These provisions might also discourage, delay or prevent an acquisition of our company at a price that you may find attractive. These provisions could also make it more difficult for you and our other stockholders to elect directors and take other corporate actions and could limit the price that investors might be willing to pay for shares of our common stock.

Future sales of shares of our common stock and the resulting dilution that would occur with such sales could cause the market price of our common stock to decline.

Sales of a substantial number of shares of common stock in the public market in the course of any offering made pursuant to a registration statement, including any subsequent registration statement, or the perception that such sales could occur, could materially adversely affect the market price of our common stock and make it more difficult for us to sell equity securities in the future at a time and price we deem appropriate. As of February 20, 2004, we had 8,459,422 shares of common stock outstanding.

Item 2. Properties

As of December 27, 2003, we leased 10 offices and 1 warehouse at various U.S. locations for an aggregate of approximately 247,700 square feet in 5 states. Following the acquisition of Matcom on January 21, 2004, our leased space consists of 24 offices and 2 warehouses at various U.S. locations for an aggregate of approximately 329,300 square feet in 13 states. This includes 3 offices (8,750 square feet) that are sub-leased through the remaining term of our primary leases.

Our corporate offices are located at 12012 Sunset Hills Road, Reston, Virginia in approximately 68,000 square feet of leased space. Our other major offices are located in Colorado Springs, Colorado, Rockville, Maryland, and Arlington, Virginia. Our Colorado Springs properties consist of approximately 68,000 square feet under a lease that expires in November 2005 and approximately 35,000 square feet under a lease that expires in April 2006. Our Rockville office consists of approximately 24,000 square feet under a lease expiring in November 2011. Our Arlington office consists of approximately 14,100 square feet under a lease that expires in December 2012. In addition, we have employees who work on engagements at other smaller operating locations around the United States.

All of our offices are in new, or reasonably modern, well-maintained buildings. The facilities are substantially utilized and are adequate for present operations. We do not own any real estate or improvements.

Item 3. Legal Proceedings

We are a party to other litigation and legal proceedings that we believe to be a part of the ordinary course of our business. While we cannot predict the ultimate outcome of these matters, we currently believe, based upon information available to us as of the date of this filing, that any ultimate liability arising out of these proceedings will not have a material adverse effect on our financial position. We may become involved in other legal and governmental, administrative or contractual proceedings in the future.

Item 4. Submission of Matters To a Vote of Security Holders

The Company had no matters submitted to stockholders for their consideration during the fourth quarter ended December 27, 2003.

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PART II

Item 5. Market for the Company's Common Equity and Related Stockholder Matters

Since November 12, 2002, SI International's common stock has been publicly traded on the Nasdaq National Market under the symbol "SINT." Prior to November 12, 2002, SI International's common stock was not publicly traded. The high and low sales prices of SI International's common stock for the time period indicated below, as reported by the Nasdaq National Market, were:

	High	Low
Year ended December 28, 2002:		
Fourth Quarter (from November 12, 2002)	$ 14.20	$ 10.20

	High	Low
Year ended December 27, 2003:		
First Quarter	$ 12.38	$ 6.75
Second Quarter	$ 13.23	$ 7.47
Third Quarter	$ 19.89	$ 12.45
Fourth Quarter	$ 20.90	$ 14.25

As of February 24, 2004, there were approximately 48 holders of record of SI International's common stock. As of February 24, 2004, the closing price of SI International's common stock was $22.08.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain earnings, if any, to support our growth strategy and do not anticipate paying cash dividends in the foreseeable future.

Use of Proceeds

We are furnishing the following information with respect to the use of proceeds from our initial public offering of common stock, $0.01 par value per share, which closed in November 2002. The effective date of the Registration Statement on Form S-1 for the offering was November 8, 2002, and the commission file number of the Registration Statement is 333-87964. The offering commenced on November 12, 2002. The offering terminated on November 15, 2002. All of the shares of common stock registered for our account were sold prior to the termination of the offering. The managing underwriters for the offering were Wachovia Securities, Inc, Legg Mason Wood Walker, Incorporated, and BB&T Capital Markets, a Division of Scott & Stringfellow, Inc. We registered 4,350,000 shares of our common stock, $0.01 par value per share, in the offering. The aggregate offering price of the shares registered and sold by us was $53.9 million.

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The actual expenses incurred for our account in connection with the offering were as follows:

Underwriting Fees	$ 3,773,000
Offering Related Expenses	77,064
SEC registration fee	10,836
NASD listing and filing fee	113,238
Printing and engraving costs	304,755
Legal fees and expenses	1,284,236
Accounting fees and expenses	842,000
Directors & Officers Liability Insurance	334,000
Blue Sky fees and expenses	50,000
Miscellaneous expenses	41,298
Total	$ 6,830,427

Payment of expenses were directly made to persons or entities other than our directors, officers, general partners or their associates, persons owning 10% or more of our equity securities, or our affiliates.

Our net offering proceeds after expenses were approximately $47,069,573. From November 15, 2002 until December 28, 2002 we used $31.1 million to repay outstanding borrowings under our credit facility, $10.1 million to repay loans directly received from several of our stockholders, and $1.4 million to repurchase outstanding warrants. The remaining proceeds, approximately $4.5 million, were used as a part of the source of funds for the acquisition of Matcom in January 2004.

Item 6. Selected Financial Data

The selected financial data presented below for our 2003, 2002 and 2001 fiscal years, and as of the end of our 2003 and 2002 fiscal years, are derived from our audited consolidated financial statements included in this Form 10-K. The selected financial data presented below for our 2000 and 1999 fiscal years, and as of the end of our 2001, 2000 and 1999 fiscal years are derived from our audited consolidated financial statements not included in this Form 10-K. You should read the selected financial data presented below in conjunction with the consolidated financial statements, the notes to the consolidated financial statements and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-K. Our fiscal year is based

on the calendar year and ends each year on the Saturday closest to December 31 of that year. All fiscal years shown below include 52 weeks.

	Fiscal Year				
	SI International, Inc.				
	2003	2002	2001	2000	1999
	(dollars in thousands, except per share data)				
Statement of Operations Data:					
Revenue	$ 168,287	$ 149,351	$ 146,583	$ 120,580	$ 33,891
Costs and expenses:					
Direct costs	101,940	91,240	87,071	71,868	20,731
Indirect costs	51,569	49,404	49,495	40,509	11,646
Depreciation	2,009	1,988	1,653	992	198
Amortization			3,586	3,088	517
Total operating expenses	155,518	142,632	141,805	116,457	33,092
Income from operations	12,769	6,719	4,778	4,123	799
Other income (expense)				(157)	2
Interest expense	(606)	(3,319)	(3,451)	(4,023)	(419)
Minority interests		(118)	(144)		
Change in fair value of put warrants		640	(1,255)	(265)	
Income (loss) before provision for income taxes	12,163	3,922	(72)	(322)	382
Provision for income taxes	4,784	1,439	657	424	271
Net income	7,379	2,483	(729)	(746)	111
Dividends on redeemable cumulative preferred stock		1,954	2,052	1,505	251
Net income (loss) attributable to common stockholders	$ 7,379	$ 529	$ (2,781)	$ (2,251)	$ (140)
Earnings (loss) per common share:					
Basic earnings (loss) per share	$ 0.87	$ 0.16	$ (1.06)	$ (0.86)	$ (0.06)
Diluted earnings (loss) per share	0.87	(0.03)	(1.06)	(0.86)	(0.06)
Balance Sheet Data (at period end):					
Cash and cash equivalents	$ 23,252	$ 10,856	$ 470	$ 198	$ 218
Working capital	39,708	29,937	16,103	9,599	(4,258)
Total assets	106,627	92,315	80,461	82,970	31,380
Total debt, including capital lease obligations	530	658	40,082	39,595	14,559
Total stockholders' equity (deficit)	81,547	73,977	(2,431)	350	2,601

	Fiscal Year				
Other Financial Data:					
EBITDA(1)	$ 14,778	$ 8,707	$ 10,017	$ 8,046	$ 1,516
Capital expenditures	1,291	1,653	2,577	1,884	267
Net cash provided by (used in) operations	16,079	5,680	1,697	(874)	(116)
Net cash used in investing activities	(1,291)	(1,653)	(2,577)	(36,215)	(16,701)
Net cash provided by (used in) financing activities	(2,392)	6,359	1,152	37,069	16,931

(1) EBITDA is defined as GAAP net income (loss) plus interest expense, income taxes, depreciation and amortization, change in the value of put warrants and minority interest.

(2) EBITDA as calculated by us may be calculated differently than EBITDA for other companies. We have provided EBITDA because we believe it is a commonly used measure of financial performance in comparable companies and is provided to help investors evaluate companies on a consistent basis, as well as to enhance an understanding of our operating results. EBITDA should not be construed as either:

- an alternative to net income (loss), as an indicator of our operating performance; or
- as an alternative to cash flows as a measure of liquidity.

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

The following discussion and analysis should be read in conjunction with the "Selected Consolidated Financial Data" and the consolidated financial statements and related notes included elsewhere in this Form 10-K. This discussion and analysis contains forward-looking statements that involve known and unknown risks, uncertainties, and other factors that may cause our actual results, level of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "should," "will," and "would" or similar words. You should read statements that contain these words carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward-looking information. We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to predict accurately or control. In particular, statements that we make in this section relating to the sufficiency of anticipated sources of capital to meet our cash requirements are forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including as a result of some of the factors described below, in "Item 1-Business-Risk Factors" and elsewhere in this Form 10-K. You should not place undue reliance on these forward-looking statements, which apply only as of the date of the filing of this Form 10-K.

Backlog is our estimate of the amount of future revenue we expect to realize over the remaining life of awarded contracts and task orders as of the measurement date. Accordingly, all statements regarding the amount of our backlog are forward-looking statements and are subject to the risks and uncertainties referred to above and elsewhere in this Form 10-K.

Our fiscal year is based on a calendar year and ends each year on the Saturday closest to December 31 of that year. As a result, our fiscal year may be comprised of 52 or 53 weeks. Our 2003, 2002 and 2001 fiscal years each had 52 weeks.

Overview

During the past year, SI International experienced growth in our key focus areas. Department of Defense as a customer concentration has continued to grow more rapidly which can be attributed to two primary drivers. The DoD budget was approved well before its civilian budget counterparts, and the push for defense transformation increased. The DoD budget imperative has been a catalyst for early adoption of the defense appropriation legislation and a smoother allocation of the associated funding. This process has allowed our customers to effectively

execute their IT and Network Solution plans. Our view of the next three to five years is consistent with the pattern established in 2002 and 2003.

Virtually all of the DoD efforts in which SI International is engaged either directly support or are closely related to DoD Transformation goals. However, we will continue to segment our focus areas in terms of Homeland Defense, IT Modernization, Mission-critical Outsourcing, and Defense Transformation. It is important that we reflect our customer's evolving priorities through our characterization of the programs in each focus area.

We are, first and foremost, a provider of information technology and network solutions to the Federal Government. Our clients include the U.S. Air Force Space Command, U.S. Army, the Department of State, the Immigration and Naturalization Service, which has now transitioned to become the Bureau of Citizenship and Immigration Services in the Department of Homeland Security, and the intelligence community. The addition of Matcom will allow us to continue to support our existing customer base, while strengthening our position with the US Army, US Navy, US Air Force Electronic Systems Center, and US Department of Agriculture, and opening new client relationships

with the Federal Retirement Thrift Investment Board, and National Institutes of Health. We combine our technology and industry expertise to provide a full spectrum of state-of-the-practice solutions and services, from design and development to implementation and operations, which assist our clients in achieving mission success.

In fiscal 2003 and fiscal 2002, we received 93.7% and 92.9%, respectively, of our revenues from services we provided to various departments and agencies of the Federal Government, both directly and through other prime contractors, and 6.3% and 7.1%, respectively, of our total revenues from work performed for commercial entities. The following table shows our revenues from the client groups listed as a percentage of total revenue. Revenue data for the Department of Defense includes revenue generated from work performed under engagements for both the Department of Defense and the intelligence community.

	Fiscal Year		
	2003	**2002**	**2001**
Department of Defense	54.5%	49.0%	45.0%
Federal civilian agencies	39.2%	43.9%	43.4%
Commercial entities	6.3%	7.1%	11.6%
Total revenue	100.0%	100.0%	100.0%

As a result of the acquisition of Matcom, the percentage of our revenues attributable to the Department of Defense may decrease marginally, the percentage of our revenue attributable to federal civilian agencies may marginally increase, and the percentage of our revenue attributable to commercial entities, including international operations, may decrease marginally.

We have derived a substantial majority of our revenues from governmental contracts under which we act as a prime contractor. We also provide services indirectly as a subcontractor. We intend to focus on retaining and increasing the percentage of our business as prime contractor because it provides us with stronger client relationships. The following table shows our revenues as prime contractor and as subcontractor as a percentage of our total revenue for the following periods:

	Fiscal Year		
	2003	**2002**	**2001**
Prime contract revenue	84.3%	82.9%	82.1%
Subcontract revenue	15.7%	17.1%	17.9%
Total revenue	100.0%	100.0%	100.0%

As a result of the acquisition of Matcom, we believe the percentage of our prime contract revenue may decrease slightly.

Our services are provided under three types of contracts: cost reimbursable, time and materials and fixed price contracts. The following table shows our revenues from each of these types of contracts as a percentage of our total revenue for the following periods:

	Fiscal Year		
	2003	2002	2001
Cost reimbursable	38.3%	40.6%	39.7%
Time and materials	35.1%	42.1%	41.4%
Fixed price	26.6%	17.3%	18.9%
Total	100.0%	100.0%	100.0%

As a result of the acquisition of Matcom, we anticipate that during fiscal year 2004 that the percentage of our revenue attributable to time and materials contracts may increase meaningfully, that the percentage of our revenue attributable to fixed price contracts may decrease slightly, and that the percentage of our revenue attributable to cost reimbursable contracts may decrease meaningfully.

Under cost reimbursable contracts, we are reimbursed for costs that are determined to be reasonable, allowable and allocable to the contract, and paid a fee representing the profit margin negotiated between us and the contracting agency, which may be fixed or performance based. Under cost reimbursable contracts we recognize revenues and an estimate of applicable fees earned as costs are incurred. We consider fixed fees under cost reimbursable contracts to be earned in proportion to the allowable costs incurred in performance of the contract. For performance-based fees under cost reimbursable contracts, we recognize the relevant portion of the expected fee to be awarded by the client at the time such fee can be reasonably estimated, based on factors such as our prior award experience and communications with the client regarding performance. In general, cost reimbursable contracts are the least profitable of our government contracts.

Under time and materials contracts, we are reimbursed for labor at fixed hourly rates and generally reimbursed separately for allowable materials, costs and expenses. To the extent that our actual labor costs under a time and materials contract are higher or lower than the billing rates under the contract, our profit under the contract may either be greater or less than we anticipated or we may suffer a loss under the contract. We recognize revenues under time and materials contracts by multiplying the number of direct labor hours expended by the contract billing rates and adding the effect of other billable direct costs. In general, we realize a higher profit margin on work performed under time and materials contracts than cost reimbursable contracts.

Under fixed price contracts, we perform specific tasks for a fixed price. Compared to cost reimbursable and time and materials contracts, fixed price contracts generally offer higher profit margin opportunities but involve greater financial risk because we bear the impact of cost overruns in return for the full benefit of any cost savings. We generally do not undertake complex, high-risk work, such as long-term software development, under fixed price terms. Fixed price contracts may include either a product delivery or specific service performance over a defined period. Revenue on fixed price contracts that provide for the Company to render services throughout a period is recognized as earned according to contract terms as the service is provided on a proportionate performance basis. While a substantial number of these contracts are generally less than six months in duration, we have several multi-year contracts of this type in which the customer has the option to extend the contractual term beyond the current term.

If we anticipate a loss on a contract, we provide for the full amount of anticipated loss at the time of that determination.

Our most significant expense is direct cost, which consists primarily of direct labor costs for program personnel and direct expenses incurred to complete contracts, including cost of materials and subcontract efforts. Our ability to predict accurately the number and types of personnel, their salaries, and other costs, can have a significant impact on our direct cost.

The allowability of certain direct and indirect costs in federal contracts is subject to audit by the client, usually through the DCAA. Certain indirect costs are charged to contracts and paid by the client using provisional, or estimated, indirect rates, which are subject to later revision, based on the government audits of those costs.

Approximately 36.0% of our revenue recognized during fiscal 2003 was derived from contracts that we expect will become subject to competitive bids prior to the end of government fiscal 2004. As a result of the acquisition of Matcom, we believe the percentage of our revenue subject to competitive bids prior to the end of the government fiscal year will decrease. We actively monitor our relationships

with our clients during our engagements, as well as the quality of the service we provide, to assist in our efforts to win recompetition bids. In addition, we strive to maintain good relationships with a wide variety of government contractors.

Recent Events

On January 21, 2004, we completed the purchase of Matcom, a provider of information technology, systems engineering, logistics, and training. The acquisition supports our strategic growth plan to expand into new vertical markets and enhance the portfolio of capabilities we provide to the Federal Government. Under the terms of the agreement, SI International acquired Matcom for $65.8 million in cash. The transaction also includes an earnout provision of $7.9 million in the form of SI International subordinated notes if Matcom achieves certain short-term revenue objectives. The transaction was funded through cash-on-hand and borrowings under the company's credit facility, which has been increased to $80 million.

Results of Operations

The following table sets forth certain items from our consolidated statements of operations as a % of revenues for the periods indicated.

	Fiscal Year		
	2003	**2002**	**2001**
Revenue	100.0%	100.0%	100.0%
Costs and expenses:			
Direct costs	60.6	61.1	59.4
Indirect costs	30.6	33.1	33.8
Depreciation	1.2	1.3	1.1
Amortization	0.0	0.0	2.4
Total operating expenses	92.4	95.5	96.7
Income from operations	7.6	4.5	3.3
Interest expense	(0.4)	(2.2)	(2.4)
Minority interests	0.0	(0.1)	(0.1)
Change in fair value of put warrants	0.0	0.4	(0.8)
Income (loss) before provision for income taxes	7.2	2.6	
Provision for income taxes	2.8	1.0	0.5
Net income (loss)	4.4%	1.6%	(0.5)%

Fiscal year 2003 compared with fiscal year 2002

Revenue. For the fiscal year ended December 27, 2003, our revenues increased 12.7% to $168.3 million from $149.4 million for the same period in 2002. Revenues from work under Federal Government contracts increased 13.6% to $157.7 million from $138.8 million for the same period in 2002. This increase was attributable to new contract awards, successful recompetition wins on existing programs and growth within existing programs in our four focus areas: Federal IT Modernization, Defense Transformation, Homeland Defense, and Mission-Critical Outsourcing. Commercial and other revenues decreased 0.9% to $10.6 million in 2003 from $10.6 million in 2002. This decrease was attributable to our continued focus on opportunities for the Federal Government.

Direct costs. Direct costs include direct labor and other direct costs such as materials and subcontracts. Generally, changes in direct costs are correlated to changes in revenue as resources are

consumed in the production of that revenue. For fiscal 2003, direct costs increased 11.7% to $101.9 million from $91.2 million for fiscal 2002. This increase was attributable primarily to the increase in revenue. As a percentage of revenue, direct costs were 60.6% for fiscal 2003 as compared to 61.1% for fiscal 2002.

Indirect costs. Indirect costs include facilities, selling, bid and proposal, indirect labor, fringe benefits and other discretionary costs. For fiscal 2003, indirect costs increased 4.4% to $51.6 million from $49.4 million for the same period in 2002. This $2.2 million increase was primarily attributable to the expected growth of support functions necessary to facilitate and administer the growth in direct costs.

Depreciation. For fiscal 2003, depreciation increased by 1.1% to $2.01 million from $1.99 million for the same period in 2002. As a percentage of revenue, depreciation was 1.2% for fiscal 2003 as compared to 1.3% for the same period in fiscal 2002.

Amortization. In compliance with SFAS 142, Goodwill and Other Intangible Assets, we discontinued the amortization of goodwill effective December 30, 2001. Accordingly, there was no amortization for the fiscal years ended December 27, 2003 and December 28, 2002.

Income from operations. For fiscal 2003, income from operations increased 90.0% to $12.8 million from $6.7 million for the same period in 2002. This increase was attributable primarily to the decrease of both direct and indirect costs as a percentage of revenue. As a percentage of revenue, income from operations was 7.6% for fiscal 2003 as compared to 4.5% in fiscal 2002. We anticipate continued improvement in our operating margin.

Interest expense. For fiscal 2003, interest expense declined 81.7% to $0.6 million from $3.3 million for the same period in 2002. This decline was attributable primarily to the repayment of debt following our initial public offering in November 2002. As a percentage of revenue, interest expense was 0.4% for fiscal 2003 as compared to 2.2% for the same period in fiscal 2002. We anticipate an increase in interest expense in fiscal year 2004 due to amounts borrowed under our current credit facility, which was made in connection with the acquisition of Matcom.

Provision for income taxes. The provision for income tax was $4.8 million in fiscal 2003, compared to a provision of $1.4 million for the comparable period in 2001. Our fiscal year 2003 tax provision represents an effective tax rate of 39.3%. Our fiscal 2002 tax provision represents an effective tax rate of 36.7%. Our effective tax rate is greater than the federal statutory rate of 34% due primarily to state income tax rates.

Dividends. For fiscal year 2003, dividends on cumulative preferred stock decreased to $0 from $2.0 million for fiscal year 2002. This decrease was attributable to the conversion of preferred stock to common stock on November 12, 2002 in connection with our initial public offering.

Fiscal year 2002 compared to fiscal year 2001

Revenue. For the fiscal year ended December 28, 2002, our revenues increased 1.9% to $149.4 million from $146.6 million for the same period in 2001. Revenues from work under Federal Government contracts increased 7.1% to $138.8 million from $129.6 million for the same period in 2001. This increase was attributable primarily to an increase in our Information Technology and Network Solutions services provided to our Federal Government customers. As anticipated, commercial and other revenues decreased 37.6% to $10.6 million in 2002 from $17.0 million in 2001. This decrease was attributable to our continuing de-emphasis of marketing activities in the commercial sector. The decrease in our commercial work was largely the result of decreased spending by our customers in the commercial telecom market and the petroleum reservoir modeling business. Consistent with our

decision in June 2002 to merge SI Telecom back into SI International and our decision to de-emphasize our petroleum business, we have concentrated on our core Federal Government contracting business.

Direct costs. Direct costs include direct labor and other direct costs such as materials and subcontracts. Generally, changes in direct costs are correlated to changes in revenue as resources are consumed in the production of that revenue. For fiscal 2002, direct costs increased 4.7% to $91.2 million from $87.1 million for fiscal 2001. This increase was attributable primarily to the increase in revenue. As a percentage of revenue, direct costs were 61.1% for fiscal 2002 as compared to 59.4% for fiscal 2001.

Indirect costs. Indirect costs include facilities, selling, bid and proposal, indirect labor, fringe benefits and other discretionary costs. For fiscal 2002, indirect costs decreased 0.2% to $49.4 million from $49.5 million for the same period in 2001. Indirect costs were 33.1% of revenues for fiscal 2002 as compared to 33.8% of revenues for the same period in 2001.

Depreciation. For fiscal 2002, depreciation increased 17.7% to $2.0 million from $1.7 million for the same period in 2001. This increase was attributable primarily to our investment to modernize and standardize our information technology infrastructure to support future growth. As a percentage of revenue, depreciation was 1.3% for fiscal 2002 as compared to 1.1% for the same period in fiscal 2001.

Amortization. In compliance with SFAS 142, Goodwill and Other Intangible Assets, we discontinued the amortization of goodwill effective December 30, 2001. Accordingly, there was no amortization for the fiscal year ended December 28, 2002 compared to $3.6 million for the same period in fiscal 2001.

Income from operations. For fiscal 2002, income from operations increased 39.6% to $6.7 million from $4.8 million for the same period in 2001. This increase was attributable primarily to the discontinuance of goodwill amortization, partially offset by the increase in direct costs as described above. As a percentage of revenue, income from operations was 4.5% for fiscal 2002 as compared to 3.3% for the same period in fiscal 2001.

Interest expense. For fiscal 2002, interest expense declined 3.8% to $3.3 million from $3.5 million for the same period in 2001. This decline was attributable primarily to the significant decline in interest rates and repayment of debt, partially offset by the $0.5 million charge for the early termination of our previous credit facility as required under the terms of that credit facility as part of our initial public offering in November 2002. As a percentage of revenue, interest expense was 2.2% for fiscal 2002 as compared to 2.4% for the same period in fiscal 2001.

Provision for income taxes. The provision for income taxes increased from $0.7 million in fiscal 2001 to $1.4 million in fiscal 2002. Our fiscal 2002 and 2001 tax provision represents an effective tax rate, which is greater than the federal statutory rate of 34% due to nondeductible charges for put warrants, and goodwill amortization.

Dividends. For fiscal 2002, dividends on cumulative preferred stock decreased to $2.0 million from $2.1 million for fiscal 2001. This decrease was attributable to the conversion of preferred stock to common stock on November 12, 2002 in connection with our initial public offering.

Supplemental Quarterly Information

The following table sets forth quarterly unaudited consolidated financial data for the fiscal quarters of 2003 and 2002, expressed in dollars and as a percentage of total revenues for the respective periods. We believe that this unaudited financial information includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for each period. All of the fiscal quarters reflected in the following table had thirteen weeks. Some unevenness of revenue from

quarter to quarter exists primarily because of the timing of purchases of materials necessary to perform certain obligations under our C4I2SR contract with U.S. Air Force Space Command.

	Fiscal Year 2003				Fiscal Year 2002			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	(dollars in thousands)							
Revenue	$ 41,324	$ 40,724	$ 42,082	$ 44,157	$ 33,463	$ 35,407	$ 38,378	$ 42,103
Costs and expenses:								
Direct costs	25,026	24,264	25,837	26,813	19,145	21,856	24,427	25,812
Indirect costs	13,163	13,167	12,318	12,921	11,718	13,923	10,838	12,925
Depreciation	512	486	497	514	481	515	523	469
Total operating expenses	38,701	37,917	38,652	40,248	31,344	36,294	35,788	39,206

	Fiscal Year 2003				Fiscal Year 2002			
Income (loss) from operations	2,623	2,807	3,430	3,909	2,119	(887)	2,590	2,897
Interest expense	(162)	(146)	(161)	(137)	(697)	(657)	(659)	(1,305)
Minority interests					(38)	(39)	(41)	
Change in fair value of put warrants					(90)	(301)	1,031	
Provision (benefit) for income taxes	973	1,052	1,290	1,470	564	(689)	819	746
Net income (loss)	$ 1,488	$ 1,609	$ 1,979	$ 2,302	$ 730	$ (1,195)	$ 2,102	$ 846
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:								
Direct costs	60.6	59.6	61.3	60.7	57.2	61.7	63.7	61.3
Indirect costs	31.9	32.3	29.3	29.3	35.0	39.3	28.2	30.7
Depreciation	1.2	1.2	1.2	1.2	1.4	1.5	1.4	1.1
Amortization								
Total operating expenses	93.7	93.1	91.8	91.2	93.6	102.5	93.3	93.1
Income (loss) from operations	6.3	6.9	8.2	8.8	6.4	(2.5)	6.7	6.9
Interest expense	(0.4)	(0.4)	(0.4)	(0.3)	(2.1)	(1.9)	(1.8)	(3.1)
Minority interests					(0.1)	(0.1)	(0.1)	
Change in fair value of put warrants					(0.3)	(0.9)	2.7	
Provision (benefit) for income taxes	2.3	2.6	3.1	3.3	1.7	(1.9)	2.1	1.8
Net income (loss)	3.6%	3.9%	4.7%	5.2%	2.2%	(3.5)%	5.4%	2.0%

Liquidity and Capital Resources

Our primary liquidity needs are the financing of working capital, capital expenditures and acquisitions. We have historically relied primarily on cash flow from operations, borrowings under our credit facility and from some of our stockholders and the sale of common and preferred stock to provide for our cash needs. In connection with the acquisition of Matcom International Corporation which closed on January 21, 2004, the Company amended its credit facility to increase borrowing capacity from $35 million to $80 million and to extend the term to January 21, 2008. The Company used approximately $15 million from cash-on-hand and the amended credit facility to acquire Matcom International Corporation.

Net cash provided by (used in) operations was $16.1 million for fiscal 2003, $5.7 million for fiscal 2002, and $1.7 million for fiscal 2001. Cash provided by operations in fiscal 2003 was attributable to net income of $7.4 million plus depreciation, amortization and other non-cash items of $2.8 million and a decrease in working capital of $5.9 million. Cash provided by operations in fiscal 2002 was attributable to net income of $2.5 million plus depreciation, amortization and other non-cash items of $2.3 million and a decrease in working capital of $0.9 million. Cash provided by operations in fiscal 2001 was attributable to depreciation and amortization of $5.2 million and a change in fair value of put warrants of $1.3 million offset in part by a net loss of $0.7 million, a decrease in other non-cash charges of $0.6 million, and an increase of $3.3 million related to changes in working capital.

Cash used in investing activities was $1.3 million for fiscal 2003, $1.7 million for fiscal 2002, and $2.6 million in fiscal 2001. In fiscal 2003 we invested $1.3 million in capital assets. In fiscal 2002 we invested $1.7 million in capital assets. In fiscal 2001, we invested $2.6 million in capital assets. Investments in capital assets are comprised primarily of computer and office equipment and furniture and fixtures.

Cash used in financing activities was $2.4 million in fiscal 2003. Cash provided by financing activities was $6.4 million for fiscal 2002 and $1.2 million in fiscal 2001. Cash used in financing activities for fiscal year 2003 was attributable to repayments of bank overdrafts of $2.2 million, $0.2 million partial repayment of an outstanding note from the acquisition of Systems Technology Associates (see Acquisitions), and payments for our capital leases of $0.1million. Cash provided by financing activities for fiscal year 2002 was attributable to the proceeds from issuances of common stock of $47.1 million and the issuance of exchangeable notes in the amount of $4.3 million to the unit holders of SI International, L.L.C., offset by the repayment of all debt in the amount of $43.4 million, the repurchase of warrants held by the bank in the amount of $1.4 million and payments on our long term capital leases of $0.2 million. Cash provided by financing activities in fiscal 2001 was attributable to the proceeds from the issuance of exchangeable notes in the amount of $5.0 million to the unit holders, including Frontenac VII Limited Partnership and Frontenac Masters VII Limited Partnership, of SI International, L.L.C., our principal stockholder, net borrowings against our line of credit of $0.2 million and increase in bank overdrafts of $0.9 million, offset by repayments of notes payable of $3.5 million and repayments of long-term debt of $1.4 million.

Cash and cash equivalents as of the end of fiscal 2003, fiscal 2002, and fiscal 2001 were $23.3 million, $10.9 million, $0.5 million, respectively.

Following the closing of our initial public offering on November 12, 2002, we entered into a new $35.0 million secured revolving credit facility (the 2002 credit facility) with Wachovia Bank, N.A. acting as Administration Agent for a consortium of lenders. We replaced all letters of credit outstanding under our prior credit facility with letters of credit issued under the new facility. For the fiscal years ended December 27, 2003 and December 28, 2002 we did not have any borrowings under the 2002 credit facility. In connection with the acquisition of Matcom International Corporation on January 21, 2004, we amended our credit facility to increase the borrowing capacity from $35 million to $80 million and extended the term to January 21, 2008.

The amended credit facility includes a $30 million term loan and a $50 million revolving credit facility. Under the term loan, we are required to make three $1.5 million quarterly principal payments starting on June 30, 2004, eight $1.875 million quarterly principal payments starting on March 31, 2004, three $2.25 million quarterly principal payments starting on March 31, 2007, and a final $3.75 million principal payment on December 31, 2007.

The amended credit facility permits us, subject to our compliance with financial and nonfinancial covenants and customary conditions, to make up to $50.0 million of revolving credit borrowings and also provides for the issuance of letters of credit, although the amount of available revolving credit borrowings are reduced by the amount of any outstanding letters of credit issued under the facility. See "Risk Factors Our indebtedness and debt service obligations may increase substantially and we will be subject to restriction under debt instruments."

Any borrowings outstanding under the facility will, at our option, bear interest either at floating rates equal to LIBOR plus a spread ranging from 275 to 350 basis points or a specified base rate plus a spread ranging from 175 to 250 basis points, with the exact spread determined upon the basis of our ratio of outstanding indebtedness to our earnings before interest, taxes, and depreciation and amortization expense, as defined in the new credit facility.

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We and each of our existing and future subsidiaries are jointly and severally liable with respect to the payment of all borrowings and other amounts due and performance of all obligations under the new credit facility. The new credit facility is secured by a pledge of substantially all of our current and future tangible and intangible assets, as well as those of our current and future subsidiaries, including accounts receivable, inventory and capital stock of our existing and future subsidiaries. The new credit facility requires us to make mandatory prepayments of outstanding borrowings, with a corresponding reduction in the maximum amount of borrowings available under the facility, with net proceeds from certain insurance recoveries and asset sales, and with 100% of the net proceeds from debt issuances, and with 50% of the net proceeds from certain equity issuances subject to specified exceptions. Also, the new credit facility includes a number of restrictive covenants including, among other things, limitations on our leverage and capital expenditures, limitations on our ability to incur additional indebtedness or liens, requirements that we maintain minimum ratios of cash flow to fixed charges and prohibitions on payment of dividends on our capital stock, limitations on our ability to enter into mergers, acquisitions or sales of our assets, and prohibitions on certain transactions among our subsidiaries and affiliated companies. The new credit facility also contains events of default, including, among other events, any transaction resulting in a new stockholder or group of stockholders acquiring control of our board of directors or ownership of greater than 40% of our outstanding capital stock, any default by us under any material government contract or other material contract to which we are a party, the suspension of our ability to enter into contracts with the federal, state or local governments generally. See "Risks Related to our Business Our indebtedness and debt service obligations may increase substantially and we will be subject to restrictions under debt instruments."

We currently anticipate that cash flow from operations and borrowings available under our new credit facility will be sufficient to meet our presently anticipated capital needs for at least the next twelve months, but may be insufficient to provide funds necessary for any future acquisitions we may make, whether during the next twelve months or thereafter. To the extent that we require additional funds, whether for

acquisitions or otherwise, we may seek additional equity or debt financing. Such financing may not be available to us on terms that are acceptable to us, if at all, and any equity financing may be dilutive to our stockholders. To the extent that we obtain additional debt financing, our debt service obligations will increase and the relevant debt instruments may, among other things, impose additional restrictions on our operations, require us to comply with additional financial covenants or require us to pledge assets to secure our borrowings.

Financial data for all of our subsidiaries are included in our consolidated financial statements.

Tabular Disclosure of Contractual Obligations

Our contractual obligations as of December 27, 2003 are as follows (in thousands):

	Payment due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1 3 years**	**3 5 years**	**More than 5 years**
Capital Lease	217	148	69		
Operating Lease	34,506	4,649	8,002	7,331	14,524
Total	**34,723**	**4,797**	**8,071**	**7,331**	**14,524**

Purchase obligations related to existing contracts are with the Federal Government and, in the event any contracts are terminated, we would have the ability to submit a termination claim for outstanding purchases.

In connection with our acquisition of Matcom, we borrowed $30 million in long-term debt repayable as follows: $4.5 million in 2004, $15 million during the period 2005-2007, $10.5 million during the period 2008-2010. As of January 21, 2004, we borrowed an additional $19 million for the

acquisition of Matcom under our revolving line of credit, which is reflected as current liabilities on our Balance Sheet.

Critical Accounting Policies and Estimates

Our significant accounting policies are described in Note 2 to our accompanying consolidated financial statements. We consider the accounting policies related to revenue recognition to be critical to the understanding of our results of operations. Our critical accounting policies also include the areas where we have made what we consider to be particularly difficult, subjective or complex judgments in making estimates, and where these estimates can significantly impact our financial results under different assumptions and conditions. We prepare our financial statements in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. Actual results could be different from these estimates.

Revenue Recognition

Our accounting policy regarding revenue recognition is written to comply with the following criteria: (1) a contract has been executed; (2) the contract price is fixed and determinable; (3) delivery of services or products has occurred; and (4) collectibility of the contract price is considered probable and can be reasonably estimated. Compliance with these criteria may require us to make significant judgments and estimates.

For cost reimbursable contracts with fixed fees and fixed price contracts, we estimate the applicable fees earned as costs are incurred or services are provided. This process requires estimation of the contemplated level of effort to accomplish the tasks under contract, the cost of such effort and ongoing assessment towards completing the contract. We utilize a number of management processes to monitor contract performance and revenue estimates, including monthly in-process reviews. For cost reimbursable contracts with performance-based fees, we estimate the applicable fees earned based on historical experience and performance evaluations from our customers. For fixed price contracts that are based on unit pricing, we recognize revenue for the number of units delivered in any given fiscal period. For fixed price contracts that are based on the proportionate performance method and involve a specified number of similar acts, we recognize revenue based on the proportion of those acts completed compared to the number of total specified acts required by the contract. For fixed price contracts that are based on the proportionate performance method and involve a specified number of defined but not similar acts, we recognize revenue based on the proportion of the project's percentage total costs incurred compared to the estimated total costs associated with the entire transaction.

Occasionally, facts may develop that require revisions to estimated total costs or revenues expected. The cumulative effect of any such revisions is recorded in the period in which the facts requiring the revision become known. The full amount of anticipated losses on any contract type are recognized in the period in which they become known.

In addition, certain indirect costs are charged to contracts and paid by the client using provisional, or estimated, indirect rates that are subject to later revision based on government audits. Any costs found to be improperly allocated to a specific contract will not be reimbursed, and any such costs already reimbursed must be refunded.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Historically, our investment positions have been relatively small and short-term in nature. We have typically made investments in a fund with an effective average maturity of fewer than 40 days having a portfolio make-up consisting primarily of commercial paper and notes and variable rate instruments, and to a much smaller extent overnight securities and bank instruments. Since our initial public offering, the board of directors approved an investment policy that requires we invest in relatively short-term, high quality, and high liquidity obligations.

Item 8. Financial Statements and Supplementary Data.

The consolidated financial statements of SI International, Inc. are submitted on pages F-1 through F-22 of this report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

The Company has established and maintains disclosure controls and procedures that are designed to ensure that material information required to be disclosed by SI International in the reports that it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of December 27, 2003, under the supervision and with the participation of SI International's management, including its Chief Executive Officer and Chief Financial Officer, the Company carried out an evaluation of the effectiveness of the design and operation of disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, at the reasonable assurance level, as of December 27, 2003, in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in SI International's periodic SEC filings.

During the Company's fourth fiscal quarter, there were no significant changes to the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

The information required by Items 10, 11, 12, 13 and 14 of Part III of Form 10-K has been omitted in reliance on General Instruction G(3) and is incorporated herein by reference to the definitive proxy statement of SI International, Inc. for its 2004 annual meeting of stockholders to be filed with the SEC pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Documents filed as part of this Report

1. Financial Statements.

   A. Report of Independent Auditors

   B. Consolidated Balance Sheets as of December 27, 2003 and December 28, 2002

   C. Consolidated Statements of Operations for the fiscal years ended December 27, 2003, December 28, 2002 and December 29, 2001

   D. Consolidated Statements of Stockholders' Equity for the fiscal years ended December 27, 2003, December 28, 2002 and December 29, 2001

   E. Consolidated Statements of Cash Flows for the fiscal years ended December 27, 2003, December 28, 2002 and December 29, 2001

   F. Notes to Consolidated Financial Statements

2. Supplementary Financial Data.
   Schedule II Valuation and Qualifying Accounts

3. Exhibits.

   The exhibits required by this item are set forth on the Index to Exhibits attached hereto.

   (a) Reports on Form 8-K

      Current Report on Form 8-K on December 18, 2003, disclosing the issuance of a press release announcing that we had entered into a definitive agreement to acquire Matcom International Corporation.

   (b) Exhibits.

      See Item 14(a)(3) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on the 10th day of March, 2004.

SI INTERNATIONAL, INC.

By: /s/ RAY J. OLESON

Ray J. Oleson
Chairman of the Board and
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in capacities and on the dates indicated.

Signatures	Title	Date
/s/ RAY J. OLESON **Ray J. Oleson**	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 10, 2004
/s/ THOMAS E. DUNN **Thomas E. Dunn**	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 10, 2004
/s/ CHARLES A. BOWSHER **Charles A. Bowsher**	Director	March 10, 2004
/s/ JAMES E. CRAWFORD, III **James E. Crawford, III**	Director	March 10, 2004
/s/ WALTER J. CULVER **Walter J. Culver**	Vice Chairman and Director	March 10, 2004
/s/ WALTER C. FLORENCE **Walter C. Florence**	Director	March 10, 2004
/s/ GENERAL R. THOMAS MARSH **General R. Thomas Marsh (USAF-Ret.)**	Director	March 10, 2004
/s/ EDWARD H. SPROAT **Edward H. Sproat**	Director	March 10, 2004

INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
2.1	Agreement and Plan of Merger among the Company, Link Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of the Company, Matcom International Corporation, and the stockholders of Matcom International Corporation, dated as of December 17, 2003, as amended by the First Amendment to Agreement and Plan of Merger, dated as of January 21, 2004

EXHIBIT NO.	DESCRIPTION
	(filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed January 28, 2004 and incorporated herein by reference). (The appendices and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. SI International, Inc., hereby undertakes to furnish supplementally to the Securities and Exchange Commission copies of any omitted appendices and exhibits upon request by the Securities and Exchange Commission.)
3.1	Second Restated Certificate of Incorporation (filed as Exhibit 3.1 to the Company's Registration Statement on Form S-1/A (File No. 333-87964) filed on October 25, 2002 (the "Third Amendment) and incorporated herein by reference).
3.2	Amended and Restated Bylaws, as amended (filed as Exhibit 3.2 to the Company's Registration Statement on Form S-1/A (File No. 333-87964) filed on November 8, 2002 (the "Fifth Amendment) and incorporated herein by reference).
4.1	Registration Rights Agreement, as amended (filed as Exhibit 4.1 to the Third Amendment and incorporated herein by reference).
4.2	Specimen Certificate of our common stock (filed as Exhibit 4.2 to the Company's Registration Statement on Form S-1/A (File No. 333-87964) filed on November 5, 2002 (the "Fourth Amendment) and incorporated herein by reference).
4.3	Stock Purchase Agreement, as amended (filed as Exhibit 4.3 to the Fifth Amendment and incorporated herein by reference).
4.4	Amendment to Stock Purchase Agreements (filed as Exhibit 4.4 to the Fourth Amendment and incorporated herein by reference).
10.1	Form of 2002 Stock Incentive Plan (filed as Exhibit 10.1 to the Third Amendment and incorporated herein by reference).
10.2	January 2001 Nonqualified Stock Option Plan (filed as Exhibit 10.2 to the Company's Registration Statement on Form S-1/A (File No. 333-87964) filed on June 24, 2002 (the "First Amendment) and incorporated herein by reference).
10.3	SI International, Inc. 2001 Service Award Stock Option Plan (filed as Exhibit 10.3 to the First Amendment and incorporated herein by reference).
10.4	1998 Stock Option Plan (filed as Exhibit 10.5 to the First Amendment and incorporated herein by reference).
10.5	Credit Agreement (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 12, 2002 and incorporated herein by reference) and amended and restated by amendment no.1 (which includes as an exhibit the revised credit agreement and which is filed herewith).
10.6	Executive Employment Agreement with S. Bradford Antle (filed as Exhibit 10.6 to the Third Amendment and incorporated herein by reference).
10.7	Executive Employment Agreement with Walter J. Culver (filed as Exhibit 10.7 to the Third Amendment and incorporated herein by reference).
10.8	Executive Employment Agreement with Thomas E. Dunn (filed as Exhibit 10.8 to the Third Amendment and incorporated herein by reference).
10.9	Executive Employment Agreement with Thomas E. Lloyd (filed as Exhibit 10.9 to the Third Amendment and incorporated herein by reference).

10.10	Executive Employment Agreement with Ray J. Oleson (filed as Exhibit 10.10 to the Third Amendment and incorporated herein by reference).
10.11	Form of Indemnification Agreement (filed as Exhibit 10.11 to the Third Amendment and incorporated herein by reference).
21.1	Subsidiaries of the registrant (filed herewith).
23.1	Consent of Ernst & Young LLP (filed herewith).
31.1	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certifications of Chief Executive Officer and Chief 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).

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REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

To the Board of Directors of SI International, Inc.:

We have audited the accompanying consolidated balance sheets of SI International, Inc. (a Delaware corporation) and subsidiaries (as defined in Note 1) as of December 27, 2003 and December 28, 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the fiscal years ended December 27, 2003, December 28, 2002 and December 29, 2001. Our audits also included the financial statement schedule listed in the index at Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SI International, Inc. and subsidiaries (as defined in Note 1) as of December 27, 2003 and December 28, 2002, and the results of their operations and their cash flows for the fiscal years ended December 27, 2003, December 28, 2002, and December 29, 2001 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, effective December 30, 2001, the Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets."

/s/ Ernst & Young LLP

McLean, Virginia
February 10, 2004

SI International, Inc. and Subsidiaries
(See Note 1)
Consolidated balance sheets
As of December 27, 2003 and December 28, 2002
(Amounts in thousands, except share and per share data)

	December 27, 2003	December 28, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 23,252	$ 10,856
Accounts receivable, net	34,007	31,901
Deferred tax asset	2,100	848
Prepaid insurance	1,201	877
Prepaid expenses	835	1,187
Other current assets	461	829
Total current assets	61,856	46,498
Property and equipment, net	3,768	4,542
Goodwill	39,829	39,829
Other assets	1,174	1,446
Total assets	$ 106,627	$ 92,315
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 6,300	$ 6,523
Accrued expenses	2,794	993
Accrued bonus	2,939	
Accrued compensation	2,817	2,721
Accrued vacation	2,858	2,475
Current portion of notes payable	340	480
Current portion of capital lease obligation	125	94
Deferred revenue	3,975	1,074
Other current liabilities		2,201
Total current liabilities	22,148	16,561
Other long-term liabilities	2,932	1,777
Stockholders' equity:		
Common stock $0.01 par value per share; 50,000,000 shares authorized; 8,451,507 and 8,439,741 shares issued and outstanding as of December 27, 2003 and December 28, 2002, respectively	85	85
Additional paid-in capital	75,704	75,682
Deferred compensation	(340)	(509)
Retained earnings (accumulated deficit)	6,098	(1,281)
Total stockholders' equity	81,547	73,977
Total liabilities and stockholders' equity	$ 106,627	$ 92,315

The accompanying notes are an integral part of these consolidated statements.

SI International, Inc. and Subsidiaries
(See Note 1)
Consolidated statements of operations
For the fiscal years ended December 27, 2003, December 28, 2002, and December 29, 2001
(Amounts in thousands, except per share data)

	Fiscal Year		
	2003	**2002**	**2001**
Revenue	$ 168,287	$ 149,351	$ 146,583
Costs and expenses:			
Direct costs	101,940	91,240	87,071
Indirect costs	51,569	49,404	49,495
Depreciation	2,009	1,988	1,653
Amortization			3,586
Total operating expenses	155,518	142,632	141,805
Income from operations	12,769	6,719	4,778
Interest expense	(606)	(3,319)	(3,451)
Minority interests		(118)	(144)
Change in fair value of put warrants		640	(1,255)
Income (loss) before provision for income taxes	12,163	3,922	(72)
Provision for income taxes	4,784	1,439	657
Net income (loss)	7,379	2,483	(729)
Dividends on redeemable cumulative preferred stock		1,954	2,052
Net income (loss) attributable to common stockholders	$ 7,379	$ 529	$ (2,781)
Earnings (loss) per common share:			
Basic net income (loss) per common share	$ 0.87	$ 0.16	$ (1.06)
Diluted net income (loss) per common share	$ 0.87	$ (0.03)	$ (1.06)
Basic weighted-average shares outstanding	8,446	3,382	2,631
Diluted weighted-average shares outstanding	8,488	3,516	2,631

The accompanying notes are an integral part of these consolidated statements.

SI International, Inc. and Subsidiaries
(See Note 1)
Consolidated statements of stockholders' equity
For the fiscal years ended December 27, 2003, December 28, 2002, and December 29, 2001
(Amounts in thousands, except share data)

	Redeemable cumulative preferred stock		Stockholders' equity (deficit)					
			Common stock		Additional paid-in Capital	Deferred compensation	Retained earnings (Accumulated deficit)	Total
	Shares	Amount	Shares	Amount				
Balance, December 31, 2000	21,372	$ 23,128	2,626,469	27	$ 1,192		$ (869)	$ 350
Issuance of common stock for cash			5,393		48			48
Issuance of SI Telecom minority shares					(27)			(27)
Issuance of SI Telecom warrants					(33)			(33)
Compensatory stock option grants					142	$ (130)		12

quipment and service revenue, as well as parts, services and solutions were impacted by the d activity. Net revenues in our transport

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Stockholders' equity (deficit)

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and stationary refrigeration businesses decreased primarily as a result of the continu
heavy truck market in Europe. However, improved activity in the U.S. and Asian re
truck markets during the fourth quarter helped to mitigate the declines in Europe. In
container revenues and worldwide bus revenues have begun to improve in the fourth
increase in end market activity. Worldwide display cases and contracting revenue w
continued slower supermarket capital expenditures in both the U.S. and Europe.

Operating income for the year ended December 31, 2009 increased by $1,178.7 mill
the same period of 2008. This increase was a result of a non-cash charge of $1,240.0
in the fourth quarter of 2008 related to the impairment of goodwill and other indefin
assets. Excluding the impairment, which had an 18.3 point impact on 2008 operating
year-over-year operating income decreased 13.1% or $61.3 million.

Excluding the asset impairment charge of $1,200.0 million in 2008, operating incom
commercial HVAC business increased $101.7 million compared with the same perio
only included the results of Trane for the six months and 25 days since the Acquisiti
increase had a 21.7% impact to segment operating income. However, operating resu
negatively impacted by a significant reduction in volumes and pricing, partially offs
productivity and improved material costs.

Included in 2009 operating income within the Trane commercial HVAC business wa
ongoing purchase accounting charges primarily related to the amortization of intang
addition, we recorded $26.1 million of restructuring charges in 2009 associated with
termination benefits and other costs associated with announced restructuring plans.
combined 1.7 point impact on the segment s 2009 operating margins. 2008 compar
$48.1 million related to ongoing purchase accounting costs and $14.6 million related
other business integration costs. In addition, 2008 operating income included $147.4
non-recurring purchase accounting charges associated with the fair value allocation
backlog, inventory and in-process research and development costs. These costs had
impact on the segment s 2008 operating margins.

Operating income in our transport and stationary refrigeration business decreased by
million, compared with the same period of 2008, excluding the $40.0 million asset i
2008. This decrease, which had a 34.8% impact on segment operating income, resul
volumes and product mix ($313 million) and an unfavorable currency impact. This d
partially offset by increased productivity ($127 million) and improved pricing ($34
we recorded $11.6 million of restructuring charges in 2009 associated with employe
benefits and other costs associated with announced restructuring plans.

2008 vs 2007

Net revenues for the year ended December 31, 2008 increased by 100.2% or $3,378
with the same period of 2007. The dramatic year-over-year increase was a result of t
Trane commercial HVAC business since the Acquisition Date in 2008 operating res
$3,393.8 million for the period. Excluding the results of Trane, net revenues decreas
million, compared with the same period in 2007. The slight decrease in the year-ove
primarily due to lower volumes (4%) offset by a favorable currency impact (3%) an

Net revenues for the Trane commercial HVAC businesses decreased in both domest
markets. Increased revenues for parts, services and solutions were more than offset b
equipment revenue. Net revenues for our transport and stationary refrigeration busin
primarily as a result of the decline in the truck market, which decreased refrigerated
revenues in North America and Europe. In addition, sea-going container revenues, a
aftermarket revenues also decreased as a result of slower end market activity. World

Stockholders' equity (deficit)

and contracting revenue decreased due to declines in display case sales to regional s
U.S. and a sharp decline in the installation business. However, sales of the TriPac® a
continued to experience substantial growth in 2008.

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Stockholders' equity (deficit)

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Operating income for the year ended December 31, 2008 decreased by $1,154.4 mil
same period of 2007. In the fourth quarter, we recognized a non-cash charge of $1,2
to the impairment of goodwill and other indefinite-lived intangible assets within the
had an 18.3 point impact on operating margins in 2008.

Excluding the asset impairment, the Trane commercial HVAC business added $149
operating income to the segment since the Acquisition Date. Included within operati
million in non-recurring purchase accounting charges associated with the fair value
purchase price to inventory step-up, backlog amortization and in-process research a
costs. In addition, ongoing purchase accounting charges, primarily related to the am
intangible assets, were $48.1 million. Other significant charges associated with the a
$14.6 million and were primarily related to severance and other business integration
had a combined 3.1 point impact on the segment s operating margins in 2008.

Excluding the asset impairment, operating income in our transport and stationary ref
for the year ended December 31, 2008 decreased by 16.6% or $63.7 million, compa
period in 2007. During 2008, we recorded $38.6 million of restructuring charges ass
employee termination benefits and other costs associated with announced restructur
factors contributing to the year-over-year decrease were lower volumes and product
and increased material costs ($46 million), partially offset by increased productivity
improved pricing ($44 million) and a favorable currency impact.

Residential Solutions

Our Residential Solutions segment provides safety, comfort and efficiency to home
North America and parts of South America. It offers customers a broad range of pro
solutions including mechanical and electronic locks, energy-efficient HVAC system
solutions, advanced controls, portable security systems and remote home manageme
comprised of well-known brands like American Standard, Schlage and Trane.

In the fourth quarter of 2009, we realigned our external reporting structure to elimin
Conditioning Systems and Services segment, which represented the Trane commerc
businesses acquired at the close of business on June 5, 2008 (the Acquisition Date).
Trane residential HVAC business is now incorporated within the newly created Res
segment, along with our residential security business. Reported results include rever
income from the Trane residential HVAC business for the six months and 25 days s
Date in 2008 and for the full year in 2009.

Dollar amounts in millions	2009	% change	2008
Net revenues	$ 2,001.5	35.8%	$ 1,473.7
Operating income (loss)	122.9	n/a	(2,037.0) *
Operating margin	6.1%		-138.2%

* Amount includes a non-cash impairment charge of $2,110.0 million.

2009 vs. 2008

Net revenues for the year ended December 31, 2009 increased by 35.8% or $527.8 r
with the same period of 2008, which primarily resulted from the following:

Stockholders' equity (deficit)

Volume/product mix
Pricing
Acquisition of Trane residential HVAC business
Total

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Stockholders' equity (deficit)

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Net revenues in the Trane residential HVAC business increased $574.1 million com
period of 2008. The increase, which represented 39.0% of the segment s year-over-
consequence of 2008 reported results only reflecting activity since the Acquisition D
for the Trane residential HVAC business for the year ended December 31, 2009 wer
volumes and reduced pricing.

Net revenues in the residential security business decreased by 9.9%, or $46.3 million
same period of 2008. The decrease, which had a 3.2% impact on the segment s yea
was primarily due to lower volumes and product mix (4%). These reductions were s
improved pricing (1%).

Trane residential HVAC revenues were impacted by continued weakness in the U.S
However, improved fourth quarter sales to the replacement market helped to mitigat
market activity. Residential security revenues were impacted by lower same store sa
customers and ongoing weakness in the new homebuilder channel. In the fourth qua
were more than offset by new product revenues and market share gains.

Operating income for the year ended December 31, 2009 increased by $2,159.9 mill
the same period of 2008. This increase was a result of a non-cash charge of $2,110.0
in the fourth quarter of 2008 related to the impairment of goodwill and other indefin
assets within the Trane residential HVAC business. Excluding the impairment, whic
impact on 2008 operating margins, year-over-year operating income increased by 68
million.

Excluding the asset impairment charge in 2008, operating income in the Trane resid
business increased $43.1 million compared with the same period in 2008, which inc
Trane for the six months and 25 days since the Acquisition Date. This increase had a
segment operating income, excluding impairment. However, operating results for th
by a reduction in volumes and pricing, offset by increased productivity and improve

Included in 2009 operating income for the Trane residential HVAC business was $8
ongoing purchase accounting charges primarily related to the amortization of intang
addition, we recorded $7.5 million of restructuring charges in 2009 associated with e
termination benefits and other costs associated with announced restructuring plans. T
combined 4.4 point impact on the segment s 2009 operating margins. 2008 compara
$33.0 million related to ongoing purchase accounting costs and $5.6 million related
other business integration costs. In addition, 2008 operating income included $11.0
non-recurring purchase accounting charges associated with the fair value allocation
backlog, inventory and in-process research and development costs. These costs had
impact on the segment s 2008 operating margins.

Operating income in our residential security business increased by 11.7%, or $6.8 m
with the same period of 2008. This increase, which had a 9.3% impact on segment o
resulted from increased productivity ($18 million) and improved pricing ($10 millio
partially offset by lower volumes and product mix ($16 million). In addition, we rec
restructuring charges in 2009 associated with employee termination benefits and oth
with announced restructuring plans.

2008 vs. 2007

Net revenues for the year ended December 31, 2008 increased by 180.3% or $948.0
with the same period of 2007. The dramatic year-over-year increase was a result of t
Trane residential HVAC business since the Acquisition Date, which totaled $1,007.

Stockholders' equity (deficit)

period. Excluding the results of Trane, net revenues decreased by 11.3% or $59.5 m
the same period in 2007. The decrease in year-over-year results were primarily due t
(22%) offset by improved pricing (10%).

Net revenues for the Trane residential HVAC businesses decreased in all markets. In
revenues for our residential security business decreased primarily due to lower volur
lower same store sales at large customers and ongoing weakness in the new homebu

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Stockholders' equity (deficit)

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Operating income for the year ended December 31, 2008 decreased by $2,081.9 mil
same period of 2007. In the fourth quarter, we recognized a non-cash charge of $2,1
to the impairment of goodwill and other indefinite-lived intangible assets within the
HVAC business. Excluding the asset impairment charge, which had a 143.2 point in
margins in 2008, year-over-year operating income increased by 62.6% or $28.1 mill

Excluding the asset impairment, the Trane residential HVAC business added $15.0
income to the segment since the Acquisition Date in 2008. This increase contributed
year-over-year increase in overall operating income. Included within operating inco
in non-recurring purchase accounting charges associated with the fair value allocatio
to inventory step-up, backlog amortization and in-process research and development
ongoing purchase accounting charges, primarily related to the amortization of intang
$33.0 million. Other significant charges associated with the acquisition were $5.6 m
primarily related to severance and other business integration costs. These costs had
impact on the segment s operating margins in 2008.

Operating income in our residential security business for the year ended December 3
29.2% or $13.1 million, compared to the same period in 2007. Factors contributing
increase were improved pricing ($51 million) and increased productivity ($16 millio
lower volumes and product mix ($53 million). In addition, we recorded $6.3 million
charges in 2008 associated with employee termination benefits and other costs asso
restructuring plans.

Industrial Technologies

Our Industrial Technologies segment provides products, services and solutions that
efficiency, productivity and operations. It offers our global customers a diverse and
products including compressed air systems, tools, pumps, fluid handling systems, go
vehicles in addition to environmentally friendly micro turbines. This segment inclu
Ingersoll Rand market leading brands.

Dollar amounts in millions	2009	% change	2008
Net revenues	$ 2,181.0	-25.8%	$ 2,938.3
Operating income	171.8	-51.4%	353.7
Operating margin	7.9%		12.0%

2009 vs 2008

For the year ended December 31, 2009, net revenues decreased by 25.8% or $757.3
with the same period of 2008. The primary drivers of the year-over-year decrease w
and product mix (25%) and an unfavorable currency impact (2%). These reductions
by improved pricing (1%).

Revenues in the Air and Productivity Solutions business declined in all geographic a
in the U.S. was a result of volume declines in major industrial, process and fluid han
well as lower aftermarket results. Non-U.S. revenues were also impacted by volume
industrial activity. Club Car revenues sharply decreased in all geographic areas due
economic fundamentals in key golf, hospitality and recreation markets. In addition,
impacted by customers deferring golf car replacement by extending their leases. Ma
growth in low-speed vehicle sales at Club Car helped to offset some of the slow end

Stockholders' equity (deficit)

Operating income decreased by 51.4% or $181.9 million during 2009. During 2009,
million of restructuring charges associated with employee termination benefits and c
with announced restructuring plans, which had a 1.2 point impact on operating marg
decrease was primarily related to lower volumes and product mix ($263 million), an
currency impact ($20 million) and higher material costs ($17 million). These reducti
offset by increased productivity ($123 million) and improved pricing ($16 million).

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Stockholders' equity (deficit)

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2008 vs 2007

For the year ended December 31, 2008, net revenues increased by 2.1% or $61.2 mi
the same period of 2007. The primary drivers of the year-over-year increase were in
(2%), acquisitions (2%) and a favorable currency impact (1%). The improved result
offset by lower volumes and product mix (3%).

The increase in segment revenue was driven by the worldwide increase in the Air ar
Solutions business. However, lower volumes in all geographic areas in the second h
the weakening industrial and fluid handling end markets. In addition, slower industr
as well as the deferral of some maintenance by customers more than offset aftermarl
revenues declined in all geographic areas compared with 2007 mainly due to weak e
fundamentals in key golf, hospitality and recreation markets. However, the business
market share in the declining golf market and a softening utility vehicle market.

Operating income decreased by 9.8% or $38.3 million during 2008. In the fourth qu
recorded $9.6 million of restructuring charges associated with employee termination
cost associated with announced restructuring plans, which had a 0.4 point impact on
The remaining decrease was primarily related to higher material costs ($61 million),
product mix ($42 million) and increased spending on new product development ($1
reductions were partially offset by improved pricing ($62 million) and increased pro
million).

Security Technologies

Our Security Technologies segment is a leading global provider of products and ser
environments safe, secure and productive. The segment s market-leading solutions
biometric access control systems and software, locks and locksets, door closers, exit
and frames as well as time, attendance and personnel scheduling systems. These pro
range of markets including the commercial construction market, healthcare, retail, m
industries as well as educational and governmental facilities. This segment includes
Schlage and Von Duprin brands.

In the fourth quarter of 2009, we realigned our external reporting structure to elimin
Conditioning Systems and Services segment, which represented the Trane commerc
businesses acquired at the close of business on June 5, 2008 (the Acquisition Date).
Trane residential HVAC business is now incorporated within the newly created Res
segment, along with our residential security business. As a result, our residential sec
longer included as a part of our Security Technologies segment, which now represen
security business.

Dollar amounts in millions	2009	% change	2008
Net revenues	$ 1,719.1	-16.7%	$ 2,064.8
Operating income	323.7	663.4%	42.4 *
Operating margin	18.8%		2.1%

* Amount includes a non-cash impairment charge of $360.0 million.

2009 vs 2008

For the year ended December 31, 2009, net revenues decreased by 16.7% or $345.7
with the same period of 2008. The year-over-year decrease was primarily related to

Stockholders' equity (deficit)

product mix (17%) and an unfavorable currency impact (2%). These reductions wer
improved pricing (2%).

The decrease in net revenues was a result of the recent decline in the worldwide con
construction markets. Revenues were impacted by the decline in new building and re
the United States and Europe.

Stockholders' equity (deficit)

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Operating income for the year ended December 31, 2009 increased by 663.4% or $2
compared with the same period of 2008. This increase was a result of a non-cash ch
million recognized in the fourth quarter of 2008 related to the impairment of goodw
indefinite-lived intangible assets and marketable securities within the segment. The
point impact on 2008 operating margins.

Excluding the asset impairment charge, operating income for the year ended Decem
decreased by 19.6% or $78.7 million, compared with the same period in 2008. The d
primarily a result of lower volumes and product mix ($179 million) and an unfavora
($14 million). These reductions were partially offset by increased productivity ($75
pricing ($46 million) and lower material costs ($15 million). We also recorded $24.
restructuring charges in 2009 associated with employee termination benefits and oth
with announced restructuring plans.

2008 vs 2007

For the year ended December 31, 2008, net revenues increased by 3.9% or $76.9 mi
the same period of 2007. The year-over-year increase was primarily related to impro
(3%) and a favorable currency impact (1%).

Net revenues increased slightly during the year driven by electronic solutions growt
declines in the North American commercial construction market and well as in Euro
quarter significantly lowered year-over-year revenues.

Operating income decreased by 89.1% or $346.2 million during 2008. In the fourth
recognized a non-cash charge of $360.0 million related to the impairment of goodwi
indefinite-lived intangible assets and marketable securities within the segment. The
point impact on operating margins in 2008.

Excluding the impairment charge, operating income for the year ended December 3
3.6% or $13.8 million, compared to the same period in 2007. The increase was prim
improved pricing ($68 million) and productivity gains ($26 million), which more th
in volume ($22 million), increased material costs ($16 million) and a negative curre
million). We also recorded $6.8 million of restructuring charges in 2008 associated
termination benefits and other costs associated with announced restructuring plans.

Discontinued Operations

The components of discontinued operations for the years ended December 31 are as

In millions	2009	200
Revenues	$ -	$ 15
Pre-tax earnings (loss) from operations	(60.5)	(50
Pre-tax gain (loss) on sale	1.6	(5
Tax benefit (expense)	47.3	(1
Discontinued operations, net	$ (11.6)	$ (57

During 2009, we recorded a tax benefit of $28 million primarily associated with red
unrecognized tax benefits, and a tax charge of $29 million associated with correctin

Stockholders' equity (deficit)

accounting errors. See Note 20 to the consolidated financial statements for a further
tax matters.

Pre-tax loss from operations in 2007 includes a non-cash charge of $449.0 million re
for all pending and estimated future asbestos claims through 2053 as discussed belo
Discontinued Operations.

Stockholders' equity (deficit)

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Discontinued operations by business for the years ended December 31 are as follow

In millions	2009	2008
Compact Equipment, net of tax	$ (30.6)	$ (11.
Road Development, net of tax	9.0	(29.
Other discontinued operations, net of tax	10.0	(15.
Total discontinued operations, net of tax	$ (11.6)	$ (57.

Compact Equipment Divestiture

On July 29, 2007, we agreed to sell our Bobcat, Utility Equipment and Attachments
(collectively, Compact Equipment) to Doosan Infracore for gross proceeds of appro
subject to post closing purchase price adjustments. The sale was completed on Nove
are currently in the process of resolving the final purchase price adjustments with D

Compact Equipment manufactured and sold compact equipment, including skid-stee
track loaders, mini-excavators and telescopic tool handlers; portable air compressors
light towers; general-purpose light construction equipment; and attachments. We ac
Equipment as discontinued operations within the income statement.

Net revenues and after-tax earnings of Compact Equipment for the years ended Dec
follows:

In millions	2009	2008
Net revenues	$ -	$ 15.
After-tax earnings (loss) from operations	$7.2	$(0.
Gain (loss) on sale, net of tax	(37.8)	(11.
Total discontinued operations, net of tax	$ (30.6)	$ (11.

Road Development Divestiture

On February 27, 2007, we agreed to sell our Road Development business unit to AB
cash proceeds of approximately $1.3 billion. The sale was completed on April 30, 2

The Road Development business unit manufactured and sold asphalt paving equipm
equipment, milling machines and construction-related material handling equipment.
the Road Development business unit as discontinued operations within the income s

Net revenues and after-tax earnings of the Road Development business unit for the y
December 31 were as follows:

In millions	2009	200
Net revenues	$ -	$

Stockholders' equity (deficit)

After-tax earnings (loss) from operations	$ 0.8	$
Gain (loss) on sale, net of tax	8.2	(
Total discontinued operations, net of tax	$ 9.0	$ (

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Stockholders' equity (deficit)

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Other Discontinued Operations

We also have retained costs from previously sold businesses that mainly include cos
postretirement benefits, product liability and legal costs (mostly asbestos-related). T
other discontinued operations for the years ended December 31 were as follows:

In millions	2009	200
Retained costs, net of tax	$ 4.4	$ (1
Net gain (loss) on disposals, net of tax	5.6	
Total discontinued operations, net of tax	$ 10.0	$ (1

Retained costs, net of tax for the year ended December 31, 2008 includes $6.5 millio
related to an adverse verdict in a product liability lawsuit associated with a previous

During the fourth quarter of 2007, we recorded a non-cash charge of $449.0 million
after-tax) related to our liability for all pending and estimated future asbestos claims
to Note 23 in the consolidated financial statements for further details on asbestos-rel

Liquidity and Capital Resources

During the year ended December 31, 2009, we completed a comprehensive financin
significantly enhanced our liquidity and debt profile. Actions taken include the issua
long-term debt (Senior Notes and Exchangeable Senior Notes) in April 2009 and the
Trane accounts receivable purchase program in March 2009 with a new accounts rec
program that encompassed originators from all four of our business segments. The p
debt issuance were used to repay the $950.0 million outstanding under our senior un
facility.

We currently believe that our cash and cash equivalents balance, the cash generated
our committed credit lines as well as our expected ability to access the capital marke
to meet our operating and capital needs for the foreseeable future.

Liquidity

The following table contains several key measures to gauge our financial condition a
period ended December 31:

In millions	2009	20
Cash and cash equivalents	$ 876.7	$ 5
Short-term borrowings and current maturities of long-term debt	876.7	2,3
Long-term debt	3,219.9	2,7
Total debt	4,096.6	5,1
Total Ingersoll-Rand plc shareholders equity	7,101.8	6,6
Total shareholders equity	7,205.7	6,7
Debt-to-total capital ratio	36.2%	4

The large cash and cash equivalents balance at December 31, 2007 is attributable to
Compact Equipment and the Road Development business units during 2007, which

Stockholders' equity (deficit)

of $6,154.3 million. The lower cash and cash equivalents balance at December 31, 2
acquisition of Trane.

Stockholders' equity (deficit)

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Short-term borrowings and current maturities of long-term debt consisted of the foll

In millions	20
Commercial paper program	$
Senior unsecured bridge loan facility	
Debentures with put feature	3
Current maturities of long-term debt	5
Other short-term borrowings	
Total	$ 8

Commercial Paper Program

We use borrowings under our commercial paper program for general corporate purp
December 31, 2009, we had no outstanding commercial paper borrowings after payi
million during 2009. We funded these payments primarily using cash generated fror

Senior Unsecured Bridge Loan Facility

In connection with the Trane acquisition, we entered into a $3.9 billion senior unsec
facility, with a 364-day term. We drew down $2.95 billion against the bridge loan fa
The proceeds, along with cash on hand and the issuance of $1.5 billion in commerci
to fund the cash component of the consideration paid for the acquisition as well as to
and expenses incurred in connection with the acquisition.

As of December 31, 2008, our outstanding balance of the senior unsecured bridge lo
million after a $196 million payment in the fourth quarter of 2008. In the first quarte
borrowed an additional $196 million under the facility, increasing the outstanding ba
million as of March 31, 2009. We repaid the outstanding balance in April 2009 with
long-term debt issuance as discussed below and terminated the facility.

Debentures with Put Feature

At December 31, 2007, we had outstanding $547.9 million of fixed rate debentures
early repayment at the option of the holder. These debentures contain a put feature t
exercise on each anniversary of the issuance date. If exercised, we are obligated to r
part, at the holder s option, the outstanding principal amount (plus accrued and unp
debentures held by the holder. If these options are not fully exercised, the final matu
range between 2027 and 2028.

In 2008, holders of these debentures chose to exercise the put feature on $202.2 mill
debentures. As a result, approximately $345.7 million remained outstanding as of D
2009, holders of these debentures chose to exercise the put feature on $2.1 million o
debentures. As a result, approximately $343.6 million remained outstanding at Dece
February 2010, holders of these debentures have the option to exercise the put featu
of the outstanding debentures. Based on our cash flow forecast, we believe we will h
liquidity to repay any amounts redeemable as a result of these put features.

Long-Term Debt

In August 2008, we filed a universal shelf registration statement with the Securities
Commission (SEC) for an indeterminate amount of securities for future issuance and

Stockholders' equity (deficit)

of long-term debt pursuant to the shelf registration statement through our wholly ow
Global Holding Company Limited. This issuance consisted of $250 million Senior F
due in 2010, $600 million 6.000% Senior Notes due in 2013 and $750 million 6.875
in 2018. These notes are fully and unconditionally guaranteed by IR-Limited. The n
offering were used to reduce the amount outstanding under the senior unsecured bri

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Stockholders' equity (deficit)

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Interest on the fixed rate notes will be paid twice a year. We have the option to rede
in part at any time, and from time to time, prior to their stated maturity date at reden
in the debt offering documents. Interest on the floating rate notes will be paid four ti
notes are subject to certain customary covenants, however, none of these covenants
restrictive to our operations.

Senior Notes Due 2014

In April 2009, we issued $655 million of 9.5% Senior Notes through our wholly-ow
Ingersoll-Rand Global Holding Company Limited (IR-Global). The notes are fully a
guaranteed by each of IR-Ireland, IR-Limited and IR-International. Interest on the fi
be paid twice a year in arrears. We have the option to redeem them in whole or in pa
from time to time, prior to their stated maturity date at redemption prices set forth in
agreement. The notes are subject to certain customary covenants, however, none of
considered restrictive to our operations.

Exchangeable Senior Notes Due 2012

In April 2009, we issued $345 million of 4.5% Exchangeable Senior Notes through
subsidiary, IR-Global. The notes are fully and unconditionally guaranteed by each o
IR-Limited and IR-International. Interest on the exchangeable notes will be paid twi
In addition, holders may exchange their notes at their option prior to November 15,
with specified circumstances set forth in the indenture agreement or anytime on or a
2011 through their scheduled maturity. Upon exchange, the notes will be paid in cas
principal amount of the notes to be exchanged, the remainder due on the option featu
paid in cash, IR ordinary shares or a combination thereof at the option of the Compa
subject to certain customary covenants, however, none of these covenants are consic
our operations.

We allocated the proceeds of the exchangeable notes between debt and equity, in a r
our nonconvertible debt borrowing rate. We allocated approximately $305 million o
to debt, with the remaining discount of approximately $40 million (approximately $
allocated fees) recorded within equity. Additionally, we will amortize the discount i
three-year period.

Accounts Receivable Purchase Program

On March 31, 2009, we expanded our existing Trane accounts receivable purchase p
it with a new accounts receivable purchase program that encompassed originators fr
business segments. The increase in originators allowed us to increase the program si
to $325 million. At December 31, 2009, the outstanding balance of eligible trade rec
affiliated master special purpose vehicle was $544.2 million. However, no net intere
any of the three conduits administered by unaffiliated financial institutions. In the fi
we expect to terminate the new accounts receivable purchase program prior to its ex
2010. See Note 12 to the consolidated financial statements for a further description o

Pension Plans

Our investment objectives in managing defined benefit plan assets are to ensure that
benefit obligations to all participants and beneficiaries are met as they become due;
return that, over the long-term, minimizes our required contributions at the appropri
to meet any statutory or regulatory requirements.

Stockholders' equity (deficit)

We monitor the impact of market conditions on our funding requirements and pensi
quarterly basis. None of our pension plans have experienced any significant impact
pay retirees in the plans due to the volatility in the markets. For further details on pe
see Note 15 to the consolidated financial statements.

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Stockholders' equity (deficit)

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Cash Flows

The following table reflects the major categories of cash flows for the years ended D
respectively. For additional details, please see the Consolidated Statements of Cash
consolidated financial statements.

In millions	2009	200
Operating cash flow provided by (used in) continuing operations	$ 1,751.5	$ 37
Investing cash flow provided by (used in) continuing operations	(182.7)	(7,30
Financing cash flow provided by (used in) continuing operations	(1,208.1)	2,76

Operating Activities

Net cash provided by operating activities from continuing operations was $1,751.5 r
ended December 31, 2009 compared with $374.3 million in 2008. Prior year operati
impacted by a tax payment of approximately $700 million in the first quarter of 200
taxing authorities primarily associated with the Compact Equipment divestiture. Cas
operating activities for the year ended December 31, 2009 include significant impro
receivable collections and inventory management, in addition to the results of Trane

Net cash provided by operating activities from continuing operations was $374.3 mi
ended December 31, 2008 compared with $826.3 million in 2007. The change was p
tax payments of approximately $1.1 billion paid to various taxing authorities, $594.
with the Compact Equipment divestiture. Tax payments in 2007 were approximately
addition, cash flows from operating activities include Trane cash flows from operati
Acquisition Date.

Investing Activities

Net cash used in investing activities from continuing operations was $182.7 million
December 31, 2009 compared with $7,306.4 million in 2008. The change in investin
primarily attributable to cash used for the acquisition of Trane in 2008.

Net cash used in investing activities from continuing operations was $7,306.4 millio
December 31, 2008 compared with net cash provided by continuing operations of $
2007. The change is primarily attributable to cash used for the acquisition of Trane i
during the year ended December 31, 2007, net cash proceeds of $6,154.3 million wa
the sale of Compact Equipment and the Road Development business unit.

Financing Activities

Net cash used in financing activities during the year ended December 31, 2009 was
compared with $2,760.6 million of net cash provided by financing activities during
financing activities is primarily related to the proceeds received from the bridge loan
commercial paper used to finance the acquisition of Trane in June 2008. During the
December 31, 2009, we refinanced the bridge loan facility and repaid the amounts o
commercial paper program.

Stockholders' equity (deficit)

Net cash provided by financing activities from continuing operations was $2,760.6 r
ended December 31, 2008 compared with $2,568.5 million of net cash used in finan
2007. The change in financing activities primarily relates to the outstanding balance
loan facility and commercial paper which were used to finance the acquisition of Tr
billion relates to the net proceeds from our long-term debt issuance in August 2008.
was impacted by the repurchase of $2.0 billion of our outstanding shares.

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Stockholders' equity (deficit)

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Capital Resources

Based on historical performance and current expectations, we believe our cash and c
balance, the cash generated from our operations, our committed credit lines and our
access capital markets will satisfy our working capital needs, capital expenditures ar
requirements associated with our operations through at least the next 12 months.

Capital expenditures were $204.2 million, $306.0 million and $119.7 million for 20
respectively. Our investments continue to improve manufacturing productivity, redu
environmental enhancements and advanced technologies for existing facilities. The
program for 2010 is estimated to be approximately $250 million, including amounts
periods. Many of these projects are subject to review and cancellation at our option
substantial charges.

During 2007, we initiated restructuring actions relating to ongoing cost reduction ef
our sectors. These actions include both workforce reductions as well as the consolid
manufacturing facilities. In addition, we announced plans to initiate enterprise-wide
in October 2008. These actions include streamlining the footprint of manufacturing
reducing the general and administrative cost base. As of December 31, 2009, we hav
approximately $182.1 million of costs associated with these restructuring actions sin
of 2008.

For financial market risk impacting the Company, see Item 7A. Quantitative and Qu
About Market Risk.

Capitalization

In addition to cash on hand and operating cash flow, we maintain significant credit a
commercial paper programs. Our ability to borrow at a cost-effective rate under the
programs is contingent upon maintaining an investment-grade credit rating. As of D
our credit ratings were as follows:

	Short-term
Moody s	P-2
Standard and Poor s	A-2

*The credit ratings set forth above are not a recommendation to buy, sell or hold sec
subject to revision or withdrawal by the assigning rating organization. Each rating
independently of any other rating.*

In June 2008, we entered into a $1.0 billion senior unsecured revolving credit facilit
term. The line is unused and provides support for our commercial paper program as
general corporate purposes.

In addition to the three-year credit facility, we have a committed revolving credit fac
billion, which expires in August 2010. This line is unused and provides support for
paper program as well as for other general corporate purposes. Other available non-
were $993.3 million, of which $823.9 million were unused at December 31, 2009. T
support for bank guarantees, letters of credit and other general corporate purposes.

Stockholders' equity (deficit)

Our public debt does not contain any financial covenants and our revolving credit li
debt-to-total capital covenant of 65%. As of December 31, 2009, our debt-to-total c
significantly beneath this limit.

Guarantees

As part of the reorganization of IR-New Jersey in 2001, IR-Limited fully and uncon
all of the issued public debt securities of IR-New Jersey. IR-New Jersey unconditio
payment of the

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Stockholders' equity (deficit)

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principal, premium, if any, and interest on IR-Limited s 4.75% Senior Notes due in
principal amount of $300 million. The guarantee is unsecured and provided on an u
The guarantee ranks equally in right of payment with all of the existing and future u
unsubordinated debt of IR-New Jersey. In addition, public debt securities issued by
Company Limited (IR-Global) are fully and unconditionally guaranteed by IR-Limi

As a part of the reorganization of IR-Limited in 2009, the guarantee structure was u
newly created legal structure under which (i) IR-International assumed the obligatio
issuer or guarantor, as the case may be, and (ii) IR-Ireland and IR-Limited fully and
guaranteed the obligations under the various indentures covering the currently outst
IR-International, IR-Global and IR-New Jersey. Neither IR-Ireland nor IR-Limited
to issue guarantees in respect of any indebtedness incurred by Trane.

Contractual Obligations

The following table summarizes our contractual cash obligations by required payme
millions:

	Less than 1 year	1 - 3 years	3 - 5 years	Mo 5
Short-term debt	$ 6.6	$ -	$ -	$
Long-term debt	868.8 *	377.2 **	1,273.2	
Interest payments on long-term debt	256.9	475.4	382.1	
Purchase obligations	847.4	7.5	3.5	
Operating leases	169.9	242.0	138.2	
Total contractual cash obligations	$ 2,149.6	$ 1,102.1	$ 1,797.0	$

* Includes $343.6 million of debt redeemable at the option of the holder. The schedu
these bonds range between 2027 and 2028.

** Includes $345 million related to the Exchangeable Senior Notes due in 2012. See
consolidated financial statements for additional information.

Future expected obligations under our pension and postretirement benefit plans, inc
environmental and asbestos matters have not been included in the contractual cash o
above.

Pensions

At December 31, 2009, we had net obligations of $903.0 million, which consist of n
assets of $1.1 million and current and non-current pension benefit liabilities of $904
objective to contribute to the pension plans to ensure adequate funds are available in
benefit payments to plan participants and beneficiaries when required. We currently
contribute approximately $85 million to our plans worldwide in 2010. Because the t
of long-term funding requirements for pension obligations are uncertain, they have b
the preceding table. See Note 15 to the consolidated financial statements for additio

Postretirement Benefits Other than Pensions

Stockholders' equity (deficit)

At December 31, 2009, we had postretirement benefit obligations of $979.4 million.
postretirement benefit costs principally on a pay-as-you-go basis as medical costs ar
covered retiree populations. Benefit payments, which are net of expected plan partic
and Medicare Part D subsidy, are expected to be approximately $79 million in 2010
and amounts of long-term funding requirements for postretirement obligations are u
been excluded from the preceding table. See Note 15 to the consolidated financial st
additional information.

Income Taxes

At December 31, 2009, we have total unrecognized tax benefits for uncertain tax po
million and $80.3 million of related accrued interest and penalties. The liability has
the preceding table

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Stockholders' equity (deficit)

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as we are unable to reasonably estimate the amount and period in which these liabili
See Note 20 to the consolidated financial statements for additional information rega
to income taxes, including unrecognized tax benefits and IRS tax disputes.

Environmental and Asbestos Matters

We are involved in various litigations, claims and administrative proceedings, inclu
environmental and product liability matters. We believe that these liabilities are sub
uncertainties inherent in estimating future costs for contingent liabilities, and will li
an extended period of time. Because the timing and amounts of potential future cash
they have been excluded from the preceding table. See Note 23 to the consolidated f
for additional information.

See Note 13 and Note 23 for additional information on matters affecting our liquidit

Critical Accounting Policies

Management s Discussion and Analysis of Financial Condition and Results of Ope
our consolidated financial statements, which have been prepared in accordance with
principles generally accepted in the United States. The preparation of financial state
with those accounting principles requires management to use judgment in making e
assumptions based on the relevant information available at the end of each period. T
assumptions have a significant effect on reported amounts of assets and liabilities, r
as well as the disclosure of contingent assets and liabilities because they result prim
make estimates and assumptions on matters that are inherently uncertain. Actual res
estimates. The following is a summary of certain accounting estimates and assumpti
management that we consider critical.

Allowance for doubtful accounts The Company has provided an allowance for
accounts receivable which represents the best estimate of probable loss inherent i
Company s accounts receivable portfolio. This estimate is based upon the Comp
derived from its knowledge of its end markets, customer base and products.

Goodwill and indefinite-lived intangible assets We have significant goodwill a
intangible assets on our balance sheet related to acquisitions. Our goodwill and o
intangible assets are tested and reviewed annually during the fourth quarter for i
there is a significant change in events or circumstances that indicate that the fair
be less than the carrying amount of the asset.

Recoverability of goodwill is measured at the reporting unit level and determined us
process. The first step compares the carrying amount of the reporting unit to its esti
the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of
not impaired and the second step of the impairment test is not necessary. To the ext
value of the reporting unit exceeds its estimated fair value, a second step is perform
reporting unit s carrying value of goodwill is compared to the implied fair value of
extent that the carrying value exceeds the implied fair value, impairment exists and

As quoted market prices are not available for our reporting units, the calculation of t
value in step one is based on two valuation techniques, a discounted cash flow mode
and a market adjusted multiple of earnings and revenues (market approach), with ea
equally weighted in the calculation. In step 2, the implied fair value of goodwill is d

Stockholders' equity (deficit)

same manner as the amount of goodwill recognized in a business combination. The
of the reporting unit is allocated to all of the assets and liabilities of the reporting un
unrecognized intangible assets) as if the reporting unit had been acquired in a busine
the fair value of the reporting unit, as determined in the first step of the goodwill im
the price paid to acquire that reporting unit.

Stockholders' equity (deficit)

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Recoverability of other intangible assets with indefinite useful lives is measured by
carrying amount of the intangible assets to the estimated fair value of the respective
Any excess of the carrying value over the estimated fair value is recognized as an in
to that excess. The calculation of estimated fair value is determined on a relief from
(income approach) which is based on the implied royalty paid, at an appropriate disc
the use of an asset rather than owning the asset. The present value the after-tax cost
relief) indicates the estimated fair value of the asset.

The determination of estimated fair value and the implied fair value of goodwill req
make assumptions about estimated cash flows, including profit margins, long-term f
rates and terminal growth rates. Management developed these assumptions based on
geographic risks unique to each reporting unit.

2009 Impairment Test

For our annual impairment testing during the fourth quarter of 2009, we determined
the reporting units and indefinite-lived intangible assets exceeded their respective ca

The estimates of fair value are based on the best information available as of the date
which primarily incorporates management assumptions about expected future cash f
income approach, we assumed a forecasted cash flow period of five years with disco
ranging from 11% to 15% and terminal growth rates generally ranging from 2% to 5
approach, management used an adjusted multiple of earnings and revenues based on
information of comparable companies. Additionally, management compared the esti
value of its reporting units to the Company s overall market capitalization.

For all reporting units except one, the excess of the estimated fair value over carryin
as a percentage of carrying value) was a minimum of 15%. The one reporting unit w
carrying value less than 15%, reported within the Climate Solutions segment, excee
by 8%. This reporting unit has goodwill of approximately $840 million. A significan
discount rate, decrease in the long-term growth rate, or substantial reductions in our
volume assumptions could have a negative impact on the estimated fair value of the

2008 Impairment Test

Due to the deterioration in the worldwide equity and credit markets and a tightening
retail end markets in the fourth quarter of 2008, the Company s market capitalizatio
its book value. In addition, the weakening worldwide economic conditions resulted
financial performance decline. As a result, the Company updated its impairment test
December 31, 2008. Based on the estimated fair value and book value of our reporti
recorded an impairment charge in the fourth quarter of 2008 of approximately $3,71
million after-tax).

The assumptions used represent management s best estimate of fair value. Under th
we assumed a forecasted cash flow period of five years with discount rates generally
11%-15% and terminal growth rates generally ranging from 2%-5%. Under the mar
management used an adjusted multiple of earnings and revenues based on the marke
comparable companies. Additionally, management compared the estimated aggrega
reporting units to the Company s overall market capitalization.

Stockholders' equity (deficit)

Long-lived assets and finite-lived intangibles Long-lived assets and finite-lived
reviewed for impairment whenever events or changes in business circumstances
carrying amount of an asset may not be fully recoverable. Assets are grouped wit
liabilities at the lowest level for which identifiable cash flows can be generated. I
carrying value of an asset would be recognized whenever anticipated future undis
from an asset are less than its carrying

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Stockholders' equity (deficit)

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value. The impairment is measured as the amount by which the carrying value
value of the asset as determined by an estimate of discounted cash flows. The
that its use of estimates and assumptions are reasonable and comply with gene
accounting principles. Changes in business conditions could potentially requir
to these valuations.

Loss contingencies Liabilities are recorded for various contingencies arising in
business, including litigation and administrative proceedings, environmental and
product liability, product warranty, worker s compensation and other claims. Th
recorded reserves in the financial statements related to these matters, which are d
derived from actuarial estimates and historical and anticipated experience data de
nature of the reserve, and in certain instances with consultation of legal counsel,
consultants and engineers. Subject to the uncertainties inherent in estimating futu
types of liabilities, the Company believes its estimated reserves are reasonable ar
the final determination of the liabilities with respect to these matters would have
the financial condition, results of operations, liquidity or cash flows of the Comp

Asbestos matters Certain wholly-owned subsidiaries of the Company are name
asbestos-related lawsuits in state and federal courts. The Company records a liab
anticipated future claims as well as an asset for anticipated insurance settlements
Company was neither a manufacturer nor producer of asbestos, some of its forme
components from third party suppliers utilized asbestos related components. As a
records certain income and expenses associated with our asbestos liabilities and c
insurance recoveries within discontinued operations, net of tax, as they relate to p
businesses. Income and expenses associated with Trane s asbestos liabilities and
insurance recoveries are recorded within continuing operations. Refer to Note 23
financial statements for further details of asbestos-related matters.

Revenue recognition Revenue is recognized and earned when all of the followi
satisfied: (a) persuasive evidence of a sales arrangement exists; (b) price is fixed
(c) collectability is reasonably assured; and (d) delivery has occurred or service h
Delivery generally occurs when the title and the risks and rewards of ownership h
transferred to the customer. Revenue from maintenance contracts or extended wa
recognized on a straight-line basis over the life of the contract, unless another me
representative of the costs incurred. The Company enters into agreements that co
elements, such as equipment, installation and service revenue. For multiple-elem
Company recognizes revenue for delivered elements when the delivered item has
the customer, fair values of undelivered elements are known, customer acceptanc
there are only customary refund or return rights related to the delivered elements
certain of our equipment and the related installation sold under construction-type
recorded using the percentage-of-completion method in accordance with GAAP.

Income taxes Deferred tax assets and liabilities are determined based on tempo
between financial reporting and tax bases of assets and liabilities, applying enact
to be in effect for the year in which the differences are expected to reverse. The C
future tax benefits, such as net operating losses and non-U.S. tax credits, to the ex
these benefits is considered in its judgment to be more likely than not. The Comp
reviews the recoverability of its deferred tax assets considering its historic profita
future taxable income, timing of the reversals of existing temporary differences a

Stockholders' equity (deficit)

its tax planning strategies. Where appropriate, the Company records a valuation a
respect to a future tax benefit.

Effective January 1, 2007, the Company adopted the provisions of FASB ASC 740,
740) which prescribes a recognition threshold and measurement process for recordin
statements uncertain tax positions taken or expected to be taken in a tax return. Add

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Stockholders' equity (deficit)

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provides guidance on the recognition, classification, accounting in interim periods a
requirements for uncertain tax positions.

The provision for income taxes involves a significant amount of management judgm
interpretation of relevant facts and laws in the jurisdictions in which the Company o
changes in applicable laws, projected levels of taxable income, and tax planning cou
effective tax rate and tax balances recorded by the Company. In addition, tax author
review income tax returns filed by the Company and can raise issues regarding its fi
and amount of income or deductions, and the allocation of income among the jurisd
Company operates. A significant period of time may elapse between the filing of an
and the ultimate resolution of an issue raised by a revenue authority with respect to t
Company believes that it has adequately provided for any reasonably foreseeable res
matters. The Company will adjust its estimate if significant events so dictate. To the
ultimate results differ from the original or adjusted estimates of the Company, the ef
in the provision for income taxes in the period that the matter is finally resolved.

Employee benefit plans The Company provides a range of benefits to eligible e
employees, including pensions, postretirement and postemployment benefits. De
associated with such benefits is dependent on various actuarial assumptions inclu
expected return on plan assets, compensation increases, employee mortality and t
health-care cost trend rates. Actuarial valuations are performed to determine exp
with generally accepted accounting principles in the United States. Actual results
actuarial assumptions and are generally accumulated and amortized into earnings
The Company reviews its actuarial assumptions at each measurement date and m
to the assumptions based on current rates and trends, if appropriate. The discount
compensation increase and the expected long-term rates of return on plan assets a
the measurement date. A discount rate reflects a rate at which pension benefits co
settled. For U.S. plans, it is established and based primarily on a study based on t
Liability index. For non-U.S. plans, it is based upon a review of the current yield
corporate bonds or the yields of high-quality fixed-income investments available
available during the life of the plans. The rate of compensation increase is depen
future compensation levels. The expected long-term rate of return on plan assets
rate of returns expected on the funds invested or to be invested to provide for the
the projected benefit obligation. The expected long-term rate of return on plan as
is achievable given the plan s investment policy, the types of assets held and the
allocation. The expected long-term rate of return is determined as of the measure
Company believes that the assumptions utilized in recording its obligations unde
reasonable based on input from its actuaries, outside investment advisors and inf
assumptions used by plan sponsors.

Changes in any of the assumptions can have an impact on the net periodic pension c
benefit cost. Estimated sensitivities to the net periodic pension cost of a 0.25% rate
basic assumptions are as follows: the discount rate would increase expense by appro
million and the estimated return on assets assumption would increase expense by ap
million. A 0.25% rate decrease in the discount rate for postretirement benefits would
periodic postretirement benefit cost by $0.8 million and a 1.0% increase in the healt
would increase the cost by approximately $2.0 million.

The preparation of financial statements includes the use of estimates and assumptio
number of amounts included in the Company s consolidated financial statements. I
ultimately different from previous estimates, the revisions are included in the Comp
period in which the actual amounts become known. Historically, the aggregate diffe
between the Company s estimates and actual amounts in any year have not had a m

Stockholders' equity (deficit)

consolidated financial statements.

Stockholders' equity (deficit)

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Recently Adopted Accounting Pronouncements:

FASB ASC 715, Compensation Retirement Benefits, (ASC 715) requires an en
defined benefit plan assets and benefit obligations as of the date of the employer s f
statement of financial position. The measurement date provisions of ASC 715 are ef
Company for the fiscal year ending December 31, 2008. The Company has adopted
provisions of ASC 715, which resulted in an after-tax charge to Retained earnings in
million ($6.5 million pre-tax) in 2008. Plans acquired during 2008 were not impacte

Effective January 1, 2007, the Company adopted the provisions of FASB ASC 740,
740) which prescribes a recognition threshold and measurement process for recordin
statements uncertain tax positions taken or expected to be taken in a tax return. As a
these provisions of ASC 740 as of January 1, 2007, the Company recorded additiona
previously established reserves, and corresponding decrease in Retained earnings of

In September 2006, the FASB issued revised guidance within FASB ASC 820, Fai
and Disclosures (ASC 820) to provide a framework for measuring fair value that is
assumptions market participants would use when pricing an asset or liability. ASC 8
fair value hierarchy that prioritizes the information to develop those assumptions. A
guidance expands the disclosures about fair value measurements to include disclosin
measurements of assets or liabilities within each level of the fair value hierarchy. Th
ASC 820 were effective for the Company starting on January 1, 2008. In accordance
Company has delayed its implementation of these provisions for the fair value of go
indefinite-lived intangible assets and nonfinancial long-lived assets and liabilities. R
the consolidated financial statements for a full discussion of these provisions of ASC

In February 2007, the FASB issued revised guidance within FASB ASC 825, Fina
(ASC 825) which allows companies the option, at specified election dates, to measu
and liabilities at their current fair value, with the corresponding changes in fair value
period recognized in the income statement. Additionally, ASC 825 establishes prese
disclosure requirements designed to facilitate comparisons between companies that c
measurement attributes for similar assets and liabilities. These provisions of ASC 82
the Company starting on January 1, 2008. As of December 31, 2009, the Company h
option available under ASC 825.

In December 2007, the FASB issued revised guidance to address the financial accou
for business combinations, which can be found in FASB ASC 805, Business Comb
ASC 805 supersedes SFAS 141, Business Combinations and retains the fundame
forth therein regarding the purchase method of accounting. However, it expands the
proper recognition and measurement, at fair value, the identifiable assets acquired, l
and any noncontrolling interest in the acquired business. In addition, ASC 805 introd
accounting guidance on how to recognize and measure contingent consideration, con
acquisition and restructuring costs. These provisions of ASC 805 are effective for ac
after January 1, 2009.

In December 2007, the FASB issued revised guidance within FASB ASC 810, Con
810) which clarifies that a noncontrolling interest in a subsidiary represents an owne
should be reported as equity in the consolidated financial statements. In addition, AS
expanded income statement presentation and disclosures that clearly identify and dis
interests of the Company and the interests of the non-controlling owners of the subsi
relates to noncontrolling interests, is effective for the Company starting on January 1
to the consolidated financial statements for a discussion on these provisions of ASC

Stockholders' equity (deficit)

In March 2008, the FASB issued revised guidance within FASB ASC 815, Derivat
(ASC 815) which amends and expands the disclosures previously required. ASC 81
disclosures about objectives and strategies for using derivatives, quantitative disclos
amounts of gains

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Stockholders' equity (deficit)

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and losses on derivative instruments and disclosures about credit-risk-related contin
derivative agreements. The expanded disclosure requirements found in ASC 815 as
modifications made in March 2008 are effective for the Company starting on Januar
14 to the consolidated financial statements for a discussion of these provisions of A

In May 2008, the FASB issued revised guidance within FASB ASC 470, Debt (A
us to allocate between debt and equity the proceeds of the Company s exchangeabl
that reflects the Company s nonconvertible debt borrowing rate. In addition, the Co
amortize any discount into earnings over a period of three years. These provisions o
applicable to the Company during the second quarter of 2009, upon issuance of the
notes in April 2009.

Recently Issued Accounting Pronouncements:

In June 2009, the FASB issued revised guidance within ASC 810. These revisions e
Interpretation 46(R) s exceptions to consolidating qualifying special-purpose entiti
for determining the primary beneficiary, and increase the frequency of required reas
determine whether a company is the primary beneficiary of a variable interest entity
contains a new requirement that any term, transaction, or arrangement that does not
effect on an entity s status as a variable interest entity, a company s power over a
or a company s obligation to absorb losses or its right to receive benefits of an entit
in applying FASB Interpretation 46(R) s provisions. The elimination of the qualifyi
entity concept and its consolidation exceptions means more entities will be subject t
assessments and reassessments. These provisions of ASC 810 are effective as of the
first fiscal year beginning after November 15, 2009, and for interim periods within t
earlier adoption prohibited. The Company is currently assessing the potential impac
consolidated financial statements.

In June 2009, the FASB issued revised guidance within FASB ASC 860, Transfer
860). These revisions eliminate the concept of a qualifying special-purpose entity, c
conditions for reporting a transfer of a portion of a financial asset as a sale, clarify o
criteria, and change the initial measurement of a transferor s interest in transferred
provisions of ASC 860 will be effective for transfers of financial assets in fiscal yea
November 15, 2009 and in interim periods within those fiscal years with earlier ado
Company is currently assessing the potential impacts, if any, on its consolidated fin

Item 7A. **QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT M**

We are exposed to fluctuations in currency exchange rates, interest rates and comm
could impact our results of operations and financial condition. To manage certain of
use derivative instruments, primarily forward contracts. Derivative instruments utili
hedging activities are viewed as risk management tools, involve little complexity an
trading or speculative purposes. To minimize the risk of counter party non-performa
instrument agreements are made only through major financial institutions with signi
such derivative instruments.

Foreign Currency Exposures

We have operations throughout the world that manufacture and sell their products i
international markets. As a result, we are exposed to movements in exchange rates
against the U.S. dollar as well as against other currencies throughout the world. We
currency exposures that are associated with purchases and sales and other assets an
operating unit level. Exposures that cannot be naturally offset within an operating u

Stockholders' equity (deficit)

amount are hedged with foreign currency derivatives. We also have non-U.S. curren
exposures, which we currently do not hedge with any derivative instrument.

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Stockholders' equity (deficit)

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We evaluate our exposure to changes in currency exchange rates on our foreign curr
using a sensitivity analysis. The sensitivity analysis is a measurement of the potentia
value based on a percentage increase or decrease in exchange rates. Based on the fir
currency derivative instruments in place at December 31, 2009, a hypothetical chang
those derivative instruments assuming a 10% increase in exchange rates would resul
gain of approximately $69.1 million, as compared with an unrealized gain of $23.9 r
December 31, 2008. These amounts would be offset by changes in the fair value of t
currency transactions.

Commodity Price Exposures

We are exposed to volatility in the prices of raw materials used in some of our produ
price contracts to manage this exposure. We do not have any committed commodity
instruments in place at December 31, 2009.

Interest Rate Exposure

Our debt portfolio mainly consists of fixed-rate instruments, and therefore any fluctu
interest rates would not have a material effect on our results of operations.

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Stockholders' equity (deficit)

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Item 8. **FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

(a) The following consolidated financial statements and the report thereon of Pricew
LLP dated February 26, 2010, are presented following Item 15 of this Annual Re
Consolidated Financial Statements:

Report of independent registered public accounting firm

Consolidated statements of income for the years ended December 31, 2009, 2008 an

Consolidated balance sheets at December 31, 2009 and 2008

For the years ended December 31, 2009, 2008 and 2007:

Consolidated statements of shareholders equity

Consolidated statements of cash flows

Notes to consolidated financial statements

Financial Statement Schedule:

Consolidated schedule for the years ended December 31, 2009, 2008 and 2007:

Schedule II Valuation and Qualifying Accounts

(b) The unaudited quarterly financial data for the two years ended December 31, is a

In millions, except per share amounts	2009		
	First Quarter	Second Quarter	T Qu
Net revenues	$ 2,932.9	$ 3,473.8	$ 3,
Cost of goods sold	(2,206.4)	(2,540.4)	(2,
Operating income (loss)	49.9	250.6	
Net earnings (loss)	(21.8)	127.6	
Net earnings (loss) attributable to Ingersoll-Rand plc	(26.7)	122.1	
Earnings (loss) per share attributable to Ingersoll-Rand plc ordinary shareholders:			
Basic	$ (0.08)	$ 0.38	$
Diluted	$ (0.08)	$ 0.38	$
	2008		
	First Quarter	Second Quarter	T Qu

Stockholders' equity (deficit)

Net revenues	$ 2,163.3	$ 3,080.8	$ 4,
Cost of goods sold	(1,540.9)	(2,196.1)	(3,
Operating income (loss)	247.0	361.6	
Net earnings (loss)	185.4	262.6	
Net earnings (loss) attributable to Ingersoll-Rand plc	181.6	256.1	
Earnings (loss) per share attributable to Ingersoll-Rand plc ordinary shareholders:			
Basic	$ 0.66	$ 0.89	$
Diluted	$ 0.66	$ 0.88	$

1. 2008 amounts include the results of Trane since the acquisition date (June 5, 20
December 31, 2008).
2. The fourth quarter of 2008 includes a one-time, non-cash charge of $3,710.0 mi
after-tax) related to the impairment of assets.

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Stockholders' equity (deficit)

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Item 9. **CHANGES IN AND DISAGREEMENTS WITH INDEPENDENT A**

ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. **CONTROLS AND PROCEDURES**

Disclosure Controls and Procedures

The Company s management, including its Chief Executive Officer and Chief Fina
conducted an evaluation of the effectiveness of disclosure controls and procedures (
defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 193
Exchange Act)), as of the end of the period covered by this Annual Report on Form
evaluation, the Chief Executive Officer and Chief Financial Officer concluded as of
that the disclosure controls and procedures are effective in ensuring that all material
to be filed in this Annual Report on Form 10-K has been recorded, processed, summ
when required and the information is accumulated and communicated, as appropriat
decisions regarding required disclosure.

Management s Report on Internal Control Over Financial Reporting

The Company s management is responsible for establishing and maintaining adequ
over financial reporting as such term is defined under Exchange Act Rules 13a-15(f
Internal control over financial reporting is a process designed to provide reasonable
the reliability of financial reporting and the preparation of financial statements for e
accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not
misstatements. Also, projections of any evaluation of effectiveness to future periods
risk that controls may become inadequate because of changes in conditions, or that t
compliance with the policies and procedures may deteriorate.

Management has assessed the effectiveness of internal control over financial reporti
December 31, 2009. In making its assessment, management has utilized the criteria
Committee of Sponsoring Organizations (COSO) of the Treadway Commission in *I*
Integrated Framework. Management concluded that based on its assessment, the Co
control over financial reporting was effective as of December 31, 2009.

The effectiveness of the Company s internal control over financial reporting as of D
been audited by PricewaterhouseCoopers LLP, an independent registered public acc
stated in their report which appears herein.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company s internal controls over financial reporti
ended December 31, 2009 that has materially affected, or is reasonably likely to ma
Company s internal control over financial reporting.

Item 9B. **OTHER INFORMATION**

None.

Stockholders' equity (deficit)

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Stockholders' equity (deficit)

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PART III

The information called for by Part III (Items 10, 11, 12, and 13) of Form 10-K will b
Company s Proxy Statement for the Company s 2010 Annual General Meeting of
Company intends to file within 120 days after the close of its fiscal year ended Dece
hereby incorporated by reference to such Proxy Statement, except that the informati
Company s executive officers which follows Item 4 in this Annual Report on Form
by reference into Items 10 and 12, respectively, of this Report.

Item 14. **PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated herein by reference to the info
under the caption Fees of the Independent Auditors in our 2010 Proxy Statement.

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Stockholders' equity (deficit)

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PART IV

Item 15. **EXHIBITS AND FINANCIAL STATEMENTS SCHEDULE**

(a) 1. and 2. Financial statements and financial statement schedule

See Item 8.

3. Exhibits

The exhibits listed on the accompanying index to exhibits
this Annual Report on Form 10-K.

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Stockholders' equity (deficit)

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INGERSOLL-RAND PLC

INDEX TO EXHIBITS

(Item 15(a))

Description

Pursuant to the rules and regulations of the Securities and Exchange Commission (
plc (the Company) has filed certain agreements as exhibits to this Annual Report
agreements may contain representations and warranties by the parties. These represe
warranties have been made solely for the benefit of the other party or parties to such
(i) may have been qualified by disclosures made to such other party or parties, (ii) w
the date of such agreements or such other date(s) as may be specified in such agreem
to more recent developments, which may not be fully reflected in our public disclosu
the allocation of risk among the parties to such agreements and (iv) may apply mate
different from what may be viewed as material to investors. Accordingly, these repr
warranties may not describe our actual state of affairs at the date hereof and should r

(a) Exhibits

Exhibit No.	Description	Method of Filing
3.1	Memorandum of Association of Ingersoll-Rand plc	Incorporated by re 3.1 to the Compan No. 001-34400) fil July 1, 2009.
3.2	Articles of Association of Ingersoll-Rand plc	Incorporated by re 3.2 to the Compan No. 001-34400) fil July 1, 2009.
3.3	Certificate of Incorporation of Ingersoll-Rand plc	Incorporated by re 3.3 to the Compan No. 001-34400) fil July 1, 2009.
4.1	Second Supplemental Indenture, dated as of April 3, 2009, among the Company, Ingersoll-Rand Global Holding Company Limited and Wells Fargo Bank, N.A., as trustee, to that certain Indenture, dated as of August 12, 2008, among the Company, Ingersoll-Rand Global Holding Company Limited and Wells Fargo Bank, N.A., as trustee	Incorporated by re 4.1 to Ingersoll-Ra Limited s Form 8- 001-16831) filed w 6, 2009.
4.2	Third Supplemental Indenture, dated as of April 6, 2009, among the Company, Ingersoll-Rand Global Holding	Incorporated by re 4.2 to Ingersoll-Ra Limited s Form 8-

Stockholders' equity (deficit)

Company Limited and Wells Fargo Bank, N.A., as trustee, to that certain Indenture, dated as of August 12, 2008, among the Company, Ingersoll-Rand Global Holding Company Limited and Wells Fargo Bank, N.A., as trustee	001-16831) filed w April 6, 2009.

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Stockholders' equity (deficit)

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4.3	Fourth Supplemental Indenture, dated as of June 29, 2009, among Ingersoll-Rand Global Holding Company Limited, a Bermuda exempted company, Ingersoll-Rand Company Limited, a Bermuda exempted company, Ingersoll-Rand International Holding Limited, a Bermuda exempted company, Ingersoll-Rand plc, an Irish public limited company, and Wells Fargo Bank, N.A., as Trustee, to the Indenture dated as of August 12, 2008	Incorporated by re 4.1 to the Compan No. 001-34400) fil July 1, 2009.
4.4	First Supplemental Indenture, dated as of June 29, 2009, among Ingersoll-Rand Company Limited, a Bermuda exempted company, Ingersoll-Rand Company, a New Jersey corporation, Ingersoll-Rand International Holding Limited, a Bermuda exempted company, Ingersoll-Rand plc, an Irish public limited company, and Wells Fargo Bank, N.A., as Trustee, to the Indenture dated as of May 24, 2005	Incorporated by re 4.2 to the Compan No. 001-34400) fil July 1, 2009.
4.5	Fifth Supplemental Indenture, dated as of June 29, 2009, among Ingersoll-Rand Company, a New Jersey corporation, Ingersoll-Rand plc, an Irish public limited company, Ingersoll-Rand International Holding Limited, a Bermuda exempted company, and The Bank of New York Mellon, as Trustee, to the Indenture dated as of August 1, 1986	Incorporated by re 4.3 to the Compan No. 001-34400) fil July 1, 2009.
4.6	Form of Senior Indenture among Ingersoll-Rand plc, Ingersoll-Rand Company Limited, Ingersoll-Rand Global Holding Company Limited, Ingersoll-Rand International Holding Limited and Wells Fargo Bank, N.A., as Trustee	Incorporated by re 4.1 to the Compan No. 333-161334) f August 13, 2009.
4.7	Form of Senior Debt Security	Included as part of
4.8	Form of Senior Guarantee	Included as part of
4.9	Form of Ordinary Share Certificate of Ingersoll-Rand plc	Incorporated by re 4.6 to the Compan No. 333-161334) f August 13, 2009.
10.1		

Stockholders' equity (deficit)

Herbert L. Henkel Letter, dated February 4, 2009, relating to his benefits under the Ingersoll-Rand Company Elected Officers Supplemental Program II	Incorporated by re 10.37 to the Comp the fiscal year end 001-16831) filed w March 2, 2009.

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Stockholders' equity (deficit)

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10.2	Michael W. Lamach Letter, dated February 4, 2009	Incorporated by re 10.43 to the Comp the fiscal year end (File No. 001-168 SEC on March 2, 2
10.3	Form of IR Stock Option Grant Agreement	Incorporated by re 10.55 to the Comp the fiscal year end (File No. 001-168 SEC on March 2, 2
10.4	Form of IR Restricted Share Unit Grant Agreement	Incorporated by re 10.56 to the Comp the fiscal year end (File No. 001-168 SEC on March 2, 2
10.5	Form of IR Performance Share Unit Grant Agreement (for performance years 2009-2010)	Incorporated by re 10.57 to the Comp the fiscal year end (File No. 001-168 SEC on March 2, 2
10.6	Form of IR Performance Share Unit Grant Agreement (for performance years 2009-2011)	Incorporated by re 10.58 to the Comp the fiscal year end (File No. 001-168 SEC on March 2, 2
10.7	Amendment No. 1 dated as of March 2, 2009 to the Credit Agreement dated as of June 27, 2008 among the Company; Ingersoll-Rand Global Holding Company Limited; J.P. Morgan Chase Bank, N.A., as Administrative Agent, Citibank, N.A., as Syndication Agent, Bank of America, N.A., Deutsche Bank Securities Inc., The Bank of Tokyo Mitsubishi, Ltd., New York Branch, BNP Paribas and William Street LLC, as Documentation Agents, and J.P. Morgan Securities Inc. and Citigroup Global Markets Inc., as joint lead arrangers and joint bookrunners; and certain lending institutions from time to time parties thereto	Incorporated by re 99.1 to the Compa (File No. 001-168 SEC on March 5, 2

Stockholders' equity (deficit)

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10.8	Amendment No. 1 dated as of March 2, 2009 to the Credit Agreement dated as of June 5, 2008 among the Company; Ingersoll-Rand Global Holding Company Limited; JPMorgan Chase Bank, N.A., as administrative agent; Credit Suisse Securities (USA) LLC and Goldman Sachs Credit Partners L.P., as syndication agents; J.P. Morgan Securities Inc., Credit Suisse Securities (USA) LLC and Goldman Sachs Credit Partners L.P., as joint lead arrangers and joint bookrunners; and the lending institutions from time to time parties thereto	Incorporated by re 99.2 to the Compa No. 001-16831) fil March 5, 2009.
10.9	Amendment No. 1 dated as of March 2, 2009 to the Credit Agreement dated as of August 12, 2005, among the Company, Ingersoll-Rand Company and the banks listed therein, and Citicorp USA, Inc., as Syndication Agent, and Bank of America, N.A., Deutsche Bank Securities Inc., The Bank of Tokyo-Mitsubishi, Ltd., New York Branch and UBS Securities LLC, as Documentation Agents, and JPMorgan Chase Bank, N.A., as Administrative Agent, and J.P. Morgan Securities Inc. and Citigroup Global Markets Inc., as Lead Arrangers and Bookrunners	Incorporated by re 99.3 to the Compa No. 001-16831) fil March 5, 2009.
10.10	Amendment No. 1 dated as of March 2, 2009 to the Credit Agreement, dated as of June 25, 2004, among the Company, Ingersoll-Rand Company and the banks listed therein, The JPMorgan Chase Bank, as Administrative Agent, Citibank N.A., and Deutsche Bank Securities Inc., as Co-Syndication Agents, and The Bank of Tokyo-Mitsubishi, Ltd, as Documentation Agent, and J.P. Morgan Securities Inc., as Lead Arranger and Bookrunner	Incorporated by re 99.4 to the Compa No. 001-16831) fil March 5, 2009.

Stockholders' equity (deficit)

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10.11	Receivable Interest Purchase Agreement, dated as of March 31, 2009, among IR Receivables Funding Trust, CAFCO, LLC, Enterprise Funding Company LLC and JS Siloed Trust, as Investors, Citibank, N.A., Bank of America, N.A. (BofA) and JPMorgan Chase Bank, N.A. (JPMorgan), as Banks, Citicorp North America, Inc. (CNAI), as Program Agent, CNAI, BofA and JPMorgan as Investor Agents, Ingersoll-Rand Company, as Collection Agent, and the Originators and Intermediate SPVs parties thereto	Incorporated by re 10.11 to the Comp the quarter ended N No. 001-16831) fil May 8, 2009.
10.12	Initial Purchase and Contribution Agreement, among Hussmann Services Corporation, Thermo King SVC, Inc., Thermo King Corporation, Thermo King De Puerto Rico, Inc., Krack Corporation, Ingersoll-Rand Industrial Refrigeration, Inc., Crystal Refrigeration, Inc., Taylor Industries, Inc., Terry D. Carter Service Co., Inc., Refrigeration Engineering, Inc., Checker Flag Parts, Inc., Hussmann Corporation, Nelson Refrigeration, Inc., Rogers Refrigeration Co., Inc., Refrigeration Service & Design, Inc., WHS Refrigeration Services, Inc., as Sellers, IR Climate Receivables Funding, Inc., as Purchaser, and Ingersoll-Rand Company, as Collection Agent	Incorporated by re 10.12 to the Comp the quarter ended N No. 001-16831) fil May 8, 2009.
10.13	Secondary Purchase Agreement, among IR Climate Receivables Funding, Inc., as Seller, IR Receivables Funding Trust, Purchaser, and Ingersoll-Rand Company, as Collection Agent	Incorporated by re 10.13 to the Comp the quarter ended N No. 001-16831) fil May 8, 2009.
10.14	Initial Purchase and Contribution Agreement, among Ingersoll-Rand Company, as Seller, Club Car, Inc., as Purchaser, and Ingersoll-Rand Company, as Collection Agent	Incorporated by re 10.14 to the Comp the quarter ended N No. 001-16831) fil May 8, 2009.
10.15	Secondary Purchase and Contribution Agreement, among Club Car, Inc., as Seller, IR Industrial Receivables Funding LLC, as Purchaser, and Ingersoll-Rand Company, as Collection Agent	Incorporated by re 10.15 to the Comp the quarter ended N No. 001-16831) fil May 8, 2009.

Stockholders' equity (deficit)

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Stockholders' equity (deficit)

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10.16	Tertiary Purchase Agreement, among IR Industrial Receivables Funding LLC, as Seller, IR Receivables Funding Trust, as Purchaser, and Ingersoll-Rand Company, as Collection Agent	Incorporated by re 10.16 to the Comp the quarter ended M No. 001-16831) fil May 8, 2009.
10.17	Initial Purchase and Contribution Agreement, among Schlage Lock Company LLC, as Seller, Von Duprin LLC, as Purchaser, and Ingersoll-Rand Company, as Collection Agent	Incorporated by re 10.17 to the Comp the quarter ended M No. 001-16831) fil May 8, 2009.
10.18	Secondary Purchase and Contribution Agreement, among Von Duprin LLC, as Seller, IR Security Receivables Funding LLC, as Purchaser, and Ingersoll-Rand Company, as Collection Agent	Incorporated by re 10.18 to the Comp the quarter ended M No. 001-16831) fil May 8, 2009.
10.19	Tertiary Purchase Agreement, among IR Security Receivables Funding LLC, as Seller, IR Receivables Funding Trust, as Purchaser, and Ingersoll-Rand Company, as Collection Agent	Incorporated by re 10.19 to the Comp the quarter ended M No. 001-16831) fil May 8, 2009.
10.20	Initial Purchase and Contribution Agreement, among Trane U.S. Inc., as Seller, ASI Receivables Funding LLC, as Purchaser, and Ingersoll-Rand Company, as Collection Agent	Incorporated by re 10.20 to the Comp the quarter ended M No. 001-16831) fil May 8, 2009.
10.21	Secondary Purchase Agreement, among ASI Receivables Funding LLC, as Seller, and IR Receivables Funding Trust, as Purchaser, and Ingersoll-Rand Company, as Collection Agent	Incorporated by re 10.21 to the Comp the quarter ended M No. 001-16831) fil May 8, 2009.
10.22	Form of Tier 1 Change in Control Agreement	Incorporated by re 10.32 to the Comp the period ended Ju No. 001-34400) fil August 6, 2009.
10.23	Form of Tier 2 Change in Control Agreement	Incorporated by re 10.33 to the Comp the period ended Ju No. 001-34400) fil August 6, 2009.

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Stockholders' equity (deficit)

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10.24	Issuing and Paying Agency Agreement by and among Ingersoll-Rand Global Holding Company Limited, Ingersoll-Rand plc, Ingersoll-Rand Company Limited, Ingersoll-Rand International Holding Limited and JPMorgan Chase Bank, National Association, dated as of July 1, 2009	Incorporated by re 10.1 to the Compa No. 001-34400) fi July 6, 2009.
10.25	Amended and Restated Commercial Paper Dealer Agreement among Ingersoll-Rand Global Holding Company Limited, Ingersoll-Rand Company Limited, Ingersoll-Rand plc, Ingersoll-Rand International Holding Limited and J.P. Morgan Securities Inc., dated as of July 1, 2009	Incorporated by re 10.2 to the Compa No. 001-34400) fi July 6, 2009.
10.26	Amended and Restated Commercial Paper Dealer Agreement among Ingersoll-Rand Global Holding Company Limited, Ingersoll-Rand Company Limited, Ingersoll-Rand plc, Ingersoll-Rand International Holding Limited and Banc of America Securities LLC, dated as of July 1, 2009	Incorporated by re 10.3 to the Compa No. 001-34400) fi July 6, 2009.
10.27	Amended and Restated Commercial Paper Dealer Agreement among Ingersoll-Rand Global Holding Company Limited, Ingersoll-Rand Company Limited, Ingersoll-Rand plc, Ingersoll-Rand International Holding Limited and Citigroup Global Markets Inc., dated as of July 1, 2009	Incorporated by re 10.4 to the Compa No. 001-34400) fi July 6, 2009.
10.28	Amended and Restated Commercial Paper Dealer Agreement among Ingersoll-Rand Global Holding Company Limited, Ingersoll-Rand Company Limited, Ingersoll-Rand plc, Ingersoll-Rand International Holding Limited and Deutsche Bank Securities Inc., dated as of July 1, 2009	Incorporated by re 10.5 to the Compa No. 001-34400) fi July 6, 2009.
10.29	Addendum, dated as of July 1, 2009, between Ingersoll-Rand plc and JPMorgan Chase Bank, N.A., as Administrative Agent under the Credit Agreement, to the Credit Agreement dated as of June 27, 2008	Incorporated by re 10.1 to the Compa No. 001-34400) fi July 1, 2009.

Stockholders' equity (deficit)

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10.30	Addendum, dated as of July 1, 2009, between Ingersoll-Rand plc and JPMorgan Chase Bank, N.A., as Administrative Agent under the Credit Agreement, to the Credit Agreement dated as of August 12, 2005	Incorporated by re 10.2 to the Compa No. 001-34400) fi July 1, 2009.
10.31	Addendum, dated as of July 1, 2009, between Ingersoll-Rand International Holding Limited and JPMorgan Chase Bank, N.A., as Administrative Agent under the Credit Agreement, to the Credit Agreement dated as of June 27, 2008	Incorporated by re 10.3 to the Compa No. 001-34400) fi July 1, 2009.
10.32	Addendum, dated as of July 1, 2009, between Ingersoll-Rand International Holding Limited and JPMorgan Chase Bank, N.A., as Administrative Agent under the Credit Agreement, to the Credit Agreement dated as of August 12, 2005	Incorporated by re 10.4 to the Compa No. 001-34400) fi July 1, 2009.
10.33	Deed Poll Indemnity of Ingersoll-Rand plc, an Irish public limited company, as to the directors, secretary and officers and senior executives of Ingersoll-Rand plc and the directors and officers of Ingersoll-Rand plc s subsidiaries	Incorporated by re 10.5 to the Compa No. 001-34400) fi July 1, 2009.
10.34	Deed Poll Indemnity of Ingersoll-Rand Company Limited, a Bermuda company, as to the directors, secretary and officers and senior executives of Ingersoll-Rand plc and the directors and officers of Ingersoll-Rand plc s subsidiaries	Incorporated by re 10.6 to the Compa No. 001-34400) fi July 1, 2009.
10.35	Ingersoll-Rand Company Incentive Stock Plan of 1995 (amended and restated effective July 1, 2009)	Incorporated by re 10.7 to the Compa No. 001-34400) fi July 1, 2009.
10.36	Ingersoll-Rand plc Incentive Stock Plan of 1998 (amended and restated as of July 1, 2009)	Incorporated by re 10.8 to the Compa No. 001-34400) fi July 1, 2009.
10.37	IR Executive Deferred Compensation Plan (as amended and restated effective July 1, 2009)	Incorporated by re 10.9 to the Compa No. 001-34400) fi July 1, 2009.
10.38	IR Executive Deferred Compensation Plan II (as amended and restated	Incorporated by re 10.10 to the Comp

Stockholders' equity (deficit)

effective July 1, 2009)

No. 001-34400) fil
July 1, 2009.

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Stockholders' equity (deficit)

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10.39	IR-plc Director Deferred Compensation and Stock Award Plan (as amended and restated effective July 1, 2009)	Incorporated by re 10.11 to the Comp No. 001-34400) fil July 1, 2009.
10.40	IR-plc Director Deferred Compensation and Stock Award Plan II (as amended and restated effective July 1, 2009)	Incorporated by re 10.12 to the Comp No. 001-34400) fil July 1, 2009.
10.41	Ingersoll-Rand Company Supplemental Employee Savings Plan (amended and restated effective July 1, 2009)	Incorporated by re 10.13 to the Comp No. 001-34400) fil July 1, 2009.
10.42	Ingersoll-Rand Company Supplemental Employee Savings Plan II (effective January 1, 2005 and amended and restated through July 1, 2009)	Incorporated by re 10.14 to the Comp No. 001-34400) fil July 1, 2009.
10.43	Ingersoll-Rand plc Incentive Stock Plan of 2007 (amended and restated as of July 1, 2009)	Incorporated by re 10.15 to the Comp No. 001-34400) fil July 1, 2009.
10.44	Ingersoll Rand plc Incentive Stock Plan of 2007 Rules for the Grant of Options to Participants in France (as amended and restated effective July 1, 2009)	Incorporated by re 10.16 to the Comp No. 001-34400) fil July 1, 2009.
10.45	Trane Inc. 2002 Omnibus Incentive Plan (restated to include all amendments through July 1, 2009)	Incorporated by re 10.17 to the Comp No. 001-34400) fil July 1, 2009.
10.46	Trane Inc. Stock Incentive Plan (restated to include all amendments through July 1, 2009)	Incorporated by re 10.18 to the Comp No. 001-34400) fil July 1, 2009.
10.47	Trane Inc. Deferred Compensation Plan (as amended and restated as of July 1, 2009, except where otherwise stated)	Incorporated by re 10.19 to the Comp No. 001-34400) fil July 1, 2009.
10.48	Trane Inc. Supplemental Savings Plan (restated to include all amendments through July 1, 2009)	Incorporated by re 10.20 to the Comp No. 001-34400) fil July 1, 2009.

Stockholders' equity (deficit)

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10.49	First Amendment to the Ingersoll-Rand Company Supplemental Pension Plan, dated as of July 1, 2009	Incorporated by re 10.21 to the Comp No. 001-34400) fil July 1, 2009.
10.50	First Amendment to the Ingersoll-Rand Company Supplemental Pension Plan II, dated as of July 1, 2009	Incorporated by re 10.22 to the Comp No. 001-34400) fil July 1, 2009.
10.51	Amendment to the Ingersoll-Rand Company Management Incentive Unit Plan, dated as of June 5, 2009	Incorporated by re 10.34 to the Comp the period ended Ju No. 001-34400) fil August 6, 2009.
10.52	Amendment to the Ingersoll-Rand Company Management Incentive Unit Plan, dated as of July 1, 2009	Incorporated by re 10.23 to the Comp No. 001-34400) fil July 1, 2009.
10.53	Second Amendment to the Ingersoll-Rand Company Elected Officer Supplemental Program, dated as of July 1, 2009	Incorporated by re 10.24 to the Comp No. 001-34400) fil July 1, 2009.
10.54	First Amendment to the Ingersoll-Rand Company Elected Officer Supplemental Program II through July 1, 2009	Incorporated by re 10.25 to the Comp No. 001-34400) fil July 1, 2009.
10.55	Second Amendment to the Ingersoll-Rand Company Estate Enhancement Program, dated as of July 1, 2009	Incorporated by re 10.26 to the Comp No. 001-34400) fil July 1, 2009.
10.56	Michael W. Lamach Letter, dated February 3, 2010	Incorporated by re 10.1 to the Compa No. 001-34400) fil February 5, 2010.
12	Computations of Ratios of Earnings to Fixed Charges	Filed herewith.
21	List of Subsidiaries of Ingersoll-Rand plc	Filed herewith.
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith.
23.2	Consent of Analysis, Research & Planning Corporation	Filed herewith.

Stockholders' equity (deficit)

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Stockholders' equity (deficit)

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31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
101	The following materials from the Company s Annual Report on Form 10-K for the year ended December 31, 2009, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Income Statement, (ii) the Consolidated Balance Sheet, (iii) the Consolidated Statement of Shareholders Equity (iv) the Consolidated Statement of Cash Flows, and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.	Furnished herewitl

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Stockholders' equity (deficit)

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act o
registrant has duly caused this report to be signed on its behalf by the undersigned, t
authorized.

INGERSOLL-RAND PLC

(Registrant)

By: /S/ Michael
(Michael
Chief Ex
Date: February

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has b
following persons on behalf of the registrant and in the capacities and on the dates in

Signature	**Title**
/S/ Herbert L. Henkel (Herbert L. Henkel)	Chairman of the Board
/S/ Michael W. Lamach (Michael W. Lamach)	President, Chief Executive Officer and Director (Principal Executive Officer)
/S/ Steven R. Shawley (Steven R. Shawley)	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/S/ Richard J. Weller (Richard J. Weller)	Vice President and Controller (Principal Accounting Officer)
/S/ Ann C. Berzin (Ann C. Berzin)	Director
/S/ John Bruton (John Bruton)	Director
/S/ Jared L. Cohon (Jared L. Cohon)	Director

Stockholders' equity (deficit)

/S/ Gary D. Forsee	
(Gary D. Forsee)	Director
/S/ Peter C. Godsoe	
(Peter C. Godsoe)	Director
/S/ Edward E. Hagenlocker	
(Edward E. Hagenlocker)	Director
/S/ Constance J. Horner	
(Constance J. Horner)	Director

Stockholders' equity (deficit)

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Signature	Title
/S/ Theodore E. Martin	
(Theodore E. Martin)	Director
/S/ Patricia Nachtigal	
(Patricia Nachtigal)	Director
/S/ Orin R. Smith	
(Orin R. Smith)	Director
/S/ Richard J. Swift	
(Richard J. Swift)	Director
/S/ Tony L. White	
(Tony L. White)	Director

Stockholders' equity (deficit)

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INGERSOLL-RAND PLC

Index to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Income

Consolidated Balance Sheets

Consolidated Statements of Shareholders Equity

Consolidated Statements of Cash Flows

Notes to Consolidated Financial Statements

Schedule II - Valuation and Qualifying Accounts

Stockholders' equity (deficit)

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Ingersoll-Rand plc:

In our opinion, the consolidated financial statements listed in the accompanying ind
all material respects, the financial position of Ingersoll-Rand plc and its subsidiaries
December 31, 2009 and 2008, and the results of their operations and their cash flow
three years in the period ended December 31, 2009 in conformity with accounting p
accepted in the United States of America. In addition, in our opinion, the financial s
listed in the accompanying index presents fairly, in all material respects, the informa
when read in conjunction with the related consolidated financial statements. Also in
Company maintained, in all material respects, effective internal control over financi
December 31, 2009, based on criteria established in Internal Control Integrated Fr
the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
management is responsible for these financial statements and financial statement sch
maintaining effective internal control over financial reporting and for its assessment
of internal control over financial reporting, included in the accompanying Manage
Internal Control over Financial Reporting. Our responsibility is to express opinion
statements, on the financial statement schedule, and on the Company s internal con
reporting based on our integrated audits. We conducted our audits in accordance wit
the Public Company Accounting Oversight Board (United States). Those standards r
and perform the audits to obtain reasonable assurance about whether the financial st
material misstatement and whether effective internal control over financial reporting
all material respects. Our audits of the financial statements included examining, on a
supporting the amounts and disclosures in the financial statements, assessing the acc
used and significant estimates made by management, and evaluating the overall fina
presentation. Our audit of internal control over financial reporting included obtainin
of internal control over financial reporting, assessing the risk that a material weakne
and evaluating the design and operating effectiveness of internal control based on th
audits also included performing such other procedures as we considered necessary in
We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 3 to the consolidated financial statements, the Company has ch
which it accounts for uncertain tax positions effective January 1, 2007, and the mann
accounts for its defined benefit pension and other postretirement plans in 2008.

A company s internal control over financial reporting is a process designed to provi
assurance regarding the reliability of financial reporting and the preparation of finan
external purposes in accordance with generally accepted accounting principles. A co
control over financial reporting includes those policies and procedures that (i) pertai
of records that, in reasonable detail, accurately and fairly reflect the transactions and
assets of the company; (ii) provide reasonable assurance that transactions are record
permit preparation of financial statements in accordance with generally accepted acc
and that receipts and expenditures of the company are being made only in accordanc
of management and directors of the company; and (iii) provide reasonable assurance
prevention or timely detection of unauthorized acquisition, use, or disposition of the
that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not
misstatements. Also, projections of any evaluation of effectiveness to future periods
risk that controls may become inadequate because of changes in conditions, or that t
compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Stockholders' equity (deficit)

Charlotte, North Carolina

February 26, 2010

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Stockholders' equity (deficit)

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Ingersoll-Rand plc

Consolidated Statements of Income

In millions, except per share amounts

For the years ended December 31,		2009		2008
Net revenues	$	13,195.3	$	13,22
Cost of goods sold		(9,645.1)		(9,74
Selling and administrative expenses		(2,708.6)		(2,34
Asset impairment		-		(3,7
Operating income (loss)		841.6		(2,57
Interest expense		(302.2)		(24
Other, net		19.7		6
Earnings (loss) before income taxes		559.1		(2,73
Benefit (provision) for income taxes		(71.3)		20
Earnings (loss) from continuing operations		487.8		(2,54
Discontinued operations, net of tax		(11.6)		(1
Net earnings (loss)		476.2		(2,60
Less: Net earnings attributable to noncontrolling interests		(24.9)		(2
Net earnings (loss) attributable to Ingersoll-Rand plc	$	451.3	$	(2,62
Amounts attributable to Ingersoll-Rand plc ordinary shareholders:				
Continuing operations	$	462.9	$	(2,56
Discontinued operations		(11.6)		(1
Net earnings (loss)	$	451.3	$	(2,62
Earnings (loss) per share attributable to Ingersoll-Rand plc ordinary shareholders:				
Basic:				
Continuing operations	$	1.45	$	(8
Discontinued operations		(0.04)		(0
Net earnings (loss)	$	1.41	$	(8
Diluted:				
Continuing operations	$	1.41	$	(8
Discontinued operations		(0.04)		(0
Net earnings (loss)	$	1.37	$	(8

See accompanying notes to consolidated financial statements.

Stockholders' equity (deficit)

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Ingersoll-Rand plc

Consolidated Balance Sheets

In millions, except share amounts

December 31,	2009
ASSETS	
Current assets:	
Cash and cash equivalents	$ 876
Accounts and notes receivable, net	2,120
Inventories	1,193
Other current assets	637
Total current assets	4,827
Property, plant and equipment, net	1,912
Goodwill	6,606
Intangible assets, net	5,042
Other noncurrent assets	1,602
Total assets	$ 19,991
LIABILITIES AND EQUITY	
Current liabilities:	
Accounts payable	$ 1,079
Accrued compensation and benefits	492
Accrued expenses and other current liabilities	1,529
Short-term borrowings and current maturities of long-term debt	876
Total current liabilities	3,978
Long-term debt	3,219
Postemployment and other benefit liabilities	1,954
Deferred and noncurrent income taxes	1,933
Other noncurrent liabilities	1,699
Total liabilities	12,785
Shareholders equity:	
Ingersoll-Rand plc shareholders equity	
Common shares, $1 par value (320,616,056 and 370,813,037 shares issued at December 31, 2009 and 2008, respectively, and net of 26,074 and 52,020,439 shares owned by subsidiary at December 31, 2009 and 2008, respectively)	320
Capital in excess of par value	2,377
Retained earnings	4,837
Accumulated other comprehensive income (loss)	(434
Total Ingersoll-Rand plc shareholders equity	7,101
Noncontrolling interests	103
Total shareholders equity	7,205
Total liabilities and shareholders equity	$ 19,991

See accompanying notes to consolidated financial statements.

Stockholders' equity (deficit)

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Ingersoll-Rand plc

Consolidated Statements of Shareholders Equity

In millions, except per share amounts	Total shareholders equity	Common stock Amount	Shares	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)	Non
Balance at December 31, 2006	$ 5,478.4	$ 306.8	306.8	$ 0.0	$ 5,456.1	$ (358.1)	$
Adoption of FIN 48	(145.6)	-	-	-	(145.6)	-	
Net earnings	3,990.0	-	-	-	3,966.7	-	
Currency translation	418.2	-	-	-	-	411.9	
Change in value of marketable securities and cash flow hedges, net of tax of $1.7	(2.2)	-	-	-	-	(2.2)	
Pension and OPEB adjustments, net of tax of $130.0	194.9	-	-	-	-	194.9	
Total comprehensive income							
Shares issued under incentive stock plans	196.6	5.5	5.5	191.1	-	-	
Repurchase of common shares by subsidiary	(1,999.9)	(39.7)	(39.7)	(281.6)	(1,678.6)	-	
Share-based compensation	90.5	-	-	90.5	-	-	
Acquisition (divestiture) of noncontrolling interests	(0.3)	-	-	-	-	-	
Dividends to noncontrolling interests	(5.4)	-	-	-	-	-	
Cash dividends, declared and paid ($0.72 per share)	(209.8)	-	-	-	(209.8)	-	
Balance at December 31, 2007	8,005.4	272.6	272.6	(0.0)	7,388.8	246.5	$
Net earnings (loss)	(2,604.8)	-	-	-	(2,624.8)	-	
	(245.8)	-	-	-	-	(238.8)	

Stockholders' equity (deficit)

Currency translation						
Change in value of marketable securities and cash flow hedges, net of tax of $2.7	3.5	-	-	-	-	3.5
Pension and OPEB adjustments, net of tax of $254.8	(463.3)	-	-	-	-	(463.3)
Total comprehensive income						
Effects of measurement date change pursuant to FASB Statement No. 158						
Service cost, interest cost and expected return on plan assets for December 1 December 31, 2007, net of tax of $1.4	(2.4)	-	-	-	(2.4)	-
Amortization of net transition obligation, prior service cost and net actuarial losses for December 1 December 31, 2007, net of tax of $1.4	-	-	-	-	(1.3)	1.3
Shares issued under incentive stock plans	32.0	0.8	0.8	31.2	-	-
Repurchase of common shares by subsidiary	(2.0)	-	-	(2.0)	-	-
Treasury shares issued as Trane merger consideration	2,035.1	45.4	45.4	1,989.7	-	-
Conversion of Trane options to IR options	184.0	-	-	184.0	-	-
Share-based compensation	43.1	-	-	43.1	-	-
Acquisition of noncontrolling interests	7.7	-	-	-	-	-
Dividends to noncontrolling interests	(17.5)	-	-	-	-	-
Cash dividends, declared and paid ($0.72 per share)	(212.9)	-	-	-	(212.9)	-

Stockholders' equity (deficit)

Balance at December 31, 2008	6,762.1	318.8	318.8	2,246.0	4,547.4	(450.8)	$
Net earnings	476.2	-	-	-	451.3	-	
Currency translation	67.3	-	-	-	-	67.3	
Change in value of marketable securities and cash flow hedges, net of tax of $0.8	(0.8)	-	-	-	-	(0.8)	
Pension and OPEB adjustments, net of tax of ($4.6)	(50.0)	-	-	-	-	(50.0)	
Total comprehensive income							
Shares issued under incentive stock plans	27.9	1.8	1.8	26.1	-	-	
Issuance of exchangeable notes	38.7	-	-	38.7	-	-	
Share-based compensation	68.2	-	-	68.2	-	-	
Acquisition of noncontrolling interests	(1.5)	-	-	(0.1)	-	-	
Dividends to noncontrolling interests	(20.2)	-	-	-	-	-	
Cash dividends, declared and paid ($0.50 per share)	(160.8)	-	-	-	(160.8)	-	
Other	(1.4)	-	-	(1.3)	-	-	
Balance at December 31, 2009	$ 7,205.7	$ 320.6	320.6	$ 2,377.6	$ 4,837.9	$ (434.3)	$

See accompanying notes to consolidated financial statements.

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Stockholders' equity (deficit)

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Ingersoll-Rand plc

Consolidated Statements of Cash Flows

In millions

For the years ended December 31,	2009	2008
Cash flows from operating activities:		
Net earnings (loss)	$ 476.2	$ (2,604
Loss (income) from discontinued operations, net of tax	11.6	57
Adjustments to arrive at net cash provided by (used in) operating activities:		
Asset impairment charge	-	3,710
Depreciation and amortization	424.9	45
(Gain)/loss on sale of property, plant and equipment	2.5	(
Equity earnings, net of dividends	3.2	
Stock settled share based compensation	68.3	4
Deferred income taxes	(32.0)	(334
Other items	169.5	(3
Changes in other assets and liabilities (Increase) decrease in:		
Accounts and notes receivable	427.2	24
Inventories	430.8	120
Other current and noncurrent assets	271.7	11
Increase (decrease) in:		
Accounts payable	28.1	(20
Other current and noncurrent liabilities	(530.5)	(1,20
Net cash (used in) provided by continuing operating activities	1,751.5	37
Net cash (used in) provided by discontinued operating activities	(16.9)	(2
Cash flows from investing activities:		
Capital expenditures	(204.2)	(30
Proceeds from sale of property, plant and equipment	22.2	7
Acquisitions, net of cash acquired	-	(7,10
Proceeds from business dispositions, net of cash	-	5
Proceeds from sales and maturities of marketable securities	-	
Other	(0.7)	(3
Net cash (used in) provided by continuing investing activities	(182.7)	(7,30
Net cash (used in) provided by discontinued investing activities	-	
Cash flows from financing activities:		
Proceeds from bridge loan	196.0	2,95
Payments of bridge loan	(950.0)	(2,19
Commercial paper program (net)	(998.7)	99
Other short-term borrowings (net)	(57.6)	
Proceeds from long-term debt	1,010.3	1,61
Payments of long-term debt	(210.5)	(38
Net proceeds (repayments) in debt	(1,010.5)	2,98

Stockholders' equity (deficit)

Settlement of cross currency swap	(26.9)	
Debt issue costs	(16.1)	(2
Proceeds from exercise of stock options	27.2	1
Excess tax benefit from share based compensation	0.7	1
Dividends paid to noncontrolling interests	(20.2)	(1
Dividends paid to ordinary shareholders	(160.8)	(21
Acquisition of noncontrolling interest	(1.5)	
Repurchase of common shares by subsidiary	-	(
Net cash (used in) provided by continuing financing activities	(1,208.1)	2,76
Net cash (used in) provided by discontinued financing activities	-	
Effect of exchange rate changes on cash and cash equivalents	(17.3)	1
Net increase (decrease) in cash and cash equivalents	326.5	(4,18
Cash and cash equivalents beginning of period	550.2	4,73
Cash and cash equivalents end of period	$ 876.7	$ 55
Cash paid during the year for:		
Interest, net of amounts capitalized	$ 209.8	$ 8
Income taxes, net of refunds	$ 71.5	$ 1,05

See accompanying notes to consolidated financial statements.

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Stockholders' equity (deficit)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENT

NOTE 1 DESCRIPTION OF COMPANY

Ingersoll-Rand plc (IR-Ireland), an Irish public limited company, and its consolidate
Company) is a diversified, global company that provides products, services and solu
quality and comfort of air in homes and buildings, transport and protect food and pe
homes and commercial properties, and increase industrial productivity and efficienc
business segments consist of Climate Solutions, Residential Solutions, Industrial Te
Security Technologies, each with strong brands and leading positions within their re
The Company generates revenue and cash primarily through the design, manufactur
a diverse portfolio of industrial and commercial products that include well-recogniz
names such as Club Car®, Hussmann®, Ingersoll-Rand®, Schlage®, Thermo King® a

On July 1, 2009, Ingersoll-Rand Company Limited (IR-Limited), a Bermuda compa
reorganization to change the jurisdiction of incorporation of the parent company of I
Bermuda to Ireland. As a result, IR-Ireland replaced IR-Limited as the ultimate pare
July 1, 2009. All references related to the Company prior to July 1, 2009 relate to IR

NOTE 2 THE REORGANIZATION

On March 5, 2009, the Company s board of directors approved a reorganization tha
jurisdiction of incorporation of the parent company from Bermuda to Ireland (the Ir
Reorganization). The first step in the Ireland Reorganization was the establishment o
residency in Ireland, which occurred in March 2009. Subsequently, IR-Ireland repla
the ultimate parent company pursuant to a scheme of arrangement under Bermuda la
Arrangement). Major milestones to complete the Scheme of Arrangement were as fo

On April 1, 2009, IR-Limited formed IR-Ireland as a direct subsidiary.

On April 20, 2009, IR-Limited petitioned the Supreme Court of Bermuda to
a meeting of the Class A common shareholders of IR-Limited to approve th
Arrangement.

On April 23, 2009, the Supreme Court of Bermuda ordered IR-Limited to se
its Class A common shareholders on the Scheme of Arrangement.

On June 3, 2009, IR-Limited received the requisite approval from its Class
shareholders.

On June 11, 2009, the Supreme Court of Bermuda issued an order (the Sanc
approving the Scheme of Arrangement.

On June 30, 2009, IR-Limited filed the Sanction Order with the Bermuda Registrar o
12:01 a.m. on July 1, 2009 (the Transaction Time) the following steps occurred simu

Stockholders' equity (deficit)

All fractional shares of IR-Limited held of record were cancelled and IR-Li
holder of fractional shares that were cancelled an amount based on the avera
low trading prices of the IR-Limited Class A common shares on the New Y
on June 29, 2009.

All previously outstanding whole Class A common shares of IR-Limited we

IR-Limited issued to IR-Ireland 319,166,220 Class A common shares.

IR-Ireland issued 319,166,220 ordinary shares to holders of whole IR-Limit
shares that were cancelled as a part of the Scheme of Arrangement.

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Stockholders' equity (deficit)

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All previously outstanding ordinary shares of IR-Ireland held by IR-Limited were acquired by IR-Ireland and cancelled for no consideration.

As a result of the Ireland Reorganization, IR-Limited became a wholly-owned subsi and the Class A common shareholders of IR-Limited became ordinary shareholders references related to the Company prior to July 1, 2009 relate to IR-Limited.

The Ireland Reorganization did not have a material impact on the Company s finan Ingersoll-Rand plc will continue to be subject to United States Securities and Excha reporting requirements and prepare financial statements in accordance with U.S. Ge Accounting Principles (GAAP). Shares of Ingersoll-Rand plc will continue to trade Stock Exchange under the symbol IR , the same symbol under which the Ingersol Limited Class A common shares previously traded.

See Note 18 for a discussion of the modifications made to the Company s equity-ba 13 and 25 for a discussion of certain modifications to the indentures governing the C outstanding notes, medium-term notes and debentures and the documents relating to commercial paper program.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies used in the preparation of the accomp statements follows:

Basis of Presentation: The accompanying consolidated financial statements reflect operations of the Company and have been prepared in accordance with GAAP as de Financial Accounting Standards Board (FASB) within the FASB Accounting Standa (FASB ASC). In the opinion of management, the accompanying consolidated financ contain all adjustments, which include normal recurring adjustments, necessary to p consolidated results for the periods presented.

The Company adopted the FASB s new standard for accounting for noncontrolling 2009. A noncontrolling interest in a subsidiary is considered an ownership interest t reported as equity in the consolidated financial statements. As a result, the Company noncontrolling interests as a component of Total shareholders equity in the Consol and the earnings attributable to noncontrolling interests are now presented as an adju earnings (loss) used to arrive at Net earnings (loss) attributable to Ingersoll-Rand pl Statement of Income. Prior to the adoption of this new standard, earnings associated interests were reported as a component of Other, net.

As discussed in Note 4, the Company acquired Trane Inc. (Trane) at the close of bu 2008 (the Acquisition Date). The results of operations of Trane have been included statements of income and cash flows for the year ended December 31, 2009. The co of income and cash flows for the year ended December 31, 2008 includes the results Acquisition Date.

Certain reclassifications of amounts reported in prior years have been made to confo classification.

Reorganization: IR-Ireland is the successor to IR-Limited following a corporate re became effective on July 1, 2009 (the Ireland Reorganization). IR-Limited is the suc Ingersoll-Rand Company, a New Jersey corporation (IR-New Jersey), following a c reorganization that occurred on December 31, 2001 (the Bermuda Reorganization). Reorganization and the Bermuda Reorganization were accounted for as a reorganiza

Stockholders' equity (deficit)

common control and accordingly, did not result in any changes to the consolidated a
liabilities and shareholders equity.

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Stockholders' equity (deficit)

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Principles of Consolidation: The consolidated financial statements include all maj
subsidiaries of the Company. Partially-owned equity affiliates are accounted for und
method. The Company is also required to consolidate variable interest entities in wh
majority of the risk to the entities potential losses or stands to gain from a majority
expected returns. Intercompany accounts and transactions have been eliminated. The
results of operations and cash flows of all discontinued operations have been separat
discontinued operations and held for sale for all periods presented.

Use of Estimates: The preparation of financial statements in conformity with GAA
management to make estimates and assumptions that affect the reported amounts of
and the disclosures of contingent assets and liabilities at the date of the financial stat
reported amounts of revenues and expenses during the reporting period. Estimates a
factors including the facts and circumstances available at the time the estimates are
experience, risk of loss, general economic conditions and trends, and the assessment
future outcome. Some of the more significant estimates include accounting for doub
lives of property, plant and equipment and intangible assets, purchase price allocatio
businesses, valuation of assets including goodwill and other intangible assets, produ
allowances, pension plans, postretirement benefits other than pensions, taxes, enviro
product liability, asbestos matters and other contingencies. Actual results could diffe
estimates. Estimates and assumptions are reviewed periodically, and the effects of c
reflected in the statement of operations in the period that they are determined.

Currency Translation: Assets and liabilities of non-U.S. subsidiaries, where the fu
not the U.S. dollar, have been translated at year-end exchange rates, and income and
have been translated using average exchange rates throughout the year. Adjustments
process of translating an entity s financial statements into the U.S. dollar have been
section of the balance sheet within Accumulated other comprehensive income (loss)
are denominated in a currency other than an entity s functional currency are subject
exchange rates with the resulting gains and losses recorded within net earnings.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, dem
highly liquid investments with original maturities at the time of purchase of three m

Marketable Securities: The Company has classified its marketable securities as av
accordance with GAAP. Available-for-sale marketable securities are accounted for a
the unrealized gain or loss, less applicable deferred income taxes, recorded within A
comprehensive income (loss). If any of the Company s marketable securities experi
temporary declines in value as defined by GAAP, a loss is recorded in the Consolida
Income.

Inventories: Depending on the business, U.S. inventories are stated at the lower of
the last-in, first-out (LIFO) method or the lower of cost or market using the first-in,
method. Non-U.S. inventories are primarily stated at the lower of cost or market usi
At December 31, 2009 and 2008, approximately 44% and 45%, respectively, of all i
LIFO method.

Allowance for Doubtful Accounts: The Company has provided an allowance for d
reserve which represents the best estimate of probable loss inherent in the Company
portfolio. This estimate is based upon company policy, derived from knowledge of i
customer base and products. The Company reserved $57.6 million and $52.1 million
accounts as of December 31, 2009 and 2008, respectively.

Stockholders' equity (deficit)

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Stockholders' equity (deficit)

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Property, Plant and Equipment: Property, plant and equipment are stated at cost,
depreciation. Assets placed in service are recorded at cost and depreciated using the
over the estimated useful life of the asset except for leasehold improvements, which
the shorter of their economic useful life or their lease term. The range of useful lives
property, plant and equipment is as follows:

Buildings
Machinery and equipment
Software

Repair and maintenance costs that do not extend the useful life of the asset are charg
as incurred. Major replacements and significant improvements that increase asset va
useful lives are capitalized.

The Company assesses the recoverability of the carrying value of its property, plant
whenever events or changes in circumstances indicate that the carrying amount of th
recoverable. Recoverability is measured by a comparison of the carrying amount of
net undiscounted cash flows expected to be generated by the asset. If the undiscount
less than the carrying amount of the asset, an impairment loss is recognized for the a
carrying value of the asset exceeds the fair value of the assets.

Goodwill and Intangible Assets: The Company records as goodwill the excess of
over the fair value of the net assets acquired. Once the final valuation has been perfo
acquisition, adjustments may be recorded.

In accordance with GAAP, goodwill and other indefinite-lived intangible assets are
annually for impairment during the fourth quarter or whenever there is a significant
circumstances that indicate that the fair value of the asset may be less than the carry
asset.

Recoverability of goodwill is measured at the reporting unit level and determined us
process. The first step compares the carrying amount of the reporting unit to its estin
the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of
not impaired and the second step of the impairment test is not necessary. To the exte
value of the reporting unit exceeds its estimated fair value, a second step is performe
reporting unit s carrying value of goodwill is compared to the implied fair value of
extent that the carrying value exceeds the implied fair value, impairment exists and

Recoverability of other indefinite-lived intangible assets is measured by a compariso
amount of the intangible assets to the estimated fair value of the respective intangibl
of the carrying value over the estimated fair value is recognized as an impairment lo
excess.

Intangible assets such as patents, customer-related intangible assets and other intang
useful lives are amortized on a straight-line basis over their estimated economic live
weighted-average useful lives approximate the following:

Customer relationships
Trademarks

Stockholders' equity (deficit)

Completed technology/patents
Other
* Excludes intangibles acquired and fully expensed in the year of acquisition.

Stockholders' equity (deficit)

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Recoverability of intangible assets with finite useful lives is assessed in the same ma
plant and equipment as described above.

Income Taxes: Deferred tax assets and liabilities are determined based on tempora
between financial reporting and tax bases of assets and liabilities, applying enacted t
be in effect for the year in which the differences are expected to reverse. The Compa
tax benefits, such as net operating losses and non-U.S. tax credits, to the extent that
benefits is considered in its judgment to be more likely than not. The Company regu
recoverability of its deferred tax assets considering its historic profitability, projecte
income, timing of the reversals of existing temporary differences and the feasibility
strategies. Where appropriate, the Company records a valuation allowance with resp
benefit.

Product Warranties: Warranty accruals are recorded at the time of sale and are es
product warranty terms and historical experience. The Company assesses the adequa
and will make adjustments as necessary based on known or anticipated warranty cla
information becomes available.

Treasury Stock: The Company, through one of its consolidated subsidiaries, has re
common shares from time to time in the open market and in privately negotiated tra
authorized by the Board of Directors. These repurchases are based upon current mar
the discretion of management. Amounts are recorded at cost and included within the
section. For the year ended December 31, 2008, common shares owned by the Comp
52.0 million. During 2009, the Company cancelled approximately 52.0 million treas
anticipation of the Ireland Reorganization.

Revenue Recognition: Revenue is recognized and earned when all of the following
satisfied: (a) persuasive evidence of a sales arrangement exists; (b) price is fixed or d
(c) collectability is reasonably assured; and (d) delivery has occurred or service has
Delivery generally occurs when the title and the risks and rewards of ownership hav
transferred to the customer. Revenue from maintenance contracts or extended warra
on a straight-line basis over the life of the contract, unless another method is more re
costs incurred. The Company enters into agreements that contain multiple elements,
installation and service revenue. For multiple-element arrangements, the Company r
for delivered elements when the delivered item has stand-alone value to the custome
undelivered elements are known, customer acceptance has occurred, and only custor
rights exist related to the delivered elements. Revenues from certain of our equipme
installation sold under construction-type contracts are recorded using the percentage
method in accordance with GAAP.

Environmental Costs: The Company is subject to laws and regulations relating to
environment. Environmental expenditures relating to current operations are expense
appropriate. Expenditures relating to existing conditions caused by past operations,
contribute to current or future revenues, are expensed. Liabilities for remediation co
when they are probable and can be reasonably estimated, generally no later than the
feasibility studies or the Company s commitment to a plan of action. The assessmen
which is calculated based on existing technology, does not reflect any offset for poss
insurance companies, and is not discounted.

Asbestos Matters: Certain wholly-owned subsidiaries of the Company are named a
asbestos-related lawsuits in state and federal courts. The Company records a liability
anticipated future claims as well as an asset for anticipated insurance settlements. A
was neither a manufacturer nor producer of asbestos, some of its formerly manufact
from third party suppliers utilized asbestos related components. As a result, amounts

Stockholders' equity (deficit)

are recorded within Discontinued operations, net of tax, except for amounts related t
liabilities, which are recorded in continuing operations. Refer to Note 23 for further
related matters.

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Stockholders' equity (deficit)

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Research and Development Costs: The Company conducts research and developm
purpose of developing and improving new products and services. These expenditure
qualifying engineering costs, are expensed when incurred. For the years ended Dece
and 2007, these expenditures amounted to $257.4 million, $204.6 million and $128.
respectively. The Company also incurs engineering costs that are not considered res
development expenditures.

Software Costs: The Company follows the guidance outlined in FASB ASC 350,
and Other (ASC 350) for all software developed or obtained for internal use, whic
to capitalize certain internal-use software costs once specific criteria are met and su
these costs over the software s useful life, which ranges from 2 to 7 years.

Employee Benefit Plans: The Company provides a range of benefits to eligible em
employees, including pensions, postretirement and post-employment benefits. Deter
associated with such benefits is dependent on various actuarial assumptions, includi
expected return on plan assets, compensation increases, employee mortality and tur
health-care cost trend rates. Actuaries perform the required calculations to determin
accordance with generally accepted accounting principles in the United States. Actu
from the actuarial assumptions and are generally accumulated and amortized into ea
periods. These amounts are generally recognized into Shareholders equity on an an
Company reviews its actuarial assumptions at each measurement date and makes m
assumptions based on current rates and trends, if appropriate. In 2008, the Company
measurement date for all defined benefit plans from November 30 to December 31,
GAAP.

Loss Contingencies: Liabilities are recorded for various contingencies arising in th
business, including litigation and administrative proceedings, environmental matters
product warranty, worker s compensation and other claims. The Company has reco
financial statements related to these matters, which are developed using input derive
estimates and historical and anticipated experience data depending on the nature of t
certain instances with consultation of legal counsel, internal and external consultants
Subject to the uncertainties inherent in estimating future costs for these types of liab
believes its estimated reserves are reasonable and does not believe the final determi
liabilities with respect to these matters would have a material effect on the financial
operations, liquidity or cash flows of the Company for any year.

Derivative Instruments: The Company periodically enters into cash flow and othe
to specifically hedge exposure to various risks related to interest rates, currency rate
pricing. The Company recognizes all derivatives on the consolidated balance sheet a
either assets or liabilities. For cash flow designated hedges, the effective portion of t
value of the derivative contract are recorded in Accumulated other comprehensive in
taxes, and are recognized in the income statement at the time earnings are affected b
transaction. For other derivative transactions, the changes in the fair value of the de
recognized in the Consolidated Statement of Income.

Recently Adopted Accounting Pronouncements:

FASB ASC 715, Compensation Retirement Benefits, (ASC 715) requires an e
defined benefit plan assets and benefit obligations as of the date of the employer s f
statement of financial position. The measurement date provisions of ASC 715 are ef
Company for the fiscal year ending December 31, 2008. The Company has adopted
provisions of ASC 715, which resulted in an after-tax charge to Retained earnings i
million ($6.5 million pre-tax) in 2008. Plans acquired during 2008 were not impacte

Stockholders' equity (deficit)

Effective January 1, 2007, the Company adopted the provisions of FASB ASC 740,
740) which prescribes a recognition threshold and measurement process for recordin
statements uncertain tax positions taken or expected to be taken in a tax return. As a
these provisions of

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Stockholders' equity (deficit)

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ASC 740 as of January 1, 2007, the Company recorded additional liabilities to its pr
reserves, and corresponding decrease in Retained earnings of $145.6 million.

In September 2006, the FASB issued revised guidance within FASB ASC 820, Fai
and Disclosures (ASC 820) to provide a framework for measuring fair value that is
assumptions market participants would use when pricing an asset or liability. ASC 8
fair value hierarchy that prioritizes the information to develop those assumptions. A
guidance expands the disclosures about fair value measurements to include disclosin
measurements of assets or liabilities within each level of the fair value hierarchy. Th
ASC 820 are effective for the Company starting on January 1, 2008. In accordance v
Company has delayed its implementation of these provisions for the fair value of go
indefinite-lived intangible assets and nonfinancial long-lived assets and liabilities. R
full discussion of these provisions of ASC 820.

In February 2007, the FASB issued revised guidance within FASB ASC 825, Fina
(ASC 825) which allows companies the option, at specified election dates, to measu
and liabilities at their current fair value, with the corresponding changes in fair value
period recognized in the income statement. Additionally, ASC 825 establishes prese
disclosure requirements designed to facilitate comparisons between companies that c
measurement attributes for similar assets and liabilities. These provisions of ASC 82
the Company starting on January 1, 2008. As of December 31, 2009, the Company h
option available under ASC 825.

In December 2007, the FASB issued revised guidance to address the financial accou
for business combinations, which can be found in FASB ASC 805, Business Comb
ASC 805 supersedes SFAS 141, Business Combinations and retains the fundame
forth therein regarding the purchase method of accounting. However, it expands the
proper recognition and measurement, at fair value, the identifiable assets acquired, l
and any noncontrolling interest in the acquired business. In addition, ASC 805 introd
accounting guidance on how to recognize and measure contingent consideration, co
acquisition and restructuring costs. These provisions of ASC 805 are effective for ac
after January 1, 2009.

In December 2007, the FASB issued revised guidance within FASB ASC 810, Co
810) which clarifies that a noncontrolling interest in a subsidiary represents an owne
should be reported as equity in the consolidated financial statements. In addition, AS
expanded income statement presentation and disclosures that clearly identify and dis
interests of the Company and the interests of the non-controlling owners of the subs
relates to noncontrolling interests in consolidated financial statements, is effective fo
starting on January 1, 2009.

In March 2008, the FASB issued revised guidance within FASB ASC 815, Derivat
(ASC 815), which amends and expands the disclosures previously required. ASC 81
disclosures about objectives and strategies for using derivatives, quantitative disclos
amounts of gains and losses on derivative instruments and disclosures about credit-r
contingent features in derivative agreements. The expanded disclosure requirements
as they relate to the modifications made in March 2008 are effective for the Compar
January 1, 2009. See Note 14 for a discussion of these provisions of ASC 815.

In May 2008, the FASB issued revised guidance within FASB ASC 470, Debt (A
us to allocate between debt and equity the proceeds of the Company s exchangeable
that reflects the Company s nonconvertible debt borrowing rate. In addition, the Co
amortize any discount into earnings over a period of three years. These provisions o
applicable to the Company during the second quarter of 2009, upon issuance of the c

Stockholders' equity (deficit)

notes in April 2009.

Stockholders' equity (deficit)

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Recently Issued Accounting Pronouncements:

In June 2009, the FASB issued revised guidance within ASC 810. These revisions e
Interpretation 46(R) s exceptions to consolidating qualifying special-purpose entiti
for determining the primary beneficiary, and increase the frequency of required reas
determine whether a company is the primary beneficiary of a variable interest entity
contains a new requirement that any term, transaction, or arrangement that does not
effect on an entity s status as a variable interest entity, a company s power over a v
or a company s obligation to absorb losses or its right to receive benefits of an entit
in applying FASB Interpretation 46(R) s provisions. The elimination of the qualifyi
entity concept and its consolidation exceptions means more entities will be subject t
assessments and reassessments. These provisions of ASC 810 are effective as of the
first fiscal year beginning after November 15, 2009, and for interim periods within t
earlier adoption prohibited. The Company is currently assessing the potential impac
consolidated financial statements.

In June 2009, the FASB issued revised guidance within FASB ASC 860, Transfers
860). These revisions eliminate the concept of a qualifying special-purpose entity, c
conditions for reporting a transfer of a portion of a financial asset as a sale, clarify o
criteria, and change the initial measurement of a transferor s interest in transferred f
provisions of ASC 860 will be effective for transfers of financial assets in fiscal yea
November 15, 2009 and in interim periods within those fiscal years with earlier ado
Company is currently assessing the potential impacts, if any, on its consolidated fin

NOTE 4 ACQUISITION OF TRANE INC.

At the close of business on June 5, 2008 (the Acquisition Date), the Company comp
of 100% of the outstanding common shares of Trane. Trane, formerly American Sta
Inc., provides systems and services that enhance the quality and comfort of the air ir
buildings around the world. Trane s systems and services have leading positions in
residential, institutional and industrial markets, a reputation for reliability, high qual
innovation and a powerful distribution network.

The Company paid a combination of (i) 0.23 of an IR-Limited Class A common sha
cash, without interest, for each outstanding share of Trane common stock. The total
acquisition was approximately $9.6 billion, including change in control payments ar
transaction. The Company financed the cash portion of the acquisition with a combi
hand, commercial paper and a 364-day senior unsecured bridge loan facility.

The components of the purchase price were as follows:

In billions
Cash consideration
Stock consideration (Issuance of 45.4 million IR-Limited Class A common shares)
Estimated fair value of Trane stock options converted to 7.4 million IR-Limited stoc
options
Transaction costs
Total

Stockholders' equity (deficit)

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The Company allocated the purchase price of Trane to the estimated fair value of as
liabilities assumed upon acquisition in accordance with Statement of Financial Acco
No. 141, Business Combinations (SFAS 141). The following table summarizes th
Trane assets acquired and liabilities assumed at the Acquisition Date.

In millions
Current assets:
Cash and cash equivalents
Accounts and notes receivable
Inventories
Other current assets
Total current assets

Property, plant and equipment
Goodwill
Intangible assets
Other noncurrent assets
Total assets

Current liabilities:
Accounts payable
Accrued compensation and benefits
Accrued expenses and other current liabilities
Short-term borrowings and current maturities of long-term debt
Total current liabilities

Long-term debt
Postemployment and other benefit liabilities
Deferred income taxes
Other noncurrent liabilities
Minority interests
Total liabilities and minority interests
Net assets acquired

Cash and cash equivalents, accounts and notes receivable, accounts payable and acc
and benefits were stated at their historical carrying values, which approximate their
short-term nature of these assets and liabilities.

Inventories were recorded at fair value, based on computations which considered ma
the future estimated selling price of the inventory, the cost to dispose of the inventor
replacement cost of the inventory, where applicable.

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Stockholders' equity (deficit)

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The Company recorded intangible assets based on their estimated fair value, and co
following:

In millions	Useful li
Tradenames	Indefini
Customer relationships	17 - 18 Ye
Completed technology/patents	5 - 15 Ye
In-process research and development	Expense
License agreement	7 Year
Backlog	1 - 6 Mon
Total	

The Company has allocated $3,418.0 million to tradenames, primarily related to the
Management considered many factors in the determination that it will account for th
indefinite lived intangible asset, including the current market leadership position of
recognition worldwide in the industry. Therefore, in accordance with ASC 350, inde
tradenames will not be amortized, but instead will be tested for impairment at least a
frequently if certain indicators are present).

In addition, the Company assigned $26.0 million to in-process research and develop
expensed at the date of acquisition in accordance with GAAP. The expenses are incl
administrative expenses.

The excess of the purchase price over the amounts allocated to specific assets and li
in goodwill, and amounted to $5,525.8 million. The premium in the purchase price p
for the acquisition of Trane reflects the establishment of a business offering high val
systems and services necessary for delivering solutions across the temperature spect
stationary and transport applications worldwide. The Company anticipates realizing
operational and cost synergies. Anticipated synergies include purchase material savi
rationalization and procurement leverage, improvement in manufacturing costs and
administrative costs. Longer term, the Company expects to benefit from synergies re
revenue expansion, leverage of distribution channels and cross selling through certa

In addition, Trane will be able to leverage the Company s global footprint to enhan
U.S.-based revenue generation. Lastly, the combined business will improve the Con
regarded Hussmann and Thermo King brands with Trane s position as a leader in th
residential climate control industry. These combined factors primarily contributed to
excess of the fair value of the net tangible assets acquired.

The following unaudited pro forma information for the year ended December 31, 20
acquisition of Trane occurred as of the beginning of the period presented:

In millions	200
Net revenues	$ 16,3
Earnings from continuing operations attributable to Ingersoll-Rand plc common shareholders	(2,5

In addition, for the year ended December 31, 2008, the Company has included $91.8
increase to interest expense associated with the borrowings to fund (a) the cash porti
price and (b) the out-of-pocket transaction costs associated with the acquisition.

Stockholders' equity (deficit)

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Stockholders' equity (deficit)

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For the year ended December 31, 2008, the Company recognized a pre-tax, non-cash
billion related to the impairment of goodwill and indefinite-lived assets, which is ref
forma results presented above. For a further discussion of impairment related matter
consolidated financial statements.

The unaudited pro forma information does not purport to be indicative of the results
have been achieved had the operations been combined during the periods presented,
be a projection of future results or trends.

NOTE 5 ASSET IMPAIRMENT

The Company has significant goodwill and indefinite-lived intangible assets related
Company s goodwill and other indefinite-lived intangible assets are tested and revi
impairment during the fourth quarter or when there is a significant change in events
indicate that the fair value of an asset may be less than the carrying amount of the as

2008 Impairment Test

Due to the deterioration in the worldwide equity and credit markets and a tightening
retail end markets in the fourth quarter of 2008, the Company s market capitalizatio
its book value. In addition, the weakening worldwide economic conditions resulted
projected 2009 financial performance to decline. As a result, the Company updated
testing through December 31, 2008.

The following table summarizes by reportable segment, the asset impairment charge

In millions	Goodwill	Intangible Assets	Mark Sec
Climate Solutions	$ 840.0	$ 400.0	$
Residential Solutions	1,656.0	454.0	
Security Technologies	344.0	6.0	
Total	$ 2,840.0	$ 860.0	$

Goodwill

Recoverability of goodwill impairment is measured at the reporting unit level and de
two step process. The first step compares the carrying amount of the reporting unit t
value. If the estimated fair value of a reporting unit exceeds its carrying amount, goo
reporting unit is not impaired and the second step of the impairment test is not neces
that the carrying value of the reporting unit exceeds its estimated fair value, a secon
wherein the reporting unit s carrying value of goodwill is compared to the implied f
To the extent that the carrying value exceeds the implied fair value, impairment exis
recognized.

The calculation of estimated fair value is based on two valuation techniques, a disco
model (income approach) and a market adjusted multiple of earnings and revenues (
with each method being equally weighted in the calculation. The implied fair value
determined in the same manner as the amount of goodwill recognized in a business
estimated fair value of the reporting unit is allocated to all of the assets and liabilitie
unit (including any unrecognized intangible assets) as if the reporting unit had been
business combination and the fair value of the reporting unit, as determined in the fi
goodwill impairment test, was the price paid to acquire that reporting unit.

Stockholders' equity (deficit)

Based on the estimated fair value and book value of our reporting units, the Compar
impairment charge to goodwill in the fourth quarter of 2008 of approximately $2,84

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Stockholders' equity (deficit)

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Indefinite-lived Intangible Assets

Recoverability of other indefinite-lived intangible assets (i.e. Tradenames) is measu of the carrying amount of the intangible assets to the estimated fair value of the resp assets. Any excess of the carrying value over the estimated fair value is recognized a equal to that excess.

The calculation of estimated fair value is determined on a relief from royalty metho approach), which is based on the implied royalty paid, at an appropriate discount rat of an asset rather than owning the asset. The present value of the after-tax cost savin indicates the estimated fair value of the asset.

Based on the estimated fair value and book value of our Tradenames, the Company impairment charge to certain tradenames in the fourth quarter of 2008 of approxima

Marketable Securities

Investments in marketable securities are recorded at cost and subsequently measure assets are periodically reviewed at the individual security level to determine if any d considered to be other than temporary.

In the fourth quarter of 2008, the Company determined that its investment in certain securities was other than temporarily impaired by approximately $10.0 million. This on the current trading value of the publicly listed marketable security in addition to factors of the operating business environment in which the security is held.

2009 Impairment Test

In the fourth quarter of 2009, the Company performed its annual impairment test on indefinite-lived intangible assets. As a result, the Company determined that the fair units and indefinite-lived intangible assets exceeded their respective carrying values impairment charges were recorded during 2009.

NOTE 6 RESTRUCTURING ACTIVITIES

Restructuring charges recorded during the year ended December 31, 2009, 2008 and follows:

In millions	2009	2
Climate Solutions	$ 37.7	$
Residential Solutions	8.9	
Industrial Technologies	27.1	
Security Technologies	24.5	
Corporate and Other	13.2	
Total	$ 111.4	$
Cost of goods sold	$ 58.3	$
Selling and administrative	53.1	

Stockholders' equity (deficit)

Total	$	111.4	$

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Stockholders' equity (deficit)

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The changes in the restructuring reserve were as follows:

In millions	Climate Solutions	Residential Solutions	Industrial Technologies	Security Technologies	Corp an Oth
December 31, 2007	$ 20.8	$ -	$ 0.7	$ 4.0	$
Additions	50.2	11.9	9.6	6.8	
Purchase accounting	2.8	0.4	-	-	
Cash and non-cash uses	(32.9)	(4.3)	(7.6)	(4.2)	(
Currency translation	0.6	-	-	0.2	
December 31, 2008	41.5	8.0	2.7	6.8	
Additions	37.7	10.9	27.1	26.3	
Reversals	-	(2.0)	-	(1.8)	
Cash and non-cash uses	(59.3)	(9.1)	(25.5)	(13.4)	(
Currency translation	(3.6)	-	-	0.3	
December 31, 2009	$ 16.3	$ 7.8	$ 4.3	$ 18.2	$

During the first three quarters of 2008, the Company incurred costs of approximatel associated with various restructuring activities as a part of an ongoing effort to incre across multiple lines of business. In October 2008, the Company announced an ente restructuring program necessitated by the severe economic downturn. This program streamlining the footprint of manufacturing facilities and reducing the general and a base across all sectors of the company. Projected costs totaled $110 million when th announced, of which $71 million was incurred during the fourth quarter of 2008.

During the year ended December 31, 2009, the Company expanded the scope of the program. Since the beginning of the fourth quarter of 2008, the Company has incurr $182.1 million associated with these restructuring actions. As of December 31, 2009 $54.9 million accrued for workforce reductions and the consolidation of manufactur

Restructuring actions taken in the Climate Solutions sector include the closure of on facility in Asia and workforce reductions in all regions. As of December 31, 2009, th sector had incurred approximately $87 million since the fourth quarter of 2008.

Restructuring actions taken in the Residential Solutions sector include general work to a revised organizational structure within the sector. As of December 31, 2009, the Solutions sector had incurred approximately $19 million since the fourth quarter of

Restructuring actions taken in the Industrial Technologies sector include the consoli manufacturing facilities in the Americas and general workforce reductions across al December 31, 2009, the Industrial Technologies sector had incurred approximately fourth quarter of 2008.

Restructuring actions taken in the Security Technologies sector include the consolid manufacturing facilities in the Americas region and general workforce reductions in Americas. As of December 31, 2009, the Security Technologies sector had incurred million since the fourth quarter of 2008.

Stockholders' equity (deficit)

Corporate costs primarily related to the consolidation of administrative offices in the
December 31, 2009, the corporate costs totaled approximately $15 million since the
2008.

Stockholders' equity (deficit)

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NOTE 7 MARKETABLE SECURITIES

At December 31, marketable securities were as follows:

	2009			
In millions	Amortized cost or cost	Unrealized gains	Fair value	Amortized cost or cost
Long-term marketable securities:				
Equity securities	$ 6.7	$ 5.1	$ 11.8	$ 6.7
Total	$ 6.7	$ 5.1	$ 11.8	$ 6.7

Long-term marketable securities are included within Other noncurrent assets in the
Sheet.

During 2008, the Company s long-term marketable securities experienced other tha
in value as defined by GAAP. The Company recognized a loss of approximately $10
investments within the Security Technologies segment in the fourth quarter of 2008.
in Asset impairment on the Consolidated Statement of Income. For a further discuss
related matters, see Note 5 in the consolidated financial statements.

NOTE 8 INVENTORIES

At December 31, the major classes of inventory were as follows:

In millions	2009
Raw materials	$ 35
Work-in-process	22
Finished goods	70
	1,27
LIFO reserve	(8
Total	$ 1,19

NOTE 9 PROPERTY, PLANT AND EQUIPMENT

At December 31, the major classes of property, plant and equipment were as follows

In millions	2009
Land	$ 122.
Buildings	760.
Machinery and equipment	1,875.
Software	453.
	3,211.
Accumulated depreciation	(1,298.
Total	$ 1,912.

Depreciation expense for the years ended December 31, 2009, 2008 and 2007 was $
$201.2 million and $112.3 million, which include amounts for software amortizatio
$35.5 million and $17.5 million, respectively.

Stockholders' equity (deficit)

During 2009, the Company purchased property, plant and equipment totaling approx
with a corresponding increase in liabilities. This represents a non-cash investing acti
not included in the statement of cash flows until the property, plant and equipment i
accordance with GAAP.

Stockholders' equity (deficit)

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NOTE 10 GOODWILL

The changes in the carrying amount of goodwill are as follows:

In millions	Climate Solutions	Residential Solutions	Industrial Technologies	Securi Technolo
December 31, 2007	$ 2,613.8	$ 74.9	$ 371.9	$ 93
Acquisitions and adjustments *	3,275.8	2,255.2	5.4	2
Currency translation	(37.9)	-	(7.5)	(4
Impairment	(839.8)	(1,656.2)	-	(34
December 31, 2008	5,011.9	673.9	369.8	56
Acquisitions and adjustments *	(12.5)	8.4	-	
Currency translation	(21.1)	-	3.1	
December 31, 2009	$ 4,978.3	$ 682.3	$ 372.9	$ 57

* Includes adjustments related to final purchase price allocation adjustments.

The Company records as goodwill the excess of the purchase price over the fair valu acquired. Once the final valuation has been performed for each acquisition, adjustme recorded.

In June 2008, the Company acquired the Trane commercial HVAC business and the HVAC businesses and recorded $5.5 billion of goodwill associated with the transact the Trane commercial HVAC business are reported within the Climate Solutions seg residential HVAC business is reported within the Residential Solutions segment. Se discussion regarding goodwill associated with the acquisition of Trane.

As a result of the annual impairment testing in the fourth quarter of 2008, the Comp pre-tax, non-cash charge of $2,840.0 million related to the impairment of goodwill. not have any accumulated impairment losses subsequent to the adoption of SFAS N Other Intangible Assets other than the amounts recorded in 2008. See Note 5 for a impairment related matters.

In the fourth quarter of 2009, the Company reduced its goodwill by approximately $ Climate Solutions and Residential Solutions segments related to the acquisition of T adjustments primarily relate to an overstatement of net deferred tax liabilities establi purchase accounting and represent accounting errors. The Company does not believ errors are material to any of its previously issued financial statements and therefore, prior period amounts.

NOTE 11 INTANGIBLE ASSETS

The following table sets forth the gross amount and accumulated amortization of the intangible assets at December 31:

In millions	2009
Customer relationships	$ 2,358

Stockholders' equity (deficit)

Completed technologies/patents	204
Other	188
Trademarks (finite-lived)	111
Total gross finite-lived intangible assets	2,861
Accumulated amortization	(533
Total net finite-lived intangible assets	2,328
Trademarks (indefinite-lived)	2,714
Total	$ 5,042

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Stockholders' equity (deficit)

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At December 31, 2009, the Company had $5.0 billion of intangible assets. The Com
intangible assets with finite useful lives on a straight-line basis over their estimated
accordance with GAAP. Indefinite-lived intangible assets are not subject to amortiz
tested for impairment at least annually (more frequently if certain indicators are pres

Intangible asset amortization expense for 2009, 2008 and 2007 was $156.4 million,
$25.2 million, respectively. The increase in 2008 is attributable to the Company s a
June 5, 2008, which includes $125.0 million of non-recurring amortization expense
value allocation of purchase price to backlog and in-process research and developm
non-recurring amortization expense is included in Accumulated amortization and th
asset is included in Other in the above table. See Note 4 for a further discussion on t
Trane.

Estimated amortization expense on existing intangible assets is approximately $163
the next five fiscal years.

NOTE 12 ACCOUNTS RECEIVABLE PURCHASE AGREEMENTS

In connection with the acquisition of Trane, the Company acquired Trane s account
agreement (the Trane Facility) in the U.S. As part of this Facility, Trane formed a sp
(SPE) for the sole purpose of buying and selling receivables generated by Trane. Tr
without recourse, transferred all eligible accounts receivable to the SPE, which, in tu
ownership interests in them to a conduit administered by the participating bank. The
were not available to pay the claims of Trane or any of its subsidiaries.

The undivided interests in the receivables sold to the conduit as a part of the Trane F
removed from the balance sheet since they met the applicable criteria under GAAP.
the receivables retained by the Company were recorded at its allocated carrying amo
appropriate reserve for doubtful accounts, in the balance sheet as of December 31, 2
that the consideration received was less than the allocated carrying value of the rece
were recognized at the time of sale.

On March 31, 2009, the Company entered into new accounts receivable purchase ag
Expanded IR Facility), to expand the existing accounts receivable purchase agreeme
Facility superseded the Trane Facility. As of December 31, 2009, there are no intere
retained by the Company related to the Trane Facility.

Under the Expanded IR Facility, the Company continuously sold, through certain co
purpose vehicles, designated pools of eligible trade receivables to an affiliated maste
vehicle (MSPV) which, in turn, sold undivided ownership interests to three conduits
unaffiliated financial institutions.

The maximum purchase limit of the three conduits was $325.0 million. The Compa
fees on the aggregate amount of the liquidity commitments of the financial instituti
(which was 102% of the maximum purchase limit) and an additional program fee or
amounts purchased under the facility by the conduits to the extent funded through th
commercial paper or other securities.

The MSPV was not designed to be a qualifying SPE since the MSPV transferred ass
undivided ownership interests in the accounts receivables it held to the conduits. Th
concluded that the MSPV was a variable interest entity (VIE) whereby the Compan
primary beneficiary and subsequently consolidated the MSPV. Accordingly, accoun
balances were not removed from the balance sheet until the undivided ownership in

Stockholders' equity (deficit)

the conduits. The remaining trade receivables transferred into the MSPV but not sol
remained in Accounts and notes receivable, net. The interests in the receivables reta
were exposed to the first risk of loss for any uncollectible amounts in the

Stockholders' equity (deficit)

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receivables sold under the facility. The Company provided no other forms of contin
related to the undivided interests transferred to the conduits. Although the special pu
consolidated by the Company, they were separate corporate entities with their assets
from the Company and thus not available to satisfy claims of the Company.

The following is a summary of receivables sold to the financing facilities:

	December 3
In millions	2009
Outstanding balance of receivables sold to SPE	$ 544
Net balance of interest in the receivables retained	544
Net interests sold to conduits	

At December 31, 2009, the outstanding balance of eligible trade receivables sold to
$544.2 million. However, no net interests have been sold to any of the three conduit
unaffiliated financial institutions.

The Company serviced, administered and collected the receivables on behalf of the
conduits and received a servicing fee of 0.75% per annum on the outstanding balanc
receivables. As the Company estimated that the fee it received from the conduits, in
ancillary fees received, were adequate compensation for its obligation to service the
fair value was zero and no servicing assets or liabilities were recognized.

During the year ended December 31, 2009, the Company recorded a cash outflow o
million within cash flow from operations, which represented the decrease in the net
receivables sold to the conduits.

The Company records as a loss on sale the difference between the receivables sold a
received. The loss on sale recorded for the years ended December 31, 2009 and 200

In millions	
Loss on sale of receivables	$

NOTE 13 DEBT AND CREDIT FACILITIES

At December 31, short-term borrowings and current maturities of long-term debt co
following:

In millions		2
Commercial paper program	$	
Senior unsecured bridge loan facility		
Debentures with put feature		
Current maturities of long-term debt		
Other short-term borrowings		
Total	$	

The weighted-average interest rate for total short-term borrowings and current matu
debt at December 31, 2009 and 2008 was 5.4% and 4.8%, respectively.

Stockholders' equity (deficit)

Stockholders' equity (deficit)

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At December 31, long-term debt excluding current maturities consisted of:

In millions	2009
Senior floating rate notes due 2010	$
7.625% Senior notes due 2010	
4.50% Exchangeable senior notes due 2012	31
6.000% Senior notes due 2013	59
9.50% Senior notes due 2014	65
5.50% Senior notes due 2015	19
4.75% Senior notes due 2015	29
6.875% Senior notes due 2018	74
9.00% Debentures due 2021	12
7.20% Debentures due 2010-2025	11
6.48% Debentures due 2025	14
Other loans and notes, at end-of-year average interest rates of 5.85% in 2009 and 5.68% in 2008, maturing in various amounts to 2017	1
Total	$ 3,21

The fair value of the Company s debt at December 31, 2009 and 2008 was $4,459.6
million, respectively. The fair value of long-term debt was primarily based upon quo

At December 31, 2009, long-term debt retirements are as follows:

In millions
2010
2011
2012
2013
2014
Thereafter
Total

Commercial Paper Program

The Company uses borrowings under our commercial paper program for general co
of December 31, 2009, the Company had no outstanding commercial paper borrowi
down $998.7 million during 2009. The Company funded these payments primarily u
from operations.

Senior Unsecured Bridge Loan Facility

In connection with the Trane acquisition, the Company entered into a $3.9 billion se
bridge loan facility, with a 364-day term. The Company drew down $2.95 billion ag
facility in June 2008. The proceeds, along with cash on hand and the issuance of $1.
commercial paper, were used to fund the cash component of the consideration paid f
well as to pay related fees and expenses incurred in connection with the acquisition.

In addition, the Company repaid $2.0 billion of the outstanding balance of the bridg
the third quarter of 2008. The Company used a combination of cash flows from oper
hand, in addition to the $1.6 billion in proceeds received from the issuance of long-t

Stockholders' equity (deficit)

December 31, 2008, the outstanding balance of the senior unsecured bridge loan fac
million after a $196 million payment in the fourth quarter of 2008. In the first quarte
Company borrowed an additional $196 million under the facility, increasing the outs
$950.0 million as of March 31, 2009. The Company repaid the outstanding balance
proceeds from the long-term debt issuance as discussed below and terminated the fa

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Stockholders' equity (deficit)

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Debentures with Put Feature

At December 31, 2008, the Company had outstanding $345.7 million of fixed rate d
requires early repayment at the option of the holder. These debentures contain a put
holders may exercise on each anniversary of the issuance date. If exercised, the Con
repay in whole or in part, at the holder s option, the outstanding principal amount (
unpaid interest) of the debentures held by the holder. If these options are not exercis
dates would range between 2027 and 2028.

In 2009, holders of these debentures chose to exercise the put feature on $2.1 millio
debentures. As a result, the Company had $343.6 million debentures outstanding at

Senior Notes Due 2014

In April 2009, the Company issued $655 million of 9.5% Senior Notes through its w
subsidiary, Ingersoll-Rand Global Holding Company Limited (IR-Global). The note
unconditionally guaranteed by each of IR-Ireland, IR-Limited and Ingersoll-Rand In
Limited (IR-International), another wholly-owned indirect subsidiary of IR-Limited
rate notes will be paid twice a year in arrears. The Company has the option to redee
in part at any time, and from time to time, prior to their stated maturity date at reden
in the indenture agreement. The notes are subject to certain customary covenants, ho
covenants are considered restrictive to the Company s operations.

Exchangeable Senior Notes Due 2012

In April 2009, The Company issued $345 million of 4.5% Exchangeable Senior Not
wholly-owned subsidiary, IR-Global. The notes are fully and unconditionally guara
IR-Ireland, IR-Limited and IR-International. Interest on the exchangeable notes will
in arrears. Holders may exchange their notes at their option prior to November 15, 2
with specified circumstances set forth in the indenture agreement or anytime on or a
2011 through their scheduled maturity in April 2012. Upon exchange, the notes will
the aggregate principal amount of the notes to be exchanged, the remainder due on t
any, will be paid in cash, the Company s ordinary shares or a combination thereof a
Company. The notes are subject to certain customary covenants, however, none of t
considered restrictive to the Company s operations.

The Company allocated approximately $305 million of the gross proceeds to debt, v
discount of approximately $40 million (approximately $39 million after allocated fe
equity. Additionally, the Company will amortize the discount into earnings over a th

Other Debt

In August 2008, the Company filed a universal shelf registration statement with the
Exchange Commission (SEC) for an indeterminate amount of securities for future is
$1.6 billion of long-term debt pursuant to the shelf registration statement. This issua
$250 million Senior Floating Rate Notes due in 2010, $600 million 6.000% Senior N
and $750 million 6.875% Senior Notes due in 2018. These notes are fully and uncon
guaranteed by IR-Limited, which directly owns 100% of the subsidiary issuer, IR G
Company Limited. The net proceeds from the offering were used to partially reduce
outstanding under the senior unsecured bridge loan facility.

At December 31, 2008, the Company s committed revolving credit facilities totaled
$750 million expired in June 2009, and was not renewed. At December 31, 2009, th

Stockholders' equity (deficit)

committed revolving credit facilities totaled $2.25 billion, of which $1.25 billion ex
and $1.0 billion expires in June 2011. These lines are unused and provide support fo
commercial paper program as well as for other general corporate purposes. In additi
non-U.S. lines of credit were $993.3 million, of which $823.9 million were unused a
2009. These lines provide support for bank guarantees, letters of credit and other ge
purposes.

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Stockholders' equity (deficit)

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Modifications Relating to the Reorganization

In connection with the Ireland Reorganization discussed in Note 2, on July 1, 2009 a
Transaction Time), IR-Limited completed the transfer of all the outstanding shares o
IR-International, whereupon IR-International assumed the obligations of IR-Limited
guarantor, as the case may be, under the indentures governing the Company s outst
medium-term notes and debentures. IR-Ireland and IR-Limited also fully and uncon
the payment obligations of IR-International, IR-Global and Ingersoll-Rand Compan
wholly-owned indirect subsidiary of IR-Limited incorporated in New Jersey, as the
issuers of debt securities under these indentures. Neither IR-Ireland nor IR-Limited
guarantees in respect of any indebtedness incurred by Trane. In addition, any securit
Company that were convertible, exchangeable or exercisable into Class A common
became convertible, exchangeable or exercisable, as the case may be, into the ordina
IR-Ireland.

On July 1, 2009, IR-Global amended and restated its commercial paper program (th
Program) pursuant to which IR-Global may issue, on a private placement basis, uns
paper notes up to a maximum aggregate amount outstanding at any time of $2.25 bi
Commercial Paper Program, IR-Global may issue notes from time to time, and the p
financing will be used for general corporate purposes. Each of IR-Ireland, IR-Limite
IR-International has provided an irrevocable and unconditional guarantee for the no
Commercial Paper Program.

Pursuant to the terms of the credit facility entered into on August 12, 2005 and our c
into on June 27, 2008 (the Credit Facilities), at the Transaction Time, IR-Ireland and
became guarantors to such Credit Facilities. In connection therewith, IR-Ireland and
entered into Addendums on July 1, 2009 to become parties to the Credit Facilities.

NOTE 14 FINANCIAL INSTRUMENTS

In the normal course of business, the Company uses various financial instruments, i
instruments, to manage risks associated with interest rate, currency rate, commodity
share-based compensation exposures. These financial instruments are not used for t
purposes.

On the date a derivative contract is entered into, the Company designates the deriva
as a cash flow hedge of a forecasted transaction, a cash flow hedge of a recognized a
as an undesignated derivative. The Company formally documents its hedge relation
identification of the derivative instruments and the hedged items, as well as its risk
objectives and strategies for undertaking the hedge transaction. This process include
instruments that are designated as hedges to specific assets, liabilities or forecasted t

The Company also assesses both at the inception and at least quarterly thereafter, w
used in cash flow hedging transactions are highly effective in offsetting the changes
the hedged item. Any ineffective portion of a derivative instrument s change in fair
the income statement in the period of change. If the hedging relationship ceases to b
it becomes probable that a forecasted transaction is no longer expected to occur, the
will be undesignated and any future gains and losses on the derivative instrument w
the income statement.

The fair market value of derivative instruments are determined through market-base
not be representative of the actual gains or losses that will be recorded when these i
due to future fluctuations in the markets in which they are traded.

Stockholders' equity (deficit)

Currency and Commodity Hedging Instruments

The notional amounts of the Company s currency derivatives, excluding the cross c
described below, were $884.8 million and $920.4 million at December 31, 2009 and
At December 31, 2009 and 2008, a loss of $1.5 million and a gain of $7.6 million, n
respectively, was included in

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Stockholders' equity (deficit)

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Accumulated other comprehensive income (AOCI) related to the fair value of the C
derivatives designated as accounting hedges. The amount expected to be reclassified
the next twelve months is $1.5 million. The actual amounts that will be reclassified
from this amount as a result of changes in market conditions. Gains and losses asso
Company s currency derivatives not designated as hedges are recorded in earnings
value occur. At December 31, 2009, the maximum term of the Company s currency
months.

As a result of the acquisition of Trane in June 2008, the Company assumed a cross c
fixed in U.S. dollars, the currency cash flows on the £60.0 million 8.25% senior not
matured on June 1, 2009 along with the cross currency swap. The cross currency sw
be accounted for as a foreign currency cash flow hedge, which allowed for deferral
gains or losses within AOCI until settlement. The deferred gain remaining in AOCI
currency swap was released into earnings upon maturity.

The Company had no commodity derivatives outstanding as of December 31, 2009.
of the Company s commodity derivatives was $21.3 million at December 31, 2008.
Company discontinued the use of hedge accounting for the commodity hedges at wh
Company recognized into the income statement all deferred gains and losses related
hedges at the time of discontinuance. All further gains and losses associated with th
commodity derivatives were recorded in earnings as changes in fair value occurred.

Other Hedging Instruments

During the third quarter of 2008, the Company entered into interest rate locks for th
of approximately $1.4 billion of Senior Notes due in 2013 and 2018. These interest
criteria to be accounted for as cash flow hedges of a forecasted transaction. Consequ
fair value of the interest rate locks were deferred in AOCI. No further gain or loss w
AOCI related to these interest rate locks as the contracts were effectively terminated
underlying debt. However, the amount of AOCI associated with these interest rate lo
termination will be recognized into interest expense over the term of the notes. At D
and 2008, $12.6 million and $14.4 million, respectively, of deferred losses remained
these interest rate locks. The amount expected to be reclassified into interest expens
twelve months is $1.8 million.

In August 2006, the Company entered into two total return swaps (the Swaps) which
instruments used to hedge the Company s exposure to changes in its share-based co
The aggregate notional amount of the Swaps was approximately $52.6 million. On J
Company terminated a portion of the Swaps for net cash proceeds of $3.8 million. T
the remaining portion of the Swaps on August 6, 2007, for net cash proceeds of $13
and losses associated with the Swaps were recorded within Selling and administrativ

In March 2005, the Company entered into interest rate locks for the forecasted issua
of Senior Notes due 2015. These interest rate locks met the criteria to be accounted
hedges of a forecasted transaction. Consequently, the changes in fair value of the int
deferred in AOCI. No further gain or loss will be deferred in AOCI related to these
the contracts were effectively terminated upon issuance of the underlying debt. How
AOCI associated with these interest rate locks at the time of termination will be rec
expense over the term of the notes. At December 31, 2009 and 2008, $6.5 million a
respectively, of deferred losses remained in AOCI related to these interest rate locks
expected to be reclassified into interest expense over the next twelve months is $1.1

Stockholders' equity (deficit)

Stockholders' equity (deficit)

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The following table presents the fair values of derivative instruments included withi
Balance Sheet as of December 31, 2009:

In millions	A deriv
Derivatives designated as accounting hedges:	
Currency derivatives	$
Derivatives not designated as accounting hedges:	
Currency derivatives	
Total derivatives	$

Asset and liability derivatives included in the table above are recorded within Other
Accrued expenses and other current liabilities, respectively, on the Consolidated Ba

The following table represents the amounts associated with derivatives designated a
the Consolidated Statement of Income and AOCI for the year ended December 31, 2

In millions	Amount of gain (loss) deferred in AOCI	Location of gain (loss) reclassified from AOCI and recognized into earnings
Currency derivatives	(7.1)	Other, net
Interest rate locks	-	Interest expense
Total	$ (7.1)	

The following table represents the amounts associated with derivatives not designate
affecting the Consolidated Statement of Income for the year ended December 31, 20

In millions	Location of gain (loss)	A
Currency derivatives	Other, net	
Commodity derivatives	Other, net	
Total		

* The gains and losses associated with the Company s undesignated currency deriv
offset in the Consolidated Statement of Income by changes in the fair value of the u
transactions.

Concentration of Credit Risk

The counterparties to the Company s forward contracts consist of a number of inve
international financial institutions. The Company could be exposed to losses in the e
nonperformance by the counterparties. However, credit ratings of and concentration
financial institutions are monitored on a continuous basis and present no significant
Company.

Fair Value of Financial Instruments

Stockholders' equity (deficit)

The carrying value of cash and cash equivalents, accounts receivable, short-term bor
accounts payable are a reasonable estimate of their fair value due to the short-term m
instruments.

Stockholders' equity (deficit)

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NOTE 15 PENSIONS AND POSTRETIREMENT BENEFITS OTHER THA

Pension Plans

The Company has noncontributory pension plans covering substantially all non-Tra
and maintains a pension plan for non-collectively bargained U.S. employees of Tra
employees may elect to participate and receive a credit equal to 3% of eligible pay.
2010, non-collectively bargained U.S. employees of Trane began to participate in th
pension plan for U.S. non-collectively bargained employees. In addition, the Compa
pension plans for Trane U.S. collectively bargained employees. Certain non-U.S. en
countries, including Trane employees, are covered by pension plans.

Most of the Company s pension plans for U.S. non-collectively bargained employe
on a final average pay formula. The Company s U.S. collectively bargained pensio
those covering employees of Trane, generally provide benefits based on a flat benef
non-U.S. plans provide benefits based on earnings and years of service. The Compa
additional other supplemental benefit plans for officers and other key employees.

In 2008, the Company adopted the measurement date provision of ASC 715 which r
measurement of plan assets and benefit obligations as of the date of the year-end fin
The Company recorded a one-time after-tax pension charge of $1.2 million to Retai
million pre-tax) as a result of changing the measurement date from November 30th t

As a result of the acquisition of Trane in the second quarter of 2008, the Company a
obligations of $67.7 million, which consisted of noncurrent pension assets of $1.4 m
and noncurrent pension benefit liabilities of $69.1 million. In connection with the sa
Equipment and the Road Development business unit during 2007, the Company sett
pension benefits for all current and former employees related to these divestitures. I
the Company s U.S. plans and the U.K. plan were remeasured as of the sale dates.

Stockholders' equity (deficit)

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The following table details information regarding the Company s pension plans at I

In millions	2009
Change in benefit obligations:	
Benefit obligation at beginning of year	$ 3,217.
Service cost	65.
Interest cost	197.
Employee contributions	2.
Acquisitions	-
Amendments	9.
Actuarial (gains) losses	290.
Benefits paid	(227.
Currency translation	63.
Curtailments and settlements	(21.
Adjustment due to adoption of ASC 715 measurement date provisions	-
Other, including expenses paid	3.
Benefit obligation at end of year	$ 3,598.
Change in plan assets:	
Fair value at beginning of year	$ 2,363.
Actual return on assets	403.
Company contributions	113.
Employee contributions	2.
Acquisitions	-
Benefits paid	(227.
Currency translation	49.
Settlements	(11.
Adjustment due to adoption of ASC 715 measurement date provisions	-
Other, including expenses paid	3.
Fair value of assets end of year	$ 2,695.
Funded status:	
Plan assets less than the benefit obligations	$ (903.
Amounts included in the balance sheet:	
Other noncurrent assets	$ 1.
Accrued compensation and benefits	(11.
Post employment and other benefit liabilities	(892.
Net amount recognized	$ (903.

It is the Company s objective to contribute to the pension plans to ensure adequate
the plans to make benefit payments to plan participants and beneficiaries when requ
certain plans are not or cannot be funded due to either legal or tax requirements in c
As of December 31, 2009, approximately six percent of our projected benefit obliga
that cannot be funded.

Stockholders' equity (deficit)

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The pretax amounts recognized in Accumulated other comprehensive income (loss)

In millions	Net transition obligation	Prior service cost	Net actuaria losses
December 31, 2008	$ (0.3)	$ (42.7)	$ (1,10
Current year changes recorded to Accumulated other comprehensive income (loss)	-	(9.3)	(6
Amortization reclassified to earnings	0.2	8.5	5
Settlements/curtailments reclassified to earnings	-	1.8	
Currency translation and other	-	-	(2
December 31, 2009	$ (0.1)	$ (41.7)	$ (1,12

Weighted-average assumptions used:	
Benefit obligations at December 31,	2
Discount rate:	
U.S. plans	5
Non-U.S. plans	5
Rate of compensation increase:	
U.S. plans	4
Non-U.S. plans	4

The accumulated benefit obligation for all defined benefit pension plans was $3,442 $3,082.7 million at December 31, 2009 and 2008, respectively. The projected benef accumulated benefit obligation, and fair value of plan assets for pension plans with obligations more than plan assets were $3,529.6 million, $3,382.7 million and $2,62 respectively, as of December 31, 2009, and $3,194.8 million, $3,066.0 million and respectively, as of December 31, 2008.

Pension benefit payments are expected to be paid as follows:

In millions
2010
2011
2012
2013
2014
2015 - 2019

Stockholders' equity (deficit)

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The components of the Company s pension related costs for the years ended Decem
following:

In millions	2009	2008
Service cost	$ 65.4	$ 5
Interest cost	197.2	18
Expected return on plan assets	(178.4)	(23
Net amortization of:		
Prior service costs	8.5	
Transition amount	0.2	
Plan net actuarial losses	59.4	1
Net periodic pension benefit cost	152.3	3
Net curtailment and settlement (gains) losses	2.0	
Net periodic pension benefit cost after net curtailment and settlement (gains) losses	$ 154.3	$ 3

Amounts recorded in continuing operations	$ 142.9	$ 4
Amounts recorded in discontinued operations	11.4	(1
Total	$ 154.3	$ 3

The curtailment and settlement losses in 2009 are associated with restructuring of op
curtailment and settlement losses in 2008 are associated with lump sum distributions
benefit plans for officers and other key employees. The curtailment and settlement g
2007 are associated with the divestiture of Compact Equipment and the Road Devel
unit.

Pension expense for 2010 is projected to be approximately $167 million, utilizing th
calculating the pension benefit obligations at the end of 2009. The amounts expected
net periodic pension cost during the year ended 2010 for the net transition obligation
and plan net actuarial losses are $0.1 million, $8.8 million and $56.9 million, respec

Weighted-average assumptions used:

Net periodic pension cost for the year ended December 31,	2009	20
Discount rate:		
U.S. plans		
For the period January 1 to April 30	6.25%	6
For the period May 1 to November 30 *	6.25%	6
For the period December 1 to December 31	6.25%	6
Non-U.S. plans		
For the period January 1 to April 30	6.50%	6
For the period May 1 to November 30 *	6.50%	6
For the period December 1 to December 31	6.50%	6
Rate of compensation increase:		
U.S. plans	4.00%	4
Non-U.S. plans		
For the period January 1 to April 30	4.50%	4
For the period May 1 to November 30 *	4.50%	4

Stockholders' equity (deficit)

For the period December 1 to December 31	4.50%	4
Expected return on plan assets:		
U.S. plans	7.75%	8
Non-U.S. plans	7.25%	7

* Trane plans were valued at acquisition date assuming 6.75% for the discount rate, compensation increase and 8.25% for the expected return on plan assets

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Stockholders' equity (deficit)

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The expected long-term rate of return on plan assets reflects the average rate of retur
funds invested or to be invested to provide for the benefits included in the projected
The expected long-term rate of return on plan assets is based on what is achievable g
investment policy, the types of assets held and target asset allocations. The expected
return is determined as of the measurement date. The Company reviews each plan ar
returns and target asset allocations to determine the appropriate expected long-term
assets to be used.

The Company s investment objectives in managing its defined benefit plan assets a
present and future benefit obligations to all participants and beneficiaries are met as
provide a total return that, over the long-term, minimizes required company contribu
appropriate levels of risk; and to meet any statutory and regulatory requirements. Ke
management decisions reviewed regularly are asset allocations and investment mana
Asset/liability modeling (ALM) studies are used as the basis for global asset allocati
updated as required.

Based on ALM studies, the Company has set its target strategic global asset allocatio
broadly 40% equities and 60% debt and real estate. Asset allocations are reviewed a
appropriate adjustments are made as necessary.

The fair values of the Company s pension plan assets at December 31, 2009 by asse
follows:

	Fair value measureme	
In millions	Level 1	Level 2
Cash and cash equivalents	$ 28.1	$ 23.3
Equity investments:		
Common and preferred stocks [(a)]	94.9	-
Commingled funds equity specialty[(b)]	-	1,141.2
	94.9	1,141.2
Fixed income investments:		
U.S. government and agency obligations [(c)]	-	405.8
Corporate and non-U.S. bonds	-	497.2
Asset-backed and mortgage-backed securities	-	230.3
Commingled funds fixed income specialty[(d)]	21.5	233.4
Other fixed income [(e)]	-	-
	21.5	1,366.7
Derivatives	-	(1.0)
Real estate [(f)]	-	-
Other [(g)]	-	-
Total assets at fair value	$ 144.5	$ 2,530.2
Receivables and payables, net		
Net assets available for benefits		

(a) This class represents developed market equities of actively managed funds. Inve
include common stocks, preferred stocks and American Depository Receipts.

(b) This class includes commingled funds managed by investment managers that fo
investments. It includes both indexed and actively managed funds.

(c) This class represents U.S. treasuries and state and municipal bonds.

Stockholders' equity (deficit)

(d) This class comprises commingled funds actively managed by investment manag
fixed income securities.

(e) This class includes insurance contracts with guaranteed income portion as well a

(f) This class includes several private equity funds that invest in real estate. It inclu
investment funds and funds-of-funds.

(g) This investment comprises the Company s non-significant foreign pension plar
includes insurance contracts.

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Stockholders' equity (deficit)

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See Note 16 for additional information related to the fair value hierarchy defined by
Fair Value Measurements and Disclosures (ASC 820).

The Company made contributions to its pension plans of $113.5 million in 2009, $6
and $25.5 million in 2007. The Company currently projects that it will contribute ap
million to its plans worldwide in 2010. The Company s policy allows it to fund an a
be in excess of or less than the pension cost expensed, subject to the limitations imp
regulations. The Company anticipates funding the plans in 2010 in accordance with
required by funding regulations or the laws of each jurisdiction.

Most of the Company s U.S. employees are covered by savings and other defined c
Employer contributions are determined based on criteria specific to the individual pl
approximately $86.0 million (including $50.6 million for Trane plans), $78.8 millio
million for Trane plans), and $47.8 million in 2009, 2008 and 2007, respectively. Th
contributions relating to non-U.S. defined contribution plans and other non-U.S. ben
million (including $1.7 million for Trane plans), $16.3 million (including $3.8 milli
and $11.4 million in 2009, 2008 and 2007, respectively.

Postretirement Benefits Other Than Pensions

The Company sponsors several postretirement plans that cover certain eligible empl
certain Trane employees since the Acquisition Date. These plans provide for health-
some instances, life insurance benefits. Postretirement health plans generally are con
contributions are adjusted annually. Generally, life insurance plans for retirees are p
noncontributory. The Company funds the postretirement benefit costs principally on
basis.

In 2008, the Company adopted the measurement date provision of ASC 715 which r
measurement of plan assets and benefit obligations as of the date of the year-end fin
The Company recorded a one-time after-tax charge for postretirement benefits of $2
Retained earnings ($4.7 million pre-tax) as a result of changing the measurement da
November 30th to December 31st.

As a result of the acquisition of Trane in the second quarter of 2008, the Company a
obligations for retirement benefits other than pensions in the amount of $268.9 milli
with the sale of Compact Equipment and the Road Development business unit durin
Company settled its obligation for postretirement benefits for all current and former
these divestitures. In addition, the Company s U.S. postretirement plan was remeas
dates.

Stockholders' equity (deficit)

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The following table details information regarding the Company s postretirement pl

In millions	200
Change in benefit obligations:	
Benefit obligation at beginning of year	$ 9
Service cost	
Interest cost	
Plan participants contributions	
Actuarial (gains) losses	
Benefits paid, net of Medicare Part D subsidy *	(
Settlements/curtailments	
Adjustments due to adoption of ASC 715 measurement date provision	
Acquisition	
Amendments	
Other	
Benefit obligations at end of year	$ 9

* Amounts are net of Medicare Part D subsidy of $5.5 and $9.5 million in 2009 and 2008, respectively

Funded status:	
Plan assets less than benefit obligations	$ (9
Amounts included in the balance sheet:	
Accrued compensation and benefits	$ (
Postemployment and other benefit liabilities	(9
Total	$ (9

The pretax amounts recognized in Accumulated other comprehensive income (loss)

In millions	Prior service gains	Net actuari losses
Balance at December 31, 2008	$ 10.8	$ (19
Current year changes recorded to Accumulatedother comprehensive income (loss)	(3.0)	(3
Amortization reclassified to earnings	(3.2)	1
Settlements/curtailments reclassified to earnings	(0.4)	
Currency translation and other	(0.1)	(
Balance at December 31, 2009	$ 4.1	$ (21

Stockholders' equity (deficit)

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The components of net periodic postretirement benefit (income) cost for the years en
were as follows:

In millions	2009	2008
Service cost	$ 9.0	$ 7.3
Interest cost	55.8	49.7
Net amortization of prior service gains	(3.2)	(3.4)
Net amortization of net actuarial losses	11.6	16.2
Net periodic postretirement benefit cost	73.2	69.8
Net curtailment and settlement (gains) losses	(0.5)	-
Net periodic postretirement benefit (income) cost after net curtailment and settlement (gains) losses	$ 72.7	$ 69.8

Amounts recorded in continuing operations	$ 43.9	$ 38.4
Amounts recorded in discontinued operations	28.8	31.4
Total	$ 72.7	$ 69.8

The curtailment and settlement gains and losses in 2009 are associated with the restr
operations. The curtailment and settlement gains and losses in 2007 are associated w
Compact Equipment and the Road Development business unit. Postretirement cost f
to be $76 million. Amounts expected to be recognized in net periodic postretirement
2010 for prior service gains and plan net actuarial losses are $2.9 million and $16.6

Assumptions:	2009	
Weighted-average discount rate assumption to determine:		
Benefit obligations at December 31	5.50%	
Net periodic benefit cost		
For the period January 1 to April 30	6.25%	
For the period May 1 to November 30 *	6.25%	
For the period December 1 to December 31	6.25%	
Assumed health-care cost trend rates at December 31:		
Current year medical inflation	9.25%	1
Ultimate inflation rate	5.00%	
Year that the rate reaches the ultimate trend rate	2021	

* Trane plans were valued assuming a 6.50% discount rate at the acquisition date.

A 1% change in the medical trend rate assumed for postretirement benefits would ha
effects at December 31, 2009:

In millions	1% Increase
Effect on total of service and interest cost components	$ 2.0
Effect on postretirement benefit obligation	40.9

Stockholders' equity (deficit)

Stockholders' equity (deficit)

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Benefit payments for postretirement benefits, which are net of expected plan particip
and Medicare Part D subsidy, are expected to be paid as follows:

In millions
2010
2011
2012
2013
2014
2015 - 2019

NOTE 16 FAIR VALUE MEASUREMENTS

ASC 820 establishes a framework for measuring fair value that is based on the input
use to determine the fair value of an asset or liability and establishes a fair value hie
those inputs. The Company adopted this provision of ASC 820 on January 1, 2008.
Company has delayed its implementation of the provision of ASC 820 for the fair va
indefinite-lived intangible assets and nonfinancial long-lived assets as allowed unde
value hierarchy outlined in ASC 820 is comprised of three levels that are described

Level 1 Inputs based on quoted prices in active markets for identical asse

Level 2 Inputs other than Level 1 quoted prices, such as quoted prices for
liabilities; quoted prices in markets that are not active; or other inputs that a
be corroborated by observable market data for substantially the full term of

Level 3 Unobservable inputs based on little or no market activity and tha
fair value of the assets and liabilities.

The fair value hierarchy requires an entity to maximize the use of observable inputs
use of unobservable inputs when measuring fair value. Observable inputs are obtain
sources and can be validated by a third party, whereas unobservable inputs reflect as
what a third party would use in pricing an asset or liability based on the best informa
the circumstances. A financial instrument s categorization within the fair value hier
the lowest level of input that is significant to the fair value measurement.

Assets and liabilities measured at fair value on a recurring basis at December 31, 20

	Fair value measurements		
In millions	Level 1	Level 2	Lev
Assets:			
Cash and cash equivalents	$ 876.7	$ -	$
Marketable securities	11.8	-	
Derivative instruments	-	7.3	

Stockholders' equity (deficit)

Benefit trust assets		17.6		147.7	
Total	$	906.1	$	155.0	$
Liabilities:					
Derivative instruments	$	-	$	7.9	$
Benefit liabilities		18.6		178.5	
Total	$	18.6	$	186.4	$

Stockholders' equity (deficit)

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See Note 15 for disclosure of fair value measurements related to the Company s pe

ASC 820 defines fair value as the exchange price that would be received to sell an a
transfer a liability (an exit price) in the principal or most advantageous market for th
an orderly transaction between market participants on the measurement date. The Co
the fair value of its financial assets and liabilities using the following methodologies

Cash and cash equivalents These amounts include cash on hand, demand
highly liquid investments with original maturities at the time of purchase of
and are held in U.S and non-U.S. currencies.

Marketable securities These securities include investments in publically t
non-U.S. companies held by non-U.S. subsidiaries of the Company. The fai
for the securities based on observable market prices quoted on public stock

Derivatives instruments These instruments include forward contracts rela
currencies. The fair value of the derivative instruments are determined base
that uses inputs from actively quoted currency markets that are readily acce
observable.

Benefit trust assets These assets include money market funds and insuran
the underlying for the benefit assets. The fair value of the assets is based on
prices quoted in a readily accessible and observable market.

Benefit liabilities These liabilities include deferred compensation and exe
The fair value is based on the underlying investment portfolio of the deferre
the specific benefits guaranteed in a death benefit contract with each execut

Effective January 1, 2008, the Company also adopted the provisions of FASB ASC
Instruments (ASC 825) that allow companies the option, at specified election dates
assets and liabilities at their current fair value, with the corresponding changes in fai
to period recognized in the income statement. Additionally, ASC 825 establishes pr
disclosure requirements designed to facilitate comparisons between companies that
measurement attributes for similar assets and liabilities. As of December 31, 2009, t
elected to utilize the fair value option on any of its financial assets or liabilities.

NOTE 17 SHAREHOLDERS EQUITY

Ingersoll-Rand Company Limited, a Bermuda Company (IR-Limited), was the succ
Ingersoll-Rand Company, a New Jersey Company (IR-New Jersey) following a corp
that became effective on December 31, 2001 (the Bermuda Reorganization). Upon c
shares of IR-New Jersey common stock were cancelled and all previous holders wer
Class A common shares. The Bermuda Reorganization was accounted for as a reorg
under common control and accordingly, did not result in any changes to the consolid
assets, liabilities and shareholders equity.

Stockholders' equity (deficit)

Ingersoll-Rand plc, an Irish public limited company (IR-Ireland), is the successor to
following a corporate reorganization that became effective on July 1, 2009 (the Irela
Upon consummation, the shares of IR-Limited Class A common shares were cancel
holders were issued IR-Ireland ordinary shares. The Ireland Reorganization was acc
reorganization of entities under common control and accordingly, did not result in a
consolidated amounts of assets, liabilities and shareholders equity. See Note 2 for a
the Ireland Reorganization.

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Stockholders' equity (deficit)

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Common Stock

At December 31, 2009, a reconciliation of common shares is as follows:

In millions
December 31, 2008
Shares issued under incentive plans
December 31, 2009
The authorized share capital of IR-Ireland is $1,175,010,000, consisting of (1) 1,175
shares, par value $1.00 per share, and (2) 10,000,000 preference shares, par value $0
preference shares were outstanding at December 31, 2009 or 2008.

Treasury Stock

The Company treats common shares of the parent owned by a subsidiary as treasury
are recorded at cost and included in the Shareholders equity section. At December
common shares of IR-Limited owned by the Company amounted to 97.4 million. As
acquisition of Trane in June 2008, the Company issued 45.4 million IR-Limited Cla
to fund the equity portion of the consideration. In June 2009, IR-Limited cancelled t
52.0 million shares in anticipation of the Ireland Reorganization that became effecti

Accumulated Other Comprehensive Income (Loss)

The components of Accumulated other comprehensive income (loss) are as follows:

In millions	2009
Foreign currency translation adjustment	$ 504.3
Change in fair value of derivatives qualifyingas cash flow hedges, net of tax	(8.6
Unrealized loss on marketable securities, net of tax	(4.7
Pension and postretirement obligation adjustments, net of tax	(925.3
Accumulated other comprehensive income (loss)	$ (434.3

NOTE 18 SHARE-BASED COMPENSATION

The Company records share-based compensation awards using a fair value method a
compensation expense for an amount equal to the fair value of the share-based paym
consolidated financial statements.

On June 3, 2009, the shareholders of the Company approved the amendment and res
Incentive Stock Plan of 2007, which authorizes the Company to issue stock options
share-based incentives. As a result, the total number of shares authorized by the shar
increased to 27.0 million, of which 15.0 million remains available as of December 3
incentive awards.

Modifications Relating to the Reorganization

In connection with the Ireland Reorganization discussed in Note 2, on July 1, 2009,
the existing obligations of IR-Limited under the equity incentive plans and other sin

Stockholders' equity (deficit)

plans of Ingersoll Rand (collectively, the Plans), including all awards issued thereun
Plans were amended by IR-Limited to provide (1) that ordinary shares of IR-Ireland
available or used to measure benefits as appropriate under the Plans, in lieu of the C
shares of IR-Limited, including upon exercise of any options or share appreciation r
vesting of restricted stock units or performance units issued under those Plans; and (
appropriate substitution of IR-Ireland for IR-Limited in those Plans.

Stockholders' equity (deficit)

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Stock Options / Restricted Stock Units

On February 12, 2009, the Compensation Committee of the Company s Board of D
change to the Company s equity grant approach whereby options are no longer use
equity vehicle for eligible participants; instead a mix of options and restricted stock
utilized. The RSUs vest ratably over three years and any accrued dividends will be p
time of vesting. As a result of this change, eligible participants received (i) stock op
(iii) a combination of both stock options and RSUs under the Company s Incentive

The average fair value of the stock options granted for the year ended December 31,
estimated to be $5.82 per share and $11.56 per share, respectively, using the Black-S
option-pricing model. The following assumptions were used:

	2009
Dividend yield	1.97
Volatility	43.19
Risk-free rate of return	1.76
Expected life	5.10 years

The fair value of each of the Company s stock option awards is expensed on a strai
required service period, which is generally the three-year vesting period of the optio
options granted to retirement eligible employees, the Company recognizes expense
the options at the grant date. Expected volatility is based on the historical volatility
on the Company s stock. The risk-free rate of return is based on the yield curve of a
Treasury bond on the date the award is granted with a maturity equal to the expecte
Historical data is used to estimate forfeitures within the Company s valuation mode
expected life of the stock option awards is derived from historical experience and re
of time that awards are expected to be outstanding.

Changes in options outstanding under the plans for the years 2007, 2008 and 2009 a

	Shares subject to option	Weighted-average exercise price	Aggrega intrinsi value (milli
December 31, 2006	19,164,942	31.54	
Granted	3,528,225	43.77	
Exercised	(5,386,093)	29.70	
Cancelled	(882,183)	41.16	
December 31, 2007	16,424,891	34.25	
Granted	5,088,599	40.48	
Trane options exchanged for IR options	7,408,134	18.50	
Exercised	(685,508)	26.56	
Cancelled	(1,020,889)	39.84	
December 31, 2008	27,215,227	31.11	
Granted	4,165,032	17.34	
Exercised	(1,543,323)	21.45	
Cancelled	(1,978,853)	31.99	
Outstanding December 31, 2009	27,858,083	$ 29.54	$ 23

Stockholders' equity (deficit)

Exercisable December 31, 2009	20,030,794	$	29.68	$	1

As part of the acquisition of Trane, 7.4 million Trane options were converted at the into options to acquire shares of IR-Limited Class A common shares based on the o set forth in the merger agreement.

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The following table summarizes information concerning currently outstanding and e

Range of exercise price				Options outstanding				Options
				Number outstanding at December 31, 2009	Weighted-average remaining life	Weighted-average exercise price	Number exercisable at December 31, 2009	W re
$ 0.00	-	$	10.00	111,804	0.7	$ 8.62	111,804	
10.01	-		20.00	8,273,001	5.4	14.57	4,420,993	
20.01	-		30.00	3,502,277	3.7	22.89	3,495,277	
30.01	-		40.00	11,759,090	5.0	37.24	9,777,400	
40.01	-		50.00	4,047,245	6.9	43.20	2,143,322	
50.01	-		60.00	164,666	6.9	52.50	81,998	
$ 4.76	-	$	55.22	27,858,083	5.2	$ 29.54	20,030,794	

At December 31, 2009, there was $28.2 million of total unrecognized compensation
option arrangements granted under the plan, which is related to unvested shares of n
eligible employees. This compensation will be recognized over the required service
generally the three-year vesting period. The aggregate intrinsic value of options exer
ended December 31, 2009 and 2008 was $16.5 million and $9.2 million, respectivel

Generally, stock options vest ratably over a three-year period from their date of gran
end of ten years.

On February 12, 2009, the Company granted annual RSU awards. The fair value of
Company s RSU awards is measured as the grant-date price of the Company s sha
straight-line basis over the three year vesting period. For RSUs granted to retiremen
the Company recognizes expense for the fair value of the RSUs at the grant date. RS
a three-year period.

The following table summarizes RSU activity during the year ended December 31, 2

	RSUs
Outstanding and unvested at December 31, 2008	-
Granted	921,18
Vested	(6,52
Cancelled	(49,90
Outstanding and unvested at December 31, 2009	864,75

At December 31, 2009, there was $7.9 million of total unrecognized compensation c
arrangements granted under the plan, which is related to unvested shares of non-reti
employees. This compensation will be recognized over the required service period, v
the three-year vesting period.

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SARs

All SARs outstanding as of December 31, 2009 are vested and expire ten years from
All SARs exercised are settled with the Company s ordinary shares.

The following table summarizes the information for currently outstanding SARs:

	Shares subject to exercise	Weighted-average exercise price	Aggregat intrinsic value (millio
December 31, 2006	1,693,754	$ 33.11	
Granted	-	-	
Exercised	(476,400)	30.31	
Cancelled	(47,377)	34.72	
December 31, 2007	1,169,977	33.99	
Granted	-	-	
Exercised	(40,636)	27.98	
Cancelled	(55,869)	37.85	
December 31, 2008	1,073,472	34.02	
Granted	-	-	
Exercised	(29,038)	22.73	
Cancelled	(73,662)	36.18	
Outstanding December 31, 2009	970,772	$ 34.19	$
Exercisable December 31, 2009	970,772	$ 34.19	$

Note: The Company did not grant SARS during 2007, 2008, and 2009 and does not
granting in the future.

Performance Shares

The Company has a Performance Share Program (PSP) for key employees. The prog
awards based on performance against pre-established objectives. The target award le
number of the Company s ordinary shares. All PSP awards are settled in the form o

On February 12, 2009, the Compensation Committee determined the PSP awards fo
year 2008. In doing so, primary emphasis was placed on financial objectives in light
economic environment. The 2008 PSP awards have a one-year vesting period.

On October 4, 2008, the Compensation Committee approved certain changes to the
incentive compensation programs to be implemented beginning with the 2009 perfo
these changes, the performance period under the Company s PSP Program was cha
three years starting with year 2009 in order to increase the long-term nature of incen
for PSP participants. In addition, these PSP awards are based on the Company s rel
compared to the industrial group of companies in the S&P 500 Index over the three-
period. To transition between the previous one-year PSP program and the revised th
program, there is a one-time PSP award with a two-year performance period for 200
which is based on the Company s EPS growth relative to the industrial group of co
500 Index and the publicly announced Trane acquisition synergy savings.

Stockholders' equity (deficit)

Stockholders' equity (deficit)

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Deferred Compensation

The Company allows key employees to defer a portion of their eligible compensatio
investment choices, including ordinary share equivalents. Any amounts invested in o
equivalents will be settled in ordinary shares at the time of distribution.

Other Plans

The Company maintains a shareholder-approved Management Incentive Unit Awar
plan, participating key employees were awarded incentive units. When dividends ar
shares, phantom dividends are awarded to unit holders, one-half of which is paid in
half of which is credited to the participants accounts in the form of ordinary share e
of the actual incentive units is never paid to participants, and only the fair value of a
share equivalents is paid in cash upon the participants retirement. The number of o
equivalents credited to participants accounts at December 31, 2009 is 109,480.

The Company has issued stock grants as an incentive plan for certain key employees
vesting periods. All stock grants are settled with the Company s ordinary shares. A
there were 278,802 stock grants outstanding, all of which were vested.

Compensation Expense

Share-based compensation expense is included in Selling and administrative expens
table summarizes the expenses recognized:

In millions	2009
Stock options	$ 36.8
RSUs	6.6
Performance shares	22.4
Deferred compensation	2.7
SARs and other	2.4
Pre-tax expense	70.9
Tax benefit	27.1
After tax expense	$ 43.8

Amounts recorded in continuing operations	$ 43.8
Amounts recorded in discontinued operations	-
Total	$ 43.8

NOTE 19 OTHER, NET

At December 31, the components of Other, net were as follows:

In millions	2009
Interest income	$ 13.3
Currency gain (loss)	(36.1)

Stockholders' equity (deficit)

Earnings from equity investments	8.1
Other	34.4
Other, net	$ 19.7

Included in currency exchange gains (losses) above is a $24 million charge recorded
of 2009, associated with the recent devaluation in the Venezuelan Bolivar. At Decer
Company remeasured its foreign currency receivables and payables associated with
Bolivar at the parallel

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Stockholders' equity (deficit)

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rate of 6.0 Bolivars for each U.S. dollar, based on the Company s inability to settle
through the official government channels in an expeditious manner. Previously, the
remeasured all foreign currency transactions at the official rate of 2.15 Bolivars for
addition, effective January 1, 2010, Venezuela has been designated highly inflationa
Consumer Price Index/National Consumer Price Index reached cumulative three-yea
of 100% during the fourth quarter of 2009. As such, all future foreign currency fluct
recorded in income.

In the fourth quarter of 2009, the Company recorded income of approximately $25
related to a favorable settlement with an insurance carrier associated with a portion
asbestos obligation, which is included in other in the table above.

NOTE 20 INCOME TAXES

Earnings (loss) before income taxes for the years ended December 31 were taxed wi
jurisdictions:

In millions	2009	2008
United States	$ (305.5)	$ (3,564.5
Non-U.S.	864.6	808.5
Total	$ 559.1	$ (2,756.0

The components of Provision (benefit) for income taxes for the years ended Decemb
follows:

In millions	2009	2
Current tax expense (benefit):		
United States	$ (24.2)	$
Non U.S.	127.5	
Total:	103.3	
Deferred tax expense (benefit):		
United States	7.8	(
Non U.S.	(39.8)	
Total:	(32.0)	(
Total tax expense (benefit):		
United States	(16.4)	(
Non U.S.	87.7	
Total	$ 71.3	$ (

The Provision (benefit) for income taxes differs from the amount of income taxes de
applying the applicable U.S. statutory income tax rate to pretax income, as a result o
differences:

	Percent
	2009
Statutory U.S. rate	35.0%
Increase (decrease) in rates resulting from:	

Stockholders' equity (deficit)

Non-U.S. operations	(21.4)
State and local income taxes, net of U.S. tax	9.7
Non-deductible impairment charge	-
Tax reserves (including uncertain tax position reserves)	(3.5)
Provision to return and other true-up adjustments	(6.4)
Other adjustments	(0.6)
Effective tax rate	12.8%

Stockholders' equity (deficit)

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Tax incentives, in the form of tax holidays, have been granted in certain jurisdiction
industrial development. The expiration of these tax holidays varies by country. The
holiday relates to the Company s qualifying locations in Ireland, which were grante
through 2010. The benefit for the tax holidays for the year ended December 31, 200
million and $4.1 million, respectively.

At December 31, a summary of the deferred tax accounts were as follows:

In millions		2009
Deferred tax assets:		
Inventory and accounts receivable	$	40
Fixed assets and intangibles		16
Postemployment and other benefit liabilities		928
Product liability		293
Other reserves and accruals		269
Net operating losses and credit carryforwards		954
Other		107
Gross deferred tax assets		2,609
Less: deferred tax valuation allowances		(353
Deferred tax assets net of valuation allowances	$	2,255
Deferred tax liabilities:		
Inventory and accounts receivable	$	(54
Fixed assets and intangibles		(2,360
Postemployment and other benefit liabilities		(2
Other reserves and accruals		(13
Other		(99
Gross deferred tax liability		(2,530
Net deferred tax assets (liabilities)	$	(275

At December 31, 2009, no deferred taxes have been provided for any portion of the
undistributed earnings of the Company s subsidiaries, since these earnings have bee
plans will continue to be, permanently reinvested in these subsidiaries, and it is not p
estimate the amount of additional taxes which may be payable upon distribution.

At December 31, 2009, the Company had the following operating loss and tax credi
available to offset taxable income in prior and future years:

In millions	Amou
U.S. Federal net operating loss carryforwards	$ 1,38
U.S. Federal credit carryforwards	7
U.S. State net operating loss carryforwards	3,31
Non-U.S. net operating loss carryforwards	1,25
Non-U.S. credit carryforwards	

The U.S. state net operating loss carryforwards were incurred in various jurisdiction
operating loss carryforwards were incurred in various jurisdictions, predominantly i
Germany, the Netherlands, Spain, Switzerland and the United Kingdom.

Stockholders' equity (deficit)

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Activity associated with the Company s valuation allowance is as follows:

In millions	2009	
Beginning balance	$ 247.8	$
Increase to valuation allowance	167.1	
Decrease to valuation allowance	(17.8)	
Other deductions	(4.9)	
Write off against valuation allowance	(41.3)	
Acquisition and purchase accounting	(38.9)	
Accumulated other comprehensive income (loss)	41.7	
Ending balance	$ 353.7	$

Effective January 1, 2007, the Company adopted the provisions of FASB ASC 740,
740) which prescribes a recognition threshold and measurement process for recordin
statements uncertain tax positions taken or expected to be taken in a tax return. Add
provides guidance on the recognition, classification, accounting in interim periods a
requirements for uncertain tax positions. As a result of adopting these provisions of
January 1, 2007, the company recorded additional liabilities to its previously establi
corresponding decrease in retained earnings of $145.6 million.

The Company has total unrecognized tax benefits of $525.1 million and $589.6 mill
December 31, 2009, and December 31, 2008, respectively. The amount of unrecogn
if recognized, would affect the effective tax rate are $453.4 million as of December
reconciliation of the beginning and ending amount of unrecognized tax benefits is as

In millions	2009	20
Beginning balance	$ 589.6	$ 3
Additions based on tax positions related to the current year	25.2	
Additions based on tax positions related to acquisitions	-	1
Additions based on tax positions related to prior years	80.5	
Reductions based on tax positions related to prior years	(121.8)	(
Reductions related to settlements with tax authorities	(33.4)	
Reductions related to lapses of statute of limitations	(18.9)	
Translation (gain)/loss	3.9	
Ending balance	$ 525.1	$ 5

In connection with Trane s spin-off of WABCO, Trane and WABCO entered into a
agreement for the allocation of pre spin-off taxes. Of the total unrecognized tax bene
at December 31, 2009, WABCO has agreed to indemnify Trane for $28.3 million, w
an other long-term receivable account.

The Company records interest and penalties associated with the uncertain tax positio
Provision for income taxes. The Company had reserves associated with interest and
of $80.3 million and $91.3 million at December 31, 2009, and December 31, 2008,
year ended December 31, 2009 and December 31, 2008, the Company recognized $
million, respectively, in interest and penalties net of tax related to these uncertain ta

It is reasonably possible that the total amount of unrecognized tax benefits could ch
months as a result of settlements of ongoing tax examinations resulting in a decreas
$8.2 million in the unrecognized tax benefits.

Stockholders' equity (deficit)

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Stockholders' equity (deficit)

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The provision for income taxes involves a significant amount of management judgm
interpretation of relevant facts and laws in the jurisdictions in which the Company o
changes in applicable laws, projected levels of taxable income and tax planning coul
effective tax rate and tax balances recorded by the Company. In addition, tax author
review income tax returns filed by the Company and can raise issues regarding its fi
and amount of income or deductions, and the allocation of income among the jurisdi
Company operates. A significant period of time may elapse between the filing of an
and the ultimate resolution of an issue raised by a revenue authority with respect to t
normal course of business the Company is subject to examination by taxing authorit
world, including such major jurisdictions as Brazil, Canada, Germany, Ireland, Italy
the United States. In general, the examination of the Company s material tax return
years prior to 2000, with certain matters being resolved through appeals and litigatio

The Internal Revenue Service (IRS) has completed the examination of the Company
returns through the 2000 tax year and has issued a notice proposing adjustments. Th
adjustment relates to the disallowance of certain capital losses. In order to reduce the
expense associated with this matter, the Company made a payment of $217 million
2007, which reduced the Company s total liability for uncertain tax positions by $1
during the third quarter of 2008, the Company made an additional payment of $55.1
potential penalty assessment plus accrued interest on this matter. During the fourth c
Company reached a settlement of this matter with the IRS which resulted in no addi
charges.

On July 20, 2007, the Company received a notice from the IRS containing proposed
Company s tax filings in connection with an audit of the 2001 and 2002 tax years.
contest the validity of the Company s reincorporation in Bermuda. The most signifi
proposed by the IRS involve treating the entire intercompany debt incurred in conne
Company s reincorporation in Bermuda as equity. As a result of this recharacterizat
disallowed the deduction of interest paid on the debt and imposed dividend withhold
payments denominated as interest. The IRS also asserted an alternative argument to
intercompany debt is respected as debt. In that circumstance the IRS proposed to ign
hold the debt and to which the interest was paid and impose 30% withholding tax on
interest payments as if they were made directly to a company that was not eligible fo
withholding tax under a U.S income tax treaty. The IRS asserted under this alternati
Company owes additional taxes with respect to 2002 of approximately $84 million p
of these positions were upheld in their entirety the Company would be required to re
charges. The Company strongly disagreed with the view of the IRS and filed a prote
third quarter of 2007.

On January 12, 2010, the Company received an amended notice from the IRS elimin
that the intercompany debt incurred in connection with the Company s reincorporat
should be treated as equity. However, the IRS continues to assert the alternative pos
and proposes adjustments to the Company s 2001 and 2002 tax filings. In addition,
notice on January 19, 2010, that it is assessing penalties of 30% on the asserted unde
described above.

The Company has and intends to continue to vigorously contest these proposed adju
Company, in consultation with its outside advisors, carefully considered the form an
Company s intercompany financing arrangements including the actions necessary t
benefits of the applicable U.S. income tax treaties. The Company believes that these
arrangements are in accordance with the laws of the relevant jurisdictions including
entities involved should be respected and that the interest payments qualify for the U
benefits claimed.

Stockholders' equity (deficit)

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Stockholders' equity (deficit)

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Although the outcome of this matter cannot be predicted with certainty, based upon
strength of its position, the Company believes that it is adequately reserved for this
Company moves forward to resolve this matter with the IRS, it is reasonably possib
established may be adjusted within the next 12 months. However, the Company doe
ultimate resolution will have a material adverse impact on its future results of opera
position. At this time, the IRS has not proposed any similar adjustments for years su
However, if all or a portion of these adjustments proposed by the IRS are ultimately
to also affect subsequent tax years.

The Company believes that it has adequately provided for any reasonably foreseeab
tax disputes, but will adjust its reserves if events so dictate in accordance with GAA
the ultimate results differ from the original or adjusted estimates of the Company, th
recorded in the provision for income taxes.

During 2009, the Company identified certain accounting errors associated with its p
income tax balance sheet accounts. The Company corrected these errors in 2009, wh
benefit for the year of $13 million recorded to continuing operations, of which $10
in the fourth quarter, and a tax charge for the year of $29 million recorded to discon
The Company does not believe that the accounting errors are material to 2009 or to
issued financial statements. As a result, the Company did not adjust any prior period

In addition, during the fourth quarter of 2009, the Company recorded a tax charge o
million (net of federal benefit) associated with increasing its deferred tax asset valu
state net operating losses. In addition, the Company wrote-off foreign tax credit carr
recorded a tax charge of $42 million in the third quarter of 2009.

NOTE 21 DIVESTITURES AND DISCONTINUED OPERATIONS

The components of discontinued operations for the years ended December 31 are as

In millions	2009	2
Revenues	$ -	$
Pre-tax earnings (loss) from operations	(60.5)	
Pre-tax gain (loss) on sale	1.6	
Tax benefit (expense)	47.3	
Discontinued operations, net	$ (11.6)	$

During 2009, the Company recorded a tax benefit of $28 million primarily associate
liability for unrecognized tax benefits, and a tax charge of $29 million associated wi
immaterial accounting errors. See Note 20 for a further description of these tax matt

Pre-tax loss from operations in 2007 includes a non-cash charge of $449.0 million r
Company s liability for all pending and estimated future asbestos claims through 20
in Other Discontinued Operations .

Discontinued operations by business for the years ended December 31 are as follow

Stockholders' equity (deficit)

In millions		2009		200
Compact Equipment, net of tax	$	(30.6)	$	(
Road Development, net of tax		9.0		(2
Other discontinued operations, net of tax		10.0		(
Total discontinued operations, net of tax	$	(11.6)	$	(5

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Stockholders' equity (deficit)

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Compact Equipment Divestiture

On July 29, 2007, the Company agreed to sell its Bobcat, Utility Equipment and Att
(collectively, Compact Equipment) to Doosan Infracore for gross proceeds of appro
subject to post-closing purchase price adjustments. The sale was completed on Nove
are currently in the process of resolving the final purchase price adjustments with D

Compact Equipment manufactured and sold compact equipment, including skid-stee
track loaders, mini-excavators and telescopic tool handlers; portable air compressors
light towers; general-purpose light construction equipment; and attachments. The C
for Compact Equipment as discontinued operations within the income statement.

Net revenues and after-tax earnings of Compact Equipment for the years ended Dec
follows:

In millions	2009	
Net revenues	$ -	$
After-tax earnings (loss) from operations	$ 7.2	$
Gain (loss) on sale, net of tax	(37.8)	
Total discontinued operations, net of tax	$ (30.6)	$

Road Development Divestiture

On February 27, 2007, the Company agreed to sell its Road Development business u
(publ) for cash proceeds of approximately $1.3 billion. The sale was completed on A

The Road Development business unit manufactured and sold asphalt paving equipm
equipment, milling machines and construction-related material handling equipment.
accounted for the Road Development business unit as discontinued operations withi
statement.

Net revenues and after-tax earnings of the Road Development business unit for the y
December 31 were as follows:

In millions	2009	2008
Net revenues	$ -	$
After-tax earnings (loss) from operations	$ 0.8	$ (
Gain (loss) on sale, net of tax	8.2	(2
Total discontinued operations, net of tax	$ 9.0	$ (2

Other Discontinued Operations

The Company also has retained costs from previously sold businesses that mainly in
postretirement benefits, product liability and legal costs (mostly asbestos-related). T
other discontinued operations for the years ended December 31 were as follows:

Stockholders' equity (deficit)

In millions	2009	20
Retained costs, net of tax	$ 4.4	$ (
Net gain (loss) on disposals, net of tax	5.6	
Total discontinued operations, net of tax	$ 10.0	$ (

During the fourth quarter of 2007, the Company recorded a non-cash charge of $449
million after-tax) related to the Company s liability for all pending and estimated fu
through 2053. Refer to Note 23 for further details on asbestos-related matters.

Stockholders' equity (deficit)

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NOTE 22 EARNINGS PER SHARE (EPS)

Basic EPS is calculated by dividing Net earnings (loss) attibutable to Ingersoll-Ranc
weighted-average number of common shares outstanding for the applicable period. I
calculated after adjusting the denominator of the basic EPS calculation for the effect
dilutive common shares, which in the Company s case, includes shares issuable und
compensation plans and the effects of the Exchangeable Senior Notes issued in Apri
following table summarizes the weighted-average number of common shares outstar
diluted earnings per share calculations:

In millions	2009
Weighted-average number of basic shares	321.1
Shares issuable under incentive stock plans	2.9
Exchangeable Senior Notes	5.1
Weighted-average number of diluted shares	329.1
Anti-dilutive shares	17.6

As the Company experienced a net loss in 2008, the Company did not included the i
issuable under incentive stock plans in the calculation of diluted EPS as the result w
antidilutive effect on EPS.

NOTE 23 COMMITMENTS AND CONTINGENCIES

The Company is involved in various litigations, claims and administrative proceedir
related to environmental and product liability matters. Amounts recorded for identif
liabilities are estimates, which are reviewed periodically and adjusted to reflect addi
when it becomes available. Subject to the uncertainties inherent in estimating future
liabilities, management believes that the liability which may result from these legal
have a material adverse effect on the financial condition, results of operations, liquic
the Company.

Environmental Matters

The Company continues to be dedicated to an environmental program to reduce the
generation of hazardous materials during the manufacturing process and to remediat
environmental concerns. As to the latter, the Company is currently engaged in site ir
remediation activities to address environmental cleanup from past operations at curr
manufacturing facilities.

The Company is sometimes a party to environmental lawsuits and claims and has re
potential violations of environmental laws and regulations from the Environmental I
and similar state authorities. It has also been identified as a potentially responsible p
cleanup costs associated with off-site waste disposal at federal Superfund and state r
all such sites, there are other PRPs and, in most instances, the Company s involvem

In estimating its liability, the Company has assumed it will not bear the entire cost o
site to the exclusion of other PRPs who may be jointly and severally liable. The abil
participate has been taken into account, based generally on the parties financial cor
contributions on a per site basis. Additional lawsuits and claims involving environm

Stockholders' equity (deficit)

likely to arise from time to time in the future.

During 2009, we spent $10.8 million for environmental remediation at sites presentl
or leased by us. As of December 31, 2009 and 2008, the Company has recorded rese
environmental matters of $93.3 million and $100.9 million, respectively. The Comp
these expenditures and accrual levels will continue and may increase over time. Giv
nature of environmental laws, regulations and technology, the ultimate cost of futur
uncertain.

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Stockholders' equity (deficit)

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Asbestos Matters

Certain wholly-owned subsidiaries of the Company are named as defendants in asbe
in state and federal courts. In virtually all of the suits, a large number of other comp
named as defendants. The vast majority of those claims has been filed against either
Company (IR-New Jersey) or Trane and generally allege injury caused by exposure
contained in certain historical products sold by IR-New Jersey or Trane, primarily p
railroad brake shoes. Neither IR-New Jersey nor Trane was a producer or manufactu
however, some formerly manufactured products utilized asbestos-containing compo
and packings purchased from third-party suppliers.

Prior to the fourth quarter of 2007, the Company recorded a liability (which it perio
its actual and anticipated future asbestos settlement costs projected seven years into
Company did not record a liability for future asbestos settlement costs beyond the se
covered by its reserve because such costs previously were not reasonably estimable
detailed below.

In the fourth quarter of 2007, the Company again reviewed its history and experienc
asbestos-related litigation and determined that it had now become possible to make
of its total liability for pending and unasserted potential future asbestos-related clai
determination was based upon the Company s analysis of developments in asbestos
the substantial and continuing decline in the filing of non-malignancy claims agains
establishment in many jurisdictions of inactive or deferral dockets for such claims, t
of non-malignancy claims because of changes in the legal and judicial treatment of
increasing focus of the asbestos litigation upon malignancy claims, primarily those i
mesothelioma, a cancer with a known historical and predictable future annual incide
Company s substantial accumulated experience with respect to the resolution of ma
particularly mesothelioma claims, filed against it.

Accordingly, in the fourth quarter of 2007, the Company retained Dr. Thomas Vasq
Research & Planning Corporation (collectively, ARPC) to assist it in calculating
Company s total liability for pending and unasserted future asbestos-related claims
expert in performing complex calculations such as this. ARPC has been involved in
asbestos-related valuations of current and future liabilities, and its valuation method
accepted by numerous courts.

The methodology used by ARPC to project the Company s total liability for pendin
potential future asbestos-related claims relied upon and included the following facto

ARPC s interpretation of a widely accepted forecast of the population likel
occupationally exposed to asbestos;

epidemiological studies estimating the number of people likely to develop a
diseases such as mesothelioma and lung cancer;

the Company s historical experience with the filing of non-malignancy cla
historical ratio between the numbers of non-malignancy and lung cancer cl
Company;

Stockholders' equity (deficit)

ARPC s analysis of the number of people likely to file an asbestos-related
against the Company based on such epidemiological and historical data and
recent three-year claims history;

an analysis of the Company s pending cases, by type of disease claimed;

an analysis of the Company s most recent three-year history to determine t
and resolution value of claims, by type of disease claimed;

Stockholders' equity (deficit)

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an adjustment for inflation in the future average settlement value of claims,
inflation rate, adjusted downward to 1.5% to take account of the declining v
resulting from the aging of the claimant population;

an analysis of the period over which the Company has and is likely to resol
claims against it in the future.

Based on these factors, ARPC calculated a total estimated liability of $755 million f
resolve all pending and unasserted potential future claims through 2053, which is A
estimate of the time it will take to resolve asbestos-related claims. This amount is o
discounted for the time-value of money, and excludes the Company s defense fees
to be expensed by the Company as they are incurred). After considering ARPC s a
listed above, in the fourth quarter of 2007, the Company increased its recorded liabi
claims by $538 million, from $217 million to $755 million.

In addition, during the fourth quarter of 2007, the Company recorded an $89 million
for probable asbestos-related insurance recoveries to $250 million. This represents a
Company for previously paid and settled claims and the probable reimbursements re
estimated liability for pending and future claims. In calculating this amount, the Co
estimated asbestos liability for pending and projected future claims calculated by A
considered the amount of insurance available, gaps in coverage, allocation methodo
ratings and creditworthiness of the insurers, the amounts already recovered from an
settlements with insurers, and the terms of existing settlement agreements with insu

During the fourth quarter of 2007, the Company recorded a non-cash charge to earn
operations of $449 million ($277 million after-tax), which is the difference between
which the Company increased its total estimated liability for pending and projected
asbestos-related claims and the amount that the Company expects to recover from i
to that increased liability.

In connection with our acquisition of Trane, the Company requested ARPC to assist
Trane s asbestos-related valuations of current and future liabilities. As required by
required to record the assumed asbestos obligations and associated insurance-relate
value at the Acquisition Date. The Company estimated that the assumed asbestos ob
associated insurance-related assets at the Acquisition Date to be $494 million and $
respectively. These amounts were estimated based on certain assumptions and facto
those described above.

Trane continues to be in litigation against certain carriers whose policies it believes
asbestos claims. The insurance carriers named in this suit have challenged Trane s
Trane filed the action in April 1999 in the Superior Court of New Jersey, Middlese
various primary and lower layer excess insurance carriers, seeking coverage for env
(the NJ Litigation). The NJ Litigation was later expanded to also seek coverage f
liabilities from twenty-one primary and lower layer excess carriers and underwritin
environmental claims against the insurers in the NJ Litigation have been resolved o
prejudice for later resolution. On September 19, 2005, the court granted Trane s m
insurance coverage for asbestos-related liabilities against 16 additional insurers and
policies to the NJ Litigation. The court also required the parties to submit all contes
mediation. Trane engaged in its first mediation session with the NJ Litigation defen
2006 and has engaged in active discussions since that time.

Trane has now settled with the majority of the insurers in the NJ Litigation, collecti
approximately 95% of its recorded asbestos-related liability insurance receivable as
2010. Most, although not all, of Trane s settlement agreements constitute coverag

Stockholders' equity (deficit)

arrangements, in which the insurer signatories agree to reimburse Trane for specifie
for asbestos bodily injury claims and Trane agrees to certain claims-handling protoc
insurer signatories certain releases and indemnifications.

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More specifically, effective August 26, 2008, Trane entered into a coverage-in-place
26 Agreement) with the following five insurance companies or groups: 1) Hartford
Allstate (solely in its capacity as successor-in-interest to Northbrook Excess & Surp
Company); 4) Dairyland Insurance Company; and 5) AIG. In addition, on Septembe
entered into a settlement agreement with Mt. McKinley Insurance Company and Ev
Company, both members of the Everest Re group, resolving all claims in the NJ Liti
policies issued by those companies (Everest Re Agreement). The Everest Re Agr
number of elements, including policy buy-outs and partial buy-outs in exchange for
along with coverage-in-place features similar to those contained in the August 26 A
exchange for certain releases and indemnifications by Trane. Further, on January 26
into a coverage-in-place agreement with Columbia Casualty Company, Continental
and Continental Insurance Company (CNA Agreement), and agreed to a dismissa
its environmental claims against CNA. Trane also has reached a coverage-in-place a
December 15, 2009, with Century Indemnity Company and International Insurance
(Century-International Agreement). The Century-Indemnity Agreement has an in
which renews automatically for successive three year terms unless either Trane or th
elect to forward to the other party a notice of non-renewal. Most recently, effective
Trane reached an agreement with certain London market insurance companies (LM
resolved all claims against the policies at issue. The LMC Agreement provides for th
reimbursement by the insurer signatories of a portion of Trane s costs for asbestos b
based on the attainment of certain aggregate indemnity and defense payment thresho
for certain releases and indemnifications from Trane. Trane also reached agreement
2009 with Harper Insurance Company (Harper), a party to the LMC Agreement,
Harper s obligations to Trane under the LMC Agreement and for certain releases an
from Trane in exchange for a one-time cash payment by Harper. Trane remains in se
negotiations with the few insurer defendants in the NJ Litigation not encompassed w
Agreement, the Everest Re Agreement, the CNA Agreement, the Century-Internatio
the LMC Agreement. In addition to its pursuit of coverage from its solvent insurers
Trane also is pursuing claims against the estates of insolvent insurers in connection
asbestos bodily injury claims.

The amounts recorded by the Company for asbestos-related liabilities and insurance
based on currently available information. The Company s actual liabilities or insura
be significantly higher or lower than those recorded if assumptions used in the Com
calculations vary significantly from actual results. Key variables in these assumptio
above and include the number and type of new claims to be filed each year, the aver
resolution of each such new claim, the resolution of coverage issues with insurance
solvency risk with respect to the Company s insurance carriers. Furthermore, predic
these variables are subject to greater uncertainty as the projection period lengthens.
may affect the Company s liability include uncertainties surrounding the litigation p
jurisdiction to jurisdiction and from case to case, reforms that may be made by state
and the passage of state or federal tort reform legislation.

The aggregate amount of the stated limits in insurance policies available to the Com
asbestos-related claims acquired over many years and from many different carriers,
However, limitations in that coverage, primarily due to the considerations described
to result in the projected total liability to claimants substantially exceeding the proba
recovery.

From receipt of its first asbestos claims more than twenty five years ago to Decembe
Company has resolved (by settlement or dismissal) approximately 256,000 claims a
legacy Ingersoll Rand businesses. The total amount of all settlements paid by the Co
insurance recoveries) and by its insurance carriers is approximately $410 million, fo
payment per resolved claim of $1,595. The average payment per claim resolved dur

Stockholders' equity (deficit)

December 31, 2009 was $12,136. Because claims are frequently filed and settled in
amount and timing of settlements, as well as the number of open claims, can fluctua
period to period.

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Stockholders' equity (deficit)

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The table below provides additional information regarding asbestos-related claims f
legacy Ingersoll Rand businesses, excluding those filed against Trane, reflecting upo
the last three years.

	2007
Open claims January 1	105,363
New claims filed	5,399
Claims settled	(4,993)
Claims dismissed *	(1,473)
Open claims December 31	104,296

* The significant increase in dismissals in 2008 is attributed to the dismissal of large
and/or inactive cases in Mississippi and New York. This amount reflects the Compa
resolution of higher value malignancy claims, particularly mesothelioma claims, rath
non-malignancy claims, which are more heavily represented in the Company s histo

From receipt of the first asbestos claim more than twenty years ago through Decemb
Company has resolved approximately 86,646 (by settlement or dismissal) claims ari
Trane business. The Company and its insurance carriers have paid settlements of ap
million on these claims, which represents an average payment per resolved claim of
December 31, 2009, there were 92,298 open claims pending against Trane. Because
frequently filed and settled in large groups, the amount and timing of settlements, as
of open claims, can fluctuate significantly from period to period.

The table below provides additional information regarding asbestos-related claims f
legacy Trane businesses, reflecting updated information for the last three years.

	2007	
Open claims January 1	114,420	1
New claims filed	3,055	
Claims settled	(787)	
Claims dismissed	(5,477)	(
Open claims December 31	111,211	1

At December 31, 2009, over 91 percent of the open claims against the Company are
claims, many of which have been placed on inactive or deferral dockets and the vast
have little or no settlement value against the Company, particularly in light of recent
and judicial treatment of such claims.

At December 31, 2009, the Company s liability for asbestos related matters and the
asbestos-related insurance recoveries totaled $1,113.1 million and $424.2 million, re
compared to $1,195.2 million and $423.8 million at December 31, 2008.

The (costs) income associated with the settlement and defense of asbestos related cla
recoveries were as follows:

	Dec
In millions	2009

Stockholders' equity (deficit)

Continuing operations	$	13.8	$
Discontinued operations		(1.5)	
Total	$	12.3	$

Stockholders' equity (deficit)

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The Company records certain income and expenses associated with its asbestos liab
corresponding insurance recoveries within discontinued operations, as they relate to
businesses, primarily Ingersoll-Dresser Pump, which was sold in 2000. Income and
with Trane s asbestos liabilities and corresponding insurance recoveries are recorde
operations.

The European Commission Investigation

In November 2004, Trane was contacted by the European Commission as part of a r
investigation into possible infringement of European Union competition law relating
of bathroom fixtures and fittings in certain European countries. On March 28, 2007,
number of other companies, received a Statement of Objections from the European C
Statement of Objections, an administrative complaint, alleges infringements of Euro
competition rules by numerous bathroom fixture and fittings companies, including T
its former European subsidiaries engaged in the Bath and Kitchen business. These fo
were transferred (i) to WABCO on July 31, 2007 as part of a legal reorganization in
spinoff of Trane s Vehicle Control Systems business and (ii) to Bain Capital Partne
2007 in connection with the sale of Trane s Bath & Kitchen business. Trane and cer
European subsidiaries will be jointly and severally liable for any fines that result fro
However, pursuant to an Indemnification and Cooperation Agreement among Trane
parties (Indemnification Agreement), American Standard Europe BVBA (renamed W
BVBA) (WABCO Europe), which is a subsidiary of WABCO following the reorgan
responsible for, and will indemnify Trane and its subsidiaries (including certain subs
engaged in the Bath and Kitchen business) and their respective affiliates against, any
investigation. Trane and the charged subsidiaries responded to the European Commi
2007 and July 31, 2007, respectively. A hearing with the European Commission reg
to the Statement of Objections was conducted from November 12-14, 2007, in Bruss
Europe and other former Trane subsidiaries participated in the hearing. Trane, howe
participate in the hearing.

In 2006, the European Commission adopted new fining guidelines (2006 Guidelines
intention to apply these guidelines in all cases in which a Statement of Objections is
September 2006. In applying the 2006 Guidelines, the Commission retains considera
calculating the fine although the European Union regulations provide for a cap on th
equal to ten percent of Trane s worldwide revenue attributable to all of its products
prior to the year in which the fine is imposed. If the maximum fine is levied in 2010
could be as high as $1.1 billion based on Trane s last full fiscal year of worldwide r
all of its product lines owned at the time the Statement of Objections was issued, sub
reduction for leniency of at least 20 percent provided WABCO Europe, as the lenien
fulfilled all conditions set forth in the European Commission s leniency notice. WA
Form 10-K for the fiscal year ended December 31, 2009, that its ability to satisfy its
the Indemnification Agreement is contingent on its funding capability at the time of
be affected by, among other things, its ability to access its then existing credit facilit
obtain alternative sources of financing, its ability to obtain some payment relief from
Commission or its ability to obtain a suspension of the payment obligation from the
First Instance.

Oil for Food Program

As previously reported, on November 10, 2004, the Securities and Exchange Comm
an Order directing that a number of public companies, including the Company, prov
relating to their participation in transactions under the United Nations Oil for Food
receipt of the Order, the Company undertook a thorough review of its participation i
Program, provided the SEC with information responsive to the Order and provided a

Stockholders' equity (deficit)

information requested by the SEC. During a March 27, 2007 meeting with the SEC,
representative of the Department of Justice (DOJ) was also present, the Company be
concerning the resolution of this matter with both the SEC and DOJ. On October 31
announced it had reached settlements with the SEC and DOJ relating to this matter.
the settlements, the Company paid a total of $6.7 million in penalties, interest and di
profits. The Company has consented to the entry of a civil injunction in the SEC act

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entered into a three-year deferred prosecution agreement (DPA) with the DOJ. U
the Company has implemented and will continue to implement improvements to its
that are consistent with its longstanding policy against improper payments. In the se
the Government noted that the Company thoroughly cooperated with the investigati
had conducted its own complete investigation of the conduct at issue, promptly and
its findings to them, and took prompt remedial measures.

Additionally, we have reported to the DOJ and SEC certain matters involving Trane
relating to the Oil for Food Program, and which raise potential issues under the FCP
applicable anti-corruption laws. With respect to these matters, we have conducted a
investigation, which began in earnest promptly after our acquisition of Trane in Jun
we had reported to the SEC and DOJ potential FCPA issues relating to one of our b
and we have reported back to them and shared our audit report, which indicated no
With respect to that same business in China, we have discussed with the DOJ and S
which raises potential FCPA issues. We have had preliminary discussions concerni
the SEC and DOJ, to be followed by further discussions about them and possibly ot
raise potential FCPA concerns. These matters (and others which may arise or of wh
in the future) may be deemed to violate the FCPA and other applicable anti-corrupti
determinations could subject us to, among other things, further enforcement actions
DOJ (if, for example, the DOJ deems us to have violated the DPA), securities litiga
loss of investor confidence, any one of which could adversely affect our business p
market value of our stock.

Warranty Liability

The following represents the changes in the Company s product warranty liability f

In millions	200
Balance at beginning of year	$ 6
Reductions for payments	(2
Accruals for warranties issued during the current period	2
Changes for accruals related to preexisting warranties	
Acquisitions	
Translation	
Balance at end of the year	$ 6

Other Commitments and Contingencies

Certain office and warehouse facilities, transportation vehicles and data processing
by the Company. Total rental expense was $194.9 million in 2009, $144.8 million i
million in 2007. Minimum lease payments required under non-cancelable operating
excess of one year for the next five years and thereafter, are as follows: $169.9 milli
million in 2011, $104.4 million in 2012, $76.8 million in 2013, $61.4 million in 201
thereafter.

Trane has commitments and performance guarantees, including energy savings gua
$157.5 million extending from 2010-2030. These guarantees are provided under lon
maintenance contracts related to its air conditioning equipment and system controls.
Company has experienced one insignificant loss under such arrangements and consi
of any significant future losses to be remote.

Stockholders' equity (deficit)

The Company also has other contingent liabilities of $3.6 million. These liabilities p
performance bonds, guarantees and stand-by letters of credit associated with the pric
from divested businesses as well as existing loan guarantees and residual values of e

As part of the reorganization of IR-New Jersey in 2001, IR-Limited fully and uncon
all of the issued public debt securities IR-New Jersey. IR-New Jersey unconditionall
payment of the principal, premium, if any, and interest on IR-Limited s 4.75% Seni
in aggregate principal

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amount of $300 million. The guarantee is unsecured and provided on an unsubordin
guarantee ranks equally in right of payment with all of the existing and future unsec
unsubordinated debt of IR-New Jersey. In addition, public debt securities issued by
Company Limited (IR-Global) are fully and unconditionally guaranteed by IR-Limi

As a part of the reorganization of IR-Limited in 2009, the guarantee structure was u
newly created legal structure under which (i) IR-International assumed the obligatio
issuer or guarantor, as the case may be, and (ii) IR-Ireland and IR-Limited fully and
guaranteed the obligations under the various indentures covering the currently outst
IR-International, IR-Global and IR-New Jersey. Neither IR-Ireland nor IR-Limited
to issue guarantees in respect of any indebtedness incurred by Trane.

NOTE 24 BUSINESS SEGMENT INFORMATION

The accounting policies of the operating segments are the same as those described i
significant accounting policies except that the operating segments results are prepa
basis that is consistent with the manner in which the Company disaggregates financi
internal review and decision making. The Company largely evaluates performance b
income and operating margins. Intercompany sales between segments are considere

The Company has divested various businesses over the past few years as it moves t
global diversified industrial enterprise. During 2007, the Company sold its Bobcat,
and Attachments business units as well as its Road Development business unit. Seg
all years has been revised to exclude the results of these divestitures.

Each reportable segment is based primarily on the types of products it generates. Th
have been aggregated as required by GAAP.

In the fourth quarter of 2009, the Company realigned its external reporting structure
reflect our corporate and business strategies and to promote additional productivity
Company s segments are now as follows: Climate Solutions, Residential Solutions,
Technologies and Security Technologies. As part of the change, the Company elimi
Conditioning Systems and Services segment which represented the acquired Trane b
two new reportable segments, the Climate Solutions segment and the Residential So

A description of the Company s reportable segments is as follows:

The Climate Solutions segment delivers energy-efficient refrigeration and Heating,
Conditioning (HVAC) solutions throughout the world. Encompassing the transport
refrigeration markets as well as the commercial HVAC markets, this segment offers
range of products, services and solutions to manage controlled temperature environ
includes the market leading brands of Hussmann, Thermo King and Trane.

The Residential Solutions segment provides safety, comfort and efficiency to home
North America and parts of South America. It offers customers a broad range of pro
solutions including mechanical and electronic locks, energy-efficient HVAC system
solutions, advanced controls, portable security systems and remote home managem
comprised of well-known brands like American Standard, Schlage and Trane.

The Industrial Technologies segment provides products, services and solutions that
efficiency, productivity and operations. It offers our global customers a diverse and
products including compressed air systems, tools, pumps, fluid handling systems, g
vehicles in addition to environmentally friendly micro turbines. This segment inclu

Stockholders' equity (deficit)

Ingersoll Rand market leading brands.

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Stockholders' equity (deficit)

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The Security Technologies segment is a leading global provider of products and serv
environments safe, secure and productive. The segment s market-leading products i
biometric access control systems, locks and locksets, door closers, floor closers, exit
and frames, portable security devices, decorative hardware, cabinet hardware as wel
and personnel scheduling systems. These products serve a wide range of markets inc
commercial and residential housing market, healthcare, retail, maritime, transport in
educational and governmental facilities. This segment includes the CISA, LCN, Sch
brands.

A summary of operations by reportable segments for the years ended December 31,

Dollar amounts in millions	2009	2008
Climate Solutions		
Revenues	$ 7,293.7	$ 6,750
Operating income (loss)	406.9	(771
Operating income (loss) as a percentage of revenues	5.6%	-11.4
Depreciation and amortization	211.0	265
Capital expenditures	93.6	146
Residential Solutions		
Revenues	2,001.5	1,473
Operating income	122.9	(2,037
Operating income as a percentage of revenues	6.1%	-138.2
Depreciation and amortization	108.4	65
Capital expenditures	43.5	59
Industrial Technologies		
Revenues	2,181.0	2,938
Operating income	171.8	353
Operating income as a percentage of revenues	7.9%	12.0
Depreciation and amortization	43.3	41
Capital expenditures	23.0	52
Security Technologies		
Revenues	1,719.1	2,064
Operating income	323.7	42
Operating income as a percentage of revenues	18.8%	2.1
Depreciation and amortization	39.3	42
Capital expenditures	25.9	25
Total revenues	$ 13,195.3	$ 13,227
Operating income (loss) from reportable segments	1,025.3	(2,412
Unallocated corporate expense	(183.7)	(161
Total operating income (loss)	$ 841.6	$ (2,573
Total operating income (loss) as a percentage of revenues	6.4%	-19.5
Depreciation and amortization from reportable segments	402.0	414
Unallocated depreciation and amortization	22.9	38
Total depreciation and amortization	$ 424.9	$ 453

Stockholders' equity (deficit)

Capital expenditures from reportable segments		186.0		285
Corporate capital expenditures		18.2		21
Total capital expenditures	$	204.2	$	306

Stockholders' equity (deficit)

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Revenues by destination and long-lived assets by geographic area for the years ende
as follows:

In millions	2009	2008
Revenues		
United States	$ 8,227.8	$ 7,70
Non-U.S.	4,967.5	5,5
Total	$ 13,195.3	$ 13,22

In millions	2009
Long-lived assets	
United States	$ 3,302.
Non-U.S.	941.
Total	$ 4,244.

NOTE 25 GUARANTOR FINANCIAL INFORMATION

Ingersoll-Rand plc, an Irish public limited company (IR-Ireland), is the successor to
Company Limited, a Bermuda company (IR-Limited), following a corporate reorgan
effective on July 1, 2009 (the Ireland Reorganization). IR-Limited is the successor to
Company, a New Jersey corporation (IR-New Jersey), following a corporate reorgan
on December 31, 2001 (the Bermuda Reorganization). Both the Ireland Reorganizat
Reorganization were accounted for as a reorganization of entities under common co
accordingly, did not result in any changes to the consolidated amounts of assets, liab
shareholders equity.

As a part of the Bermuda Reorganization, IR-Limited issued non-voting, Class B co
IR-New Jersey and certain IR-New Jersey subsidiaries in exchange for a $3.6 billion
certain IR-New Jersey subsidiaries. The note, which is due in 2011, has a fixed rate
11% per annum payable semi-annually and imposes certain restrictive covenants up
At December 31, 2009, $1.0 billion of the original $3.6 billion note remains outstan
IR-Limited contributed the note to a wholly owned subsidiary, which subsequently t
of the note to several other subsidiaries, all of which are included in the Other Sub
Accordingly, the subsidiaries of IR-Limited remain creditors of IR-New Jersey.

In addition, as part of the Bermuda Reorganization, IR-Limited fully and unconditio
of the issued public debt securities of IR-New Jersey. IR-New Jersey unconditionall
payment of the principal, premium, if any, and interest on IR-Limited s 4.75% Seni
in the aggregate principal amount of $300 million. The guarantee is unsecured and p
unsubordinated basis. The guarantee ranks equally in right of payment with all of th
unsecured and unsubordinated debt of IR-New Jersey.

During 2008, the Company revised the guarantor financial statements for all periods
to reflect Ingersoll-Rand Global Holding Company Limited (IR-Global) as a stand-a
IR-Global issued public debt that is guaranteed by IR-Limited.

As part of the Ireland Reorganization, the guarantor financial statements were furthe
IR-Ireland as the ultimate parent company and Ingersoll-Rand International Holding
(IR-International) as a stand-alone subsidiary. In addition, the guarantee structure w
the newly created legal structure under which (i) IR-International assumed the oblig
as issuer or guarantor, as the case may be, and (ii) IR-Ireland and IR-Limited fully a

Stockholders' equity (deficit)

guaranteed the obligations under the various indentures covering the currently outsta
IR-International, IR-Global and IR-New Jersey. Neither IR-Ireland nor IR-Limited l
to issue guarantees in respect of any indebtedness

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Stockholders' equity (deficit)

incurred by Trane. Also as part of the Ireland Reorganization, IR-Limited transferre
IR-Global to IR-International in exchange for a note payable that initially approxim
which was then immediately reduced by the settlement of net intercompany payable
December 31, 2009, $10.8 billion remains outstanding.

The condensed consolidating financial statements present the investments of IR-Irel
IR-Global, IR-International and IR-New Jersey and their subsidiaries using the equi
accounting. Intercompany investments in the non-voting Class B common shares ar
the cost method and are reduced by intercompany dividends. In accordance with ge
accounting principles, the amounts related to the issuance of the Class B shares hav
reduction of Total shareholders equity. The notes payable continue to be reflected
balance sheet of IR-New Jersey and are enforceable in accordance with their terms.

See Note 13 and 23 for a further discussion on the public debt issuance and related g

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Stockholders' equity (deficit)

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The following condensed consolidated financial information for IR-Ireland, IR-Lim
IR-International and IR-New Jersey, and all their other subsidiaries is included so th
statements of IR-Ireland, IR-Limited, IR-International, IR-Global and IR-New Jerse
be filed with the U.S. Securities and Exchange Commission.

Condensed Consolidating Income Statement

For the year ended December 31, 2009

In millions	IR Ireland	IR Limited	IR International	IR Global Holding	IR New Jersey	Other Subsidiaries	Con Adj
Net revenues	$	$	$	$	$ 643.7	$ 12,551.6	$
Cost of goods sold		(0.7)			(534.0)	(9,110.4)	
Selling and administrative expenses	(6.3)	(35.5)		(1.3)	(288.3)	(2,377.2)	
Operating income	(6.3)	(36.2)		(1.3)	(178.6)	1,064.0	
Equity earnings in affiliates (net of tax)	361.8	223.4	203.7	903.2	107.2	(2.2)	
Interest expense		(7.8)	(7.8)	(186.7)	(53.4)	(46.5)	
Intercompany interest and fees		(18.7)	(126.5)	(69.8)	(117.6)	332.6	
Other, net		(4.3)	1.0	(299.5)	152.1	(92.0)	
Earnings (loss) before income taxes	355.5	156.4	70.4	345.9	(90.3)	1,255.9	
Benefit (provision) for income taxes	0.6				68.0	(139.9)	
Continuing operations	356.1	156.4	70.4	345.9	(22.3)	1,116.0	
Discontinued operations, net of tax					(50.5)	38.9	
Net earnings (loss)	356.1	156.4	70.4	345.9	(72.8)	1,154.9	
Less: Net earnings attributable to noncontrolling interests						(63.4)	
Net earnings (loss) attributable to Ingersoll-Rand plc	$ 356.1	$ 156.4	$ 70.4	$ 345.9	$ (72.8)	$ 1,091.5	$

Stockholders' equity (deficit)

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Condensed Consolidating Income Statement

For the year ended December 31, 2008

In millions	IR Limited	IR Global Holding	IR New Jersey	Other Subsidiaries	Consol Adjust
Net revenues	$ -	$ -	$ 898.5	$ 12,328.9	$
Cost of goods sold	-	-	(664.3)	(9,083.8)	
Selling and administrative expenses	(41.7)	(0.5)	(292.0)	(2,008.9)	
Asset impairment	-	-	-	(3,710.0)	
Operating income (loss)	(41.7)	(0.5)	(57.8)	(2,473.8)	
Equity earnings in affiliates (net of tax)	(2,468.4)	(1,266.3)	106.7	(288.5)	3,9
Interest expense	(15.5)	(108.9)	(73.2)	(47.8)	
Intercompany interest and fees	(95.8)	(168.2)	(353.9)	617.9	
Other, net	(8.1)	26.9	105.8	(71.3)	
Earnings (loss) before income taxes	(2,629.5)	(1,517.0)	(272.4)	(2,263.5)	3,9
Benefit (provision) for income taxes	-	(0.6)	67.4	141.8	
Continuing operations	(2,629.5)	(1,517.6)	(205.0)	(2,121.7)	3,9
Discontinued operations, net of tax	4.7	-	(83.5)	21.4	
Net earnings (loss)	(2,624.8)	(1,517.6)	(288.5)	(2,100.3)	3,9
Less: Net earnings attributable to noncontrolling interests	-	-	-	(10.1)	
Net earnings (loss) attributable to Ingersoll-Rand plc	$ (2,624.8)	$ (1,517.6)	$ (288.5)	$ (2,110.4)	$ 3,9

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Stockholders' equity (deficit)

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Condensed Consolidating Income Statement

For the year ended December 31, 2007

In millions	IR Limited	IR Global Holding	IR New Jersey	Other Subsidiaries	Consol Adjust
Net revenues	$ -	$ -	$ 911.9	$ 7,851.2	$
Cost of goods sold	-	-	(629.2)	(5,642.8)	
Selling and administrative expenses	(32.7)	(0.6)	(302.3)	(1,097.7)	
Operating income (loss)	(32.7)	(0.6)	(19.6)	1,110.7	
Equity earnings in affiliates (net of tax)	4,038.4	3,234.2	873.1	765.2	(8,
Interest expense	(39.8)	-	(69.9)	(26.5)	
Intercompany interest and fees	(53.8)	(155.4)	(684.0)	893.2	
Other, net	54.6	2.9	71.4	(18.6)	
Earnings (loss) before income taxes	3,966.7	3,081.1	171.0	2,724.0	(8,
Benefit (provision) for income taxes	-		167.8	(372.2)	
Continuing operations	3,966.7	3,081.1	338.8	2,351.8	(8,
Discontinued operations, net of tax	-		426.4	2,816.2	
Net earnings (loss)	$ 3,966.7	$ 3,081.1	$ 765.2	$ 5,168.0	$ (8,
Less: Net earnings attributable to noncontrolling interests	-	-	-	(103.4)	
Net earnings (loss) attributable to Ingersoll-Rand plc	$ 3,966.7	$ 3,081.1	$ 765.2	$ 5,064.6	$ (8,

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Stockholders' equity (deficit)

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Condensed Consolidating Balance Sheet

December 31, 2009

In millions	IR Ireland	IR Limited	IR International	IR Global Holding	IR New Jersey	Other Subsidiaries	Co Ac
Current assets:							
Cash and cash equivalents	$ 0.6	$	$	$ 81.8	$ 175.5	$ 618.8	$
Accounts and notes receivable, net	0.1				187.1	1,933.0	
Inventories					39.1	1,154.1	
Other current assets	0.7	1.4			519.2	115.9	
Accounts and notes receivable affiliates	26.1	294.5	17.0	2,734.0	1,777.5	48,967.4	
Total current assets	27.5	295.9	17.0	2,815.8	2,698.4	52,789.2	
Investment in affiliates	7,188.5	6,437.4	15,785.3	13,413.2	7,611.2	66,558.4	(
Property, plant and equipment, net	0.1				213.3	1,699.4	
Intangible assets, net					72.4	11,576.4	
Other noncurrent assets			1.1	20.3	1,129.3	451.4	
Total assets	$ 7,216.1	$ 6,733.3	$ 15,803.4	$ 16,249.3	$ 11,724.6	$ 133,074.8	$ (
Current liabilities:							
Accounts payable and accruals	$ 6.0	$	$ 1.8	$ 52.2	$ 325.7	$ 2,715.8	$
Short term borrowings and current maturities of long-term debt				250.0	351.2	275.5	
Accounts and note payable affiliates	4.4	6.0	4,523.8	6,407.0	3,952.7	38,535.1	
Total current liabilities	10.4	6.0	4,525.6	6,709.2	4,629.6	41,526.4	
Long-term debt			299.3	2,318.9	388.9	212.8	
Note payable affiliate			10,789.4		1,047.4		
Other noncurrent		9.0	3.8	339.5	2,301.3	3,273.1	

Stockholders' equity (deficit)

liabilities							
Total liabilities	10.4	15.0	15,618.1	9,367.6	8,367.2	45,012.3	
Shareholders equity:							
Total shareholders equity	7,205.7	6,718.3	185.3	6,881.7	3,357.4	88,062.5	(
Total liabilities and equity	$ 7,216.1	$ 6,733.3	$ 15,803.4	$ 16,249.3	$ 11,724.6	$ 133,074.8	$ (

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Stockholders' equity (deficit)

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Condensed Consolidating Balance Sheet

December 31, 2008

In millions	IR Limited	IR Global Holding	IR New Jersey	Other Subsidiaries	Consol Adjus
Current assets:					
Cash and cash equivalents	$ -	$ 1.1	$ 8.6	$ 540.5	$
Accounts and notes receivable, net	-	-	224.7	2,287.4	
Inventories	-	-	71.4	1,543.7	
Other current assets	5.0	3.3	166.5	547.5	
Accounts and notes receivable affiliates	442.1	1,911.5	4,370.0	36,804.4	(4
Total current assets	447.1	1,915.9	4,841.2	41,723.5	(4
Investment in affiliates	10,185.5	12,337.4	7,420.0	65,156.2	(9
Property, plant and equipment, net	-	-	161.9	1,806.6	
Intangible assets, net	-	-	72.6	11,761.6	
Other noncurrent assets	(3.0)	12.1	742.3	970.7	
Total assets	$ 10,629.6	$ 14,265.4	$ 13,238.0	$ 121,418.6	$ (13
Current liabilities:					
Accounts payable and accruals	$ 0.5	$ 37.4	$ 194.0	$ 2,929.1	$
Short term borrowings and current maturities of long-term debt	-	1,752.7	353.2	244.5	
Accounts and note payable affiliates	3,409.8	5,230.6	5,526.5	29,070.7	(4
Total current liabilities	3,410.3	7,020.7	6,073.7	32,244.3	(4
Long-term debt	299.2	1,598.7	395.7	480.1	
Note payable affiliate	-	-	1,047.4	-	(
Other noncurrent liabilities	158.0	2.9	2,194.7	3,521.7	
Total liabilities	3,867.5	8,622.3	9,711.5	36,246.1	(4
Shareholders equity:					
Total shareholders equity	6,762.1	5,643.1	3,526.5	85,172.5	(9
Total liabilities and equity	$ 10,629.6	$ 14,265.4	$ 13,238.0	$ 121,418.6	$ (13

Stockholders' equity (deficit)

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Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2009

In millions	IR Ireland	IR Limited	IR International	IR Global Holding	IR New Jersey	Ot Subsi
Net cash (used in) provided by continuing operating activities	$ (6.2)	$ (48.3)	$ (6.8)	$ (188.0)	$ 46.7	$ 1,
Net cash (used in) provided by discontinued operating activities	-	-	-	-	(50.5)	
Cash flows from investing activities:						
Capital expenditures	(0.1)	-	-	-	(24.5)	(
Proceeds from sale of property, plant and equipment	-	-	-	-	-	
Acquisitions, net of cash	-	-	-	-	-	
Proceeds from business dispositions	-	-	-	-	-	
Proceedes from the sale of marketable securities	-	-	-	-	-	
Other, net	-	-	-	-	-	
Net cash (used in) provided by continuing investing activities	(0.1)	-	-	-	(24.5)	(
Net cash (used in) provided by discontinued investing activities	-	-	-	-	-	
Cash flows from financing activities:						
Net change in debt	-	-	-	(752.7)	(8.8)	(
Debt issue costs	-	-	-	(16.1)	-	
Settlement of cross currency swap	-	-	-	-	-	
Net inter-company (payments) proceeds	50.9	239.2	6.8	1,028.1	192.8	(1,
Proceeds from the exercise of stock options	-	27.2	-	-	-	
Excess tax benefit from stock-based compensation	-	0.7	-	-	-	
	-	-	-	-	-	

Stockholders' equity (deficit)

Dividends paid to noncontrolling interests						
Dividends (paid) received	(44.0)	(218.8)	-	9.4	11.2	
Acquisition of noncontrolling interests	-	-	-	-	-	
Repurchase of common shares by subsidiary	-	-	-	-	-	
Net cash (used in) provided by continuing financing activities	6.9	48.3	6.8	268.7	195.2	(1,
Net cash (used in) provided by discontinued financing activities	-	-	-	-	-	
Effect of exchange rate changes on cash and cash equivalents	-	-	-	-	-	
Net (decrease) increase in cash and cash equivalents	0.6	-	-	80.7	166.9	
Cash and cash equivalents beginning of period	-	-	-	1.1	8.6	
Cash and cash equivalents end of period	$ 0.6	$ -	$ -	$ 81.8	$ 175.5	$

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Stockholders' equity (deficit)

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Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2008

In millions	IR Limited	IR Global Holding	IR New Jersey	Othe Subsidia
Net cash (used in) provided by continuing operating activities	$ (74.2)	$ (82.4)	$ (708.3)	$ 1,23
Net cash (used in) provided by discontinued operating activities	-	-	(2.6)	(2
Cash flows from investing activities:				
Capital expenditures	-	-	(31.0)	(27
Proceeds from sale of property, plant and equipment	-	-	(8.4)	8
Acquisitions, net of cash	-	-	-	(7,10
Proceeds from business dispositions	-	-	21.7	3
Proceeds from the sale of marketable securities	-	-	8.0	(
Other	-	-	(7.9)	(2
Net cash (used in) provided by continuing investing activities	-	-	(17.6)	(7,28
Net cash (used in) provided by discontinued investing activities	-	-	-	
Cash flows from financing activities:				
Net change in debt	-	3,351.4	(209.7)	(15
Debt issue costs	-	(23.0)	-	
Net inter-company (payments) proceeds	516.6	(5,275.8)	365.5	4,39
Proceeds from the exercise of stock options	18.5	-	-	
Excess tax benefit from stock-based compensation	-	-	19.5	(
Dividends paid to noncontrolling interests	-	-	-	(1
Dividends (paid) received	(461.5)	53.8	16.4	17
Repurchase of common shares by subsidiary	-	(2.0)	-	
Net cash (used in) provided by continuing financing activities	73.6	(1,895.6)	191.7	4,39
Net cash (used in) provided by discontinued financing activities	-	-	-	
Effect of exchange rate changes on cash and cash equivalents	-	-	-	1
	(0.6)	(1,978.0)	(536.8)	(1,66

Stockholders' equity (deficit)

Net (decrease) increase in cash and cash equivalents				
Cash and cash equivalents beginning of period	0.6	1,979.1	545.4	2,21
Cash and cash equivalents end of period	$ -	$ 1.1	$ 8.6	$ 54

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Stockholders' equity (deficit)

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Condensed Consolidating Statement of Cash Flows

For the year ended December 31, 2007

In millions	IR Limited	IR Global Holding	IR New Jersey	Othe Subsidia
Net cash (used in) provided by continuing operating activities	$ (100.0)	$ -	$ (457.8)	$ 1,38
Net cash (used in) provided by discontinued operating activities	-	-	(37.0)	11
Cash flows from investing activities:				
Capital expenditures	-	-	(24.7)	(9
Proceeds from sale of property, plant and equipment	-	-	4.6	
Acquisitions, net of cash	-	-	(0.6)	(2
Proceeds from business dispositions	-	-	3,076.7	3,07
Proceedes from the sale of marketable securities	-	-	-	
Other	-	-	(0.3)	2
Net cash (used in) provided by continuing investing activities	-	-	3,055.7	2,99
Net cash (used in) provided by discontinued investing activities	-	-	(4.7)	(5
Cash flows from financing activities:				
Net change in debt	(378.0)	-	(49.4)	(12
Net inter-company (payments) proceeds	776.2	3,924.1	(2,088.6)	(2,61
Proceeds from the exercise of stock options	160.2	-	-	
Excess tax benefit from stock-based compensation	-	-	29.1	
Dividends paid to noncontrolling interests	-	-	-	(
Dividends (paid) received	(459.5)	54.9	16.4	17
Repurchase of common shares by subsidiary	-	(1,999.9)	-	
Net cash (used in) provided by continuing financing activities	98.9	1,979.1	(2,092.5)	(2,55
Net cash (used in) provided by discontinued financing activities	-	-	-	
	-	-	-	5

Stockholders' equity (deficit)

Effect of exchange rate changes on cash and cash equivalents				
Net (decrease) increase in cash and cash equivalents	(1.1)	1,979.1	463.7	1,93
Cash and cash equivalents beginning of period	1.7	-	81.7	27
Cash and cash equivalents end of period	$ 0.6	$ 1,979.1	$ 545.4	$ 2,21

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Stockholders' equity (deficit)

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INGERSOLL-RAND PLC

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND

(Amounts in millions)

Allowances for Doubtful Accounts:

Balance December 31, 2006
Additions charged to costs and expenses
Deductions *
Business acquisitions and divestitures, net
Currency translation

Balance December 31, 2007
Additions charged to costs and expenses
Deductions *
Business acquisitions and divestitures, net
Currency translation
Other

Balance December 31, 2008
Additions charged to costs and expenses
Deductions *
Currency translation
Other

Balance December 31, 2009

(*) Deductions include accounts and advances written off, less recoveries.

Stockholders' equity (deficit)

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INGERSOLL-RAND PLC

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND

(Amounts in millions)

Reserve for LIFO:

Balance December 31, 2006
Additions
Reductions

Balance December 31, 2007
Additions
Reductions

Balance December 31, 2008
Additions
Reductions

Balance December 31, 2009

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