

INGERSOLL RAND CO LTD

Form 10-K

March 02, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE

ACT OF 1934

For the fiscal year ended December 31, 2008

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE

ACT OF 1934

For the transition period from ____ to ____

Commission File No. 001-16831

INGERSOLL-RAND COMPANY LIMITED

(Exact name of registrant as specified in its charter)

Bermuda
(State or other jurisdiction of
incorporation or organization)

75-2993910
(I.R.S. Employer
Identification No.)

Clarendon House

2 Church Street

Hamilton HM 11, Bermuda

(Address of principal executive offices)

Registrant's telephone number, including area code: (441) 295-2838

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

Title of each class
Class A Common Shares,
Par Value \$1.00 per Share

Name of each exchange on which registered
New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

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 NO

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 []

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

The aggregate market value of common stock held by nonaffiliates on June 30, 2008 was approximately \$11,920,220,895 based on the closing price of such stock on the New York Stock Exchange.

The number of Class A Common Shares outstanding as of February 20, 2009 was 318,864,140.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be filed within 120 days of the close of the registrant's fiscal year in connection with the registrant's Annual General Meeting of Shareholders to be held June 3, 2009 are incorporated by reference into Part II and Part III of this Form 10-K.

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Form 10-K

For the Fiscal Year Ended December 31, 2008

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CAUTIONARY STATEMENT FOR FORWARD LOOKING STATEMENTS

Certain statements in this report, other than purely historical information, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words believe, project, expect, anticipate, estimate, forecast, outlook, intend, strategy, plan, may, will be, will continue, will likely result, or the negative thereof or variations thereon or similar terminology generally intended to identify forward-looking statements.

Forward-looking statements may relate to such matters as projections of revenue, margins, expenses, tax provisions, earnings, cash flows, benefit obligations, share repurchases or other financial items; any statements of the plans, strategies and objectives of management for future operations, including those relating to our June 2008 acquisition of Trane Inc.; any statements concerning expected development, performance or market share relating to our products; any statements regarding future economic conditions or performance; any statements regarding pending investigations, claims or disputes, including those relating to the Internal Revenue Service audit of our consolidated subsidiaries tax filings in 2001 and 2002; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. These statements are based on currently available information and our current assumptions, expectations and projections about future events. While we believe that our assumptions, expectations and projections are reasonable in view of the currently available information, you are cautioned not to place undue reliance on our forward-looking statements. These statements are not guarantees of future performance. They are subject to future events, risks and uncertainties many of which are beyond our control as well as potentially inaccurate assumptions, that could cause actual results to differ materially from our expectations and projections.

Factors that might affect our forward-looking statements include, among other things:

- Overall economic and business conditions;
- the demand for our goods and services;
- competitive factors in the industries in which we compete;
- changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations);
- the outcome of litigation and governmental proceedings;
- the effect of income tax audit settlements;
- the ratings on our debt and our ability to repay or refinance our outstanding indebtedness as it matures;
- our ability to operate within the limitations imposed by financing arrangements and to maintain our credit ratings;
- interest rate fluctuations and other changes in borrowing costs;
- other capital market conditions, including availability of funding sources and currency exchange rate fluctuations;
- availability of and fluctuations in the prices of key raw materials;
- economic and political conditions in international markets, including governmental changes and restrictions on the ability to transfer capital across borders;
- the ability to achieve cost savings in connection with our strategic restructuring;
- potential further impairment of our goodwill, indefinite-lived intangible assets and/or our long-lived assets;
- the impact of fluctuations in the price of our Class A common shares;
- changes in U.S. and non-U.S. governmental laws and regulations; and

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the possible effects on us of future legislation in the U.S. that may limit or eliminate potential U.S. tax benefits resulting from our incorporation in a non-U.S. jurisdiction, such as Bermuda, or deny U.S. government contracts to us based upon our incorporation in such non-U.S. jurisdiction.

Some of the material risks and uncertainties that could cause actual results to differ materially from our expectations and projections are described more fully in Item 1A Risk Factors. You should read that information in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of this report and our Consolidated Financial Statements and related notes in Item 8 of this report. We note such information for investors as permitted by the Private Securities Litigation Reform Act of 1995. There also may be other factors that have not been anticipated or that are not described in this report, generally because we do not perceive them to be material, which could cause results to differ materially from our expectations.

Forward-looking statements speak only as of the date they are made, and we do not undertake to update these forward-looking statements. You are advised, however, to review any further disclosures we make on related subjects in our periodic filings with the Securities and Exchange Commission.

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PART I

Item 1. BUSINESS

Overview

Ingersoll-Rand Company Limited (IR-Limited), a Bermuda company, and its consolidated subsidiaries (we, our, the Company) is a diversified, global company that provides products, services and solutions to enhance the quality and comfort of air in homes and buildings, transport and protect food and perishables, secure homes and commercial properties, and increase industrial productivity and efficiency. Our business segments consist of Air Conditioning Systems and Services, Climate Control Technologies, Industrial Technologies and Security Technologies, each with strong brands and leading positions within their respective markets. We generate revenue and cash primarily through the design, manufacture, sale and service of a diverse portfolio of industrial and commercial products that include well-recognized, premium brand names such as Club Car[®], Hussmann[®], Ingersoll-Rand[®], Schlage[®], Thermo King[®] and Trane[®].

We are dedicated to inspiring progress for our customers, shareholders, employees and communities by achieving:

Dramatic Growth, by focusing on innovative solutions for our customers;

Operational Excellence, by pursuing continuous improvement in all of our operations; and

Dual Citizenship, by bringing together the talents of all Ingersoll Rand people to leverage the capabilities of our global enterprise.

To achieve these goals and to become a more diversified company with strong growth prospects, we transformed our enterprise portfolio by divesting cyclical, low-growth and asset-intensive businesses. In addition, our acquisition strategy has helped deliver more consistent revenue and earnings performance across all phases of the economic cycle. Aside from our portfolio transformation, we continue to focus on increasing our recurring revenue stream, which includes revenues from parts, service, used equipment and rentals. We also intend to continuously improve the efficiencies, capabilities, products and services of our high-potential businesses.

Recent Acquisitions and Divestitures

On June 5, 2008 (the Acquisition Date), we completed our acquisition of 100% of the outstanding common shares of Trane Inc. (Trane). Trane, previously named American Standard Companies Inc., provides systems and services that enhance the quality and comfort of the air in homes and buildings around the world. Trane's systems and services have leading positions in commercial, residential, institutional and industrial markets; a reputation for reliability, high quality and product innovation; and a powerful distribution network. The total cost of the acquisition was approximately \$9.6 billion, which was funded by a combination of cash on hand, commercial paper and a 364-day senior unsecured bridge loan facility.

On November 30, 2007, we completed the sale of our Bobcat, Utility Equipment and Attachments business units (collectively, Compact Equipment) to Doosan Infracore for cash proceeds of approximately \$4.9 billion, subject to post-closing purchase price adjustments. Compact Equipment manufactured and sold compact equipment including

skid-steer loaders, compact truck loaders, mini-excavators and telescopic tool handlers, portable air compressors, generators, light towers, general-purpose light construction equipment and attachments. We are currently in the process of resolving the final purchase price adjustments with Doosan Infracore.

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On April 30, 2007, we completed the sale of our Road Development business unit to AB Volvo (publ) for cash proceeds of approximately \$1.3 billion. The Road Development business unit manufactured and sold asphalt paving equipment, compaction equipment, milling machines and construction-related material handling equipment.

2001 Reorganization

Our predecessor company, Ingersoll-Rand Company (IR-New Jersey), was organized in 1905 under the laws of the State of New Jersey as a consolidation of Ingersoll-Sergeant Drill Company and the Rand Drill Company, whose businesses were established in the early 1870 s.

We are a successor to IR-New Jersey following a corporate reorganization that became effective on December 31, 2001. We believe that the reorganization has enabled us to realize a variety of financial and strategic benefits, including to:

- help enhance business growth;
- create a more favorable corporate structure for expansion of our current business;
- improve expected cash flow for use in investing in the development of higher-growth product lines and businesses;
- improve expected cash flow for use in reducing the amount of our debt;
- reduce our worldwide effective tax rate;
- enable us to implement our business strategy more effectively; and
- expand our investor base as our shares may become more attractive to non-U.S. investors.

IR-Limited and its subsidiaries continue to conduct the businesses previously conducted by IR-New Jersey and its subsidiaries. The reorganization has been accounted for as a reorganization of entities under common control and accordingly, did not result in any changes to the consolidated amounts of assets, liabilities and shareholders' equity.

Business Segments

Our business segments provide products, services and solutions used to increase the efficiency and productivity of both industrial and commercial operations and homes, as well as improve the security, safety, health and comfort of people around the world. We have the following business segments:

Air Conditioning Systems and Services

Our Air Conditioning Systems and Services segment provides heating, ventilation and air conditioning (HVAC) systems that enhance the quality and comfort of the air in homes and buildings around the world. It offers customers a broad range of energy-efficient HVAC systems, dehumidifying and air cleaning products, service and parts support, advanced building controls as well as financing solutions under the Trane and American Standard Heating and Air Conditioning brands. These brands have leading positions in commercial, residential, institutional and industrial markets. Since the Acquisition Date, net revenues for this segment were \$4.4 billion.

Climate Control Technologies

Our Climate Control Technologies segment provides equipment and services to manage controlled-temperature environments for food and other perishables throughout the world. Encompassing the transport and stationary refrigeration markets, this segment offers customers a broad range of products and solutions such as refrigerated

display merchandisers, beverage coolers, auxiliary power units, walk-in storage coolers and freezers and transport temperature control units. This segment, which had 2008 net revenues of \$3.4 billion, includes the market leading brands of Hussmann and Thermo King.

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Industrial Technologies

Our Industrial Technologies segment provides products, services and solutions that enhance energy efficiency, productivity and operations. It offers our global customers a diverse and innovative range of products including compressed air systems, tools, pumps, fluid handling systems, golf and utility vehicles in addition to environmentally friendly micro turbines. This segment, which had 2008 net revenues of \$2.9 billion, includes the Club Car and Ingersoll Rand market leading brands.

Security Technologies

Our Security Technologies segment is a leading global provider of products and services that make environments safe, secure and productive. The segment's market-leading solutions include electronic and biometric access control systems and software, locks and locksets, door closers, exit devices, steel doors and frames, portable security devices, decorative hardware, cabinet hardware as well as time, attendance and personnel scheduling systems. These products serve a wide range of markets including the commercial construction and residential housing market, healthcare, retail, maritime and transport industries as well as educational and governmental facilities. This segment, which had 2008 net revenues of \$2.5 billion, includes the CISA, LCN, Schlage and Von Duprin brands.

Products

Our principal products by business segment include the following:

Air Conditioning Systems and Services

Air cleaners	Evaporator coils
Air conditioners	Furnaces
Air exchangers	Heat pumps
Air handlers	Humidifiers
Airside and terminal devices	Package heating and cooling systems
Applied systems	Thermostats/controls
Boilers	Unitary systems

Climate Control Technologies

Aftermarket parts and service	Auxiliary idle reduction
Bus and rail HVAC systems	Auxiliary temperature management
Coils and condensers	Refrigeration and electrical houses
Containers and gensets	Refrigeration systems
Cryogenic temperature control systems	Surface and air sanitation
Diesel-powered temperature control systems	Vehicle-powered truck refrigeration systems
Display merchandisers	Walk-in coolers and freezers

Industrial Technologies

Air balancers	Fluid-handling equipment
Air compressors & accessories	Golf vehicles
Air treatment	Lubrication equipment

Air motors
Air and electric tools
Blowers
Diaphragm pumps
Engine-starting systems

Material handling equipment
Microturbines
Piston pumps
Utility vehicles

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Security Technologies

Automatic doors	Electrical security products
Biometric access control systems	Electronic access-control systems
Door closers and controls	Exit devices
Door locks, latches and locksets	Portable security products

Doors and door frames (steel)

These products are sold primarily under our name and under other names including American Standard[®], CISA[®], Club Car[®], Hussmann[®], LCN[®], Schlage[®], Thermo King[®], Von Duprin[®] and Trane[®].

Competitive Conditions

Our products are sold in highly competitive markets throughout the world. Due to the diversity of these products and the variety of markets served, we encounter a wide variety of competitors that vary by product line. They include well-established regional or specialized competitors, as well as larger U.S and non-U.S corporations or divisions of larger companies.

The principal methods of competition in these markets relate to price, quality, delivery, service and support, technology and innovation. We believe that we are one of the leading manufacturers in the world of HVAC systems and services, air compression systems, transport temperature control products, refrigerated display merchandisers, refrigeration systems and controls, air tools, and golf and utility vehicles. In addition, we believe we are a leading supplier in U.S. markets for architectural hardware products, mechanical locks and electronic and biometric access-control technologies.

Distribution

Our products are distributed by a number of methods, which we believe are appropriate to the type of product. U.S. sales are made through branch sales offices and through distributors, dealers and large retailers across the country. Non-U.S. sales are made through numerous subsidiary sales and service companies with a supporting chain of distributors throughout the world.

Customers

We have no major customers that accounted for more than 10% of our consolidated net revenues in 2008, 2007 or 2006. No material part of our business is dependent upon a single customer or a small group of customers; therefore, the loss of any one customer would not have a material adverse effect on our operations.

Raw Materials

We manufacture many of the components included in our products, which requires us to employ a wide variety of raw materials. Principal raw materials, such as steel, copper and aluminum, are purchased from a large number of independent sources around the world. In the past, higher prices for some raw materials, particularly steel and non-ferrous metals, have caused pricing pressures in some of our businesses; we have historically been able to pass certain of these cost increases on to customers in the form of price increases.

We believe that available sources of supply will generally be sufficient for the foreseeable future. There have been no raw material shortages which have had a material adverse effect on our businesses. However, significant changes in certain material costs may have an adverse impact on our costs and operating margins. To mitigate this potential impact, we enter into long-term supply contracts in order to manage our exposure to potential supply disruptions.

Working Capital

We manufacture products that usually must be readily available to meet our customer's rapid delivery requirements. Therefore, we maintain an adequate level of working capital to support our business needs.

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and our customers' requirements. Such working capital requirements are not, however, in the opinion of management, materially different from those experienced by our major competitors. Our sales and payment terms are generally similar to those of our competitors.

Research and Development

We engage in research and development activities in an effort to introduce new products, enhance existing products effectiveness, increase safety, improve ease of use and reliability as well as expand the various applications for which our products may be appropriate. In addition, we continually evaluate developing technologies in areas that we believe will enhance our business for possible investment or acquisition. We anticipate that we will continue to make significant expenditures for research and development activities as we look to maintain and improve our competitive position. Research and development expenditures, including qualifying engineering costs, were \$131.6 million in 2008, \$128.6 million in 2007 and \$126.7 million in 2006.

Patents and Licenses

We own numerous patents and patent applications and are licensed under others. Although in aggregate we consider our patents and licenses to be valuable to our operations, we do not believe that our business is materially dependent on a single patent or license or any group of them. In our opinion, engineering, production skills and experience are more responsible for our market position than our patents and/or licenses.

Operations by Geographic Area

More than 40% of our 2008 net revenues were derived outside the U.S. and we sold products in more than 100 countries. Therefore, the attendant risks of manufacturing or selling in a particular country, such as nationalization and establishment of common markets, would not be expected to have a significant effect on our non-U.S. operations. For a discussion of risks attendant to our non-U.S. operations, see Risk Factors Currency exchange rate and commodity price fluctuations may adversely affect our results, Risk Factors Our global operations subject us to economic risks, in Item 1A and Quantitative and Qualitative Disclosure about Market Risk in Item 7A.

Backlog

Our approximate backlog of orders, believed to be firm, at December 31, 2008 and 2007, were as follows:

<i>Dollar amounts in millions</i>	2008	2007
Air Conditioning Systems and Services	\$ 981.8	\$ -
Climate Control Technologies	342.4	507.2
Industrial Technologies	367.7	429.8
Security Technologies	188.0	216.5
Total	\$ 1,879.9	\$ 1,153.5

These backlog figures are based on orders received. While the major portion of our products are built in advance of order and either shipped or assembled from stock, orders for specialized machinery or specific customer application are submitted with extensive lead times and are often subject to revision, deferral, cancellation or termination. We expect to ship substantially the entire backlog at December 31, 2008 during 2009.

Environmental Matters

We continue to be dedicated to an environmental program intended to reduce the utilization and generation of hazardous materials during the manufacturing process as well as to remediate identified

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environmental concerns. As to the latter, we are currently engaged in site investigations and remediation activities to address environmental cleanup from past operations at current and former manufacturing facilities.

We are sometimes a party to environmental lawsuits and claims and have received notices of potential violations of environmental laws and regulations from the Environmental Protection Agency and similar state authorities. We have been also identified as a potentially responsible party (PRP) for cleanup costs associated with off-site waste disposal at federal Superfund and state remediation sites. For all such sites, there are other PRPs and, in most instances, our involvement is minimal.

In estimating our liability, we have assumed that we will not bear the entire cost of remediation of any site to the exclusion of other PRPs who may be jointly and severally liable. The ability of other PRPs to participate has been taken into account, based generally on the parties' financial condition and probable contributions on a per site basis. Additional lawsuits and claims involving environmental matters are likely to arise from time to time in the future.

During 2008, we spent \$6.9 million on capital projects for pollution abatement and control, and an additional \$15.5 million for environmental remediation expenditures at sites presently or formerly owned or leased by us. As of December 31, 2008, we have recorded reserves for environmental matters of \$100.9 million. We believe that these expenditures and accrual levels will continue and may increase over time. Given the evolving nature of environmental laws, regulations and technology, the ultimate cost of future compliance is uncertain.

For a further discussion of our potential environmental liabilities, see also Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Environmental and Asbestos Matters and also Note 22 to the consolidated financial statements.

Asbestos Matters

Certain wholly owned subsidiaries of the Company are named as defendants in asbestos-related lawsuits in state and federal courts. In virtually all of the suits, a large number of other companies have also been named as defendants. The vast majority of those claims has been filed against either Ingersoll-Rand Company (IR-New Jersey) or Trane and generally allege injury caused by exposure to asbestos contained in certain historical products sold by IR-New Jersey or Trane, primarily pumps, boilers and railroad brake shoes. Neither IR-New Jersey nor Trane was a producer or manufacturer of asbestos, however, some formerly manufactured products utilized asbestos-containing components such as gaskets and packings purchased from third-party suppliers.

Prior to the fourth quarter of 2007, we recorded a liability (which we periodically updated) for our actual and anticipated future asbestos settlement costs projected seven years into the future. We did not record a liability for future asbestos settlement costs beyond the seven-year period covered by our reserve because such costs previously were not reasonably estimable for the reasons detailed below.

In the fourth quarter of 2007, we again reviewed our history and experience with asbestos-related litigation and determined that it had now become possible to make a reasonable estimate of our total liability for pending and unasserted potential future asbestos-related claims. This determination was based upon our analysis of developments in asbestos litigation, including the substantial and continuing decline in the filing of non-malignancy claims against us, the establishment in many jurisdictions of inactive or deferral dockets for such claims, the decreased value of non-malignancy claims because of changes in the legal and judicial treatment of such claims, increasing focus of the asbestos litigation upon malignancy claims, primarily those involving mesothelioma, a cancer with a known historical and predictable future annual incidence rate, and our substantial accumulated experience with respect to the

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resolution of malignancy claims, particularly mesothelioma claims, filed against us. With the aid of an outside expert, we have estimated our total liability for pending and unasserted future asbestos-related claims through 2053 at \$755 million.

As a result, we recorded a non-cash charge to earnings of discontinued operations of \$449 million (\$277 million after-tax) which is the difference between the amount by which we increased our total estimated liability for pending and projected future asbestos-related claims and the amount that we expect to recover from insurers with respect to that increased liability.

In connection with our acquisition of Trane, we retained an outside expert to assist in calculating Trane's asbestos-related valuations of current and future liabilities. As required by Statement of Financial Accounting Standards No. 141, Business Combinations, we are required to record the assumed asbestos obligations and associated insurance-related assets at their fair value at the Acquisition Date. We estimated that the assumed asbestos obligation and associated insurance-related assets at the Acquisition Date were \$494 million and \$249 million, respectively. These amounts were estimated based on certain assumptions and factors consistent with those described above.

For a further discussion of asbestos matters, see also Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Environmental and Asbestos Matters and also Note 22 to the consolidated financial statements.

Employees

As a result of the acquisition of Trane in the second quarter of 2008, we increased our workforce by approximately 30,000 people. As of December 31, 2008, we employed approximately 60,000 people throughout the world.

Available Information

We file annual, quarterly, and current reports, proxy statements, and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934. The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The public can obtain any documents that are filed by us at <http://www.sec.gov>.

In addition, this Annual Report on Form 10-K, as well as our quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to all of the foregoing reports, are made available free of charge on our Internet website (<http://www.ingersollrand.com>) as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. The Board of Directors of the Company has also adopted and posted in the Investor Relations section of its website our Corporate Governance Guidelines and charters for each of the Board's standing committees. A copy of the above filings will also be provided free of charge upon written request to us.

Certifications

New York Stock Exchange Annual Chief Executive Officer Certification

The Company's Chief Executive Officer submitted to the New York Stock Exchange the Annual CEO Certification as the Company's compliance with the New York Stock Exchange's corporate governance listing standards required by

Section 303A.12 of the New York Stock Exchange's listing standards.

Sarbanes-Oxley Act Section 302 Certification

The certifications of the Chief Executive Officer and Chief Financial Officer of the Company pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 have been filed as exhibits to this Annual Report on Form 10-K.

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The following are certain risk factors that could affect our business, financial condition, results of operations, and cash flows. These risk factors should be considered in connection with evaluating the forward-looking statements contained in this Annual Report on Form 10-K because these factors could cause the actual results and conditions to differ materially from those projected in forward-looking statements. Before you invest in our publicly traded securities, you should know that making such an investment involves some risks, including the risks described below. If any of the risks actually occur, our business, financial condition or results of operations could be negatively affected. In that case, the trading price of our Class A common shares could decline, and you may lose all or part of your investment.

Risks Relating to Our Businesses

Macroeconomic conditions, negative conditions in the financial, insurance and credit markets and changes in our credit ratings subject us to a number of risks.

The world financial markets have been experiencing extreme disruption in recent months, including, among other things, extreme volatility in security prices, severely diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. Governments have taken unprecedented actions intended to address extreme market conditions that include severely restricted credit and declines in asset values. While these conditions have not currently impaired our ability to access credit markets, insurance and finance our operations, there can be no assurance that there will not be further deterioration in the world financial markets, continued negative conditions in the global credit markets or a loss of confidence in the major economies, any of which may make it more difficult for us to obtain financing for our operations or increase the cost of obtaining financing as well as access insurance to manage risk.

In addition, our investment-grade credit ratings currently afford us lower borrowing rates on commercial paper, revolving credit agreements and debt offerings. Increased debt levels and/or decreased earnings could result in downgrades in our credit ratings, which, in turn, could impede access to the credit markets, reduce the total amount of commercial paper we could issue, raise our commercial paper borrowing costs and/or raise our long-term debt borrowing rates.

Finally, many of our customers rely on credit financing in order to purchase our products. If the tightening of credit in financial markets continues to adversely affect the ability of our customers to obtain financing for significant purchases, this could result in a further decrease in or cancellation of orders for our products and services. Our global business is also adversely affected by decreases in the general level of economic activity and in business and consumer spending.

We may not realize the expected financial benefits from the acquisition of Trane Inc. and from our announced restructuring actions and this could have a material adverse effect on our business.

On June 5, 2008, we completed our acquisition of Trane. There are potential risks associated with growing our business through acquisitions such as our acquisition of Trane, including the failure to successfully integrate and realize the expected benefits of an acquisition. For example, with any acquisition and subsequent integration, there is the possibility that:

the business culture of the acquired business may not match well with our culture;

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technological and product synergies, economies of scale and cost reductions may not occur as expected;

management may be distracted from overseeing existing operations by the need to integrate acquired businesses;

we may be unable to maintain or increase the revenue growth rate of the acquired business;

we may acquire or assume unexpected liabilities;

unforeseen difficulties may arise in integrating operations and systems;

we may fail to retain and assimilate employees of the acquired business; and

we may experience problems in retaining customers and integrating customer bases.

Additionally, we previously announced restructuring actions to deal with slowing end market demand and we must implement these restructuring actions during this integration period. If we are unable to integrate our businesses successfully or implement these restructuring actions effectively, then we may fail to realize the anticipated synergies and growth opportunities or achieve the cost savings and revenue growth we anticipated from these actions and this could have a material adverse effect on our business.

We are relying on an indemnification agreement with respect to any potential liability arising from a European Commission Investigation into possible infringement of European Union competition law by Trane and its subsidiaries. If we were unable to rely on the indemnification agreement for any reason, any potential liability arising from the European Commission Investigation could have a material adverse effect on our financial condition and results of operations.

In connection with Trane's spinoff of the Vehicle Control Systems business into a new publicly traded company called WABCO Holdings Inc. (WABCO) in July 31, 2007, Trane entered into an Indemnification and Cooperation Agreement (Indemnification Agreement) with, among others, American Standard Europe BVBA (renamed WABCO Europe BVBA) (WABCO Europe), which became a subsidiary of WABCO following the spinoff. Pursuant to the Indemnification Agreement, WABCO Europe has agreed to indemnify Trane and its subsidiaries and their respective affiliates against any fines related to the European Commission Investigation. For a further discussion of European Commission Investigation, see Legal Proceedings. If the European Commission were to impose the maximum fine allowable pursuant to applicable guidelines, the total liability to the Company could be approximately \$1.1 billion based on Trane's worldwide revenue in 2007, subject to a probable reduction for leniency of at least 20 percent (provided WABCO Europe, as the leniency applicant, fulfilled all conditions set forth in the European Commission's leniency notice). WABCO has stated in its Form 10-K for the fiscal year ended December 31, 2008 that its ability to satisfy its obligations under the Indemnification Agreement is contingent on its funding capability at the time of the fine, which could be affected by, among other things, its ability to access its then existing credit facilities, its ability to obtain alternative sources of financing, its ability to obtain some payment relief from the European Commission or its ability to obtain a suspension of the payment obligation from the European Court of First Instance. If WABCO Europe

were unable to satisfy its obligations under the Indemnification Agreement or if we were unable to rely on the Indemnification Agreement for any reason, any potential liability arising from the European Commission Investigation could have a material adverse effect on our financial condition and results of operations.

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Our global operations subject us to economic risks.

Our global operations are dependent upon products manufactured, purchased and sold in the U.S. and internationally, including China, Brazil, Africa and Eastern Europe. These activities are subject to risks that are inherent in operating globally, including the following:

countries could change regulations or impose currency restrictions and other restraints;

in some countries, there is a risk that the government may expropriate assets;

some countries impose burdensome tariffs and quotas;

national and international conflict, including terrorist acts, could significantly impact our financial condition and results of operations; and

economic downturns, political instability and war or civil disturbances may disrupt production and distribution logistics or limit sales in individual markets.

Currency exchange rate and commodity price fluctuations may adversely affect our results.

We are exposed to a variety of market risks, including the effects of changes in non-U.S. currency exchange rates, commodity prices and interest rates. See Part II Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

More than 40% of our 2008 net revenues were derived outside the U.S., and we expect sales to non-U.S. customers to continue to represent a significant portion of our consolidated net revenues. Although we enter into currency exchange contracts to reduce our risk related to currency exchange fluctuations, changes in the relative values of currencies occur from time to time and may, in some instances, have a significant effect on our results of operations. Because we do not hedge against all of our currency exposure, our business will continue to be susceptible to currency fluctuations.

Furthermore, the reporting currency for our financial statements is the U.S. dollar. We have assets, liabilities, revenues and expenses denominated in currencies other than the U.S. dollar. To prepare our consolidated financial statements, we must translate those assets, liabilities, revenues and expenses into U.S. dollars at the applicable exchange rates. Consequently, increases and decreases in the value of the U.S. dollar versus other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency.

We are also a large buyer of steel and non-ferrous metals, as well as other commodities required for the manufacture of our products. Volatility in the prices of these commodities could increase the costs of our products and services. We may not be able to pass on these costs to our customers and this could have a material adverse effect on our results of operations and cash flows. On a limited basis, we purchase commodity derivatives which reduce the volatility of the commodity prices for supplier contracts where fixed pricing is not available.

Significant shortages in the raw materials we use in our businesses and higher energy prices could increase our operating costs.

We rely on suppliers to secure raw materials, particularly steel and non-ferrous metals, required for the manufacture of our products. A disruption in deliveries from our suppliers or decreased availability of raw materials or commodities could have an adverse effect on our ability to meet our commitments to

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customers or increase our operating costs. We believe that available sources of supply will generally be sufficient for our needs for the foreseeable future. Nonetheless, the unavailability of some raw materials may have an adverse effect on our results of operations or financial condition.

Additionally, we are exposed to large fluctuations for the price of petroleum-based fuel due to the instability of current market prices. Higher energy costs increase our operating costs and the cost of shipping our products to customers around the world. Consequently, sharp price increases, the imposition of taxes or an interruption of supply, could cause us to lose the ability to effectively manage the risk of rising fuel prices and may have an adverse effect on our results of operations or financial condition.

Changes in weather patterns and seasonal fluctuations may adversely affect certain segments of the Company's business and impact overall results of operations.

Demand for certain segments of the Company's products and services is influenced by weather conditions. For instance, Trane's sales have historically tended to be seasonally higher in the second and third quarters of the year because, in the U.S. and other northern hemisphere markets, summer is the peak season for sales of air conditioning systems and services. Additionally, while there is demand for Trane's products and services throughout the year, a significant percentage of total sales are related to U.S. residential and commercial construction activity, which is generally higher in the second and third quarters of the year. Therefore, results of any quarterly period may not be indicative of expected results for a full year and unexpected cool trends or unseasonably warm trends during the summer season could negatively or positively affect certain segments of the Company's business and impact overall results of operations.

We face continuing risks relating to compliance with the Foreign Corrupt Practices Act (FCPA)

On November 10, 2004, the Securities and Exchange Commission (SEC) issued an Order directing that a number of public companies, including us, provide information relating to their participation in certain transactions under the United Nations Oil for Food Program. Upon receipt of the Order, we undertook a thorough review of our participation in the Oil for Food Program and provided the SEC with information responsive to its investigation of our participation in the program. On October 31, 2007, we announced that we had reached settlements with the SEC and the Department of Justice (DOJ) relating to certain payments made by our foreign subsidiaries in 2000-2003 in connection with the Oil for Food Program. Pursuant to the settlements with the SEC and DOJ, we have, among other things, (i) consented to the entry of a civil injunction in the SEC action, (ii) entered into a three-year deferred prosecution agreement (DPA) with the DOJ, and (iii) agreed to implement improvements to our compliance program designed to enhance detection and prevention of violations of the FCPA and other applicable anti-corruption laws. If the DOJ determines, in its sole discretion, that we have committed a federal crime or have otherwise breached the DPA during its three-year term, we may be subject to prosecution for any federal criminal violation of which the DOJ has knowledge, including, without limitation, violations of the FCPA in connection with the Oil for Food Program. Breaches of the settlements with SEC and DOJ may also subject us to, among other things, further enforcement actions by the SEC or the DOJ, securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects and the market value of our stock. For a further discussion of the settlements with the SEC and DOJ, see Legal Proceedings.

Furthermore, we have reported to the DOJ and SEC that we are currently investigating certain matters involving Trane, including one relating to the Oil for Food Program, and which raise potential issues under the FCPA and other applicable anti-corruption laws. We have indicated to the SEC and DOJ that we are conducting a thorough investigation of these matters and that we would report back to them with our findings. The investigation of these matters began in earnest promptly after our acquisition of Trane

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in June 2008 and is currently in progress. Previously, we had reported to the SEC and DOJ potential FCPA issues relating to one of our businesses in China, and we have reported back to them and shared with them our audit report, which indicated no FCPA violations. These matters (and other matters which may arise or of which we become aware in the future) may be deemed to violate the FCPA and other applicable anti-corruption laws. Such determinations could subject us to, among other things, further enforcement actions by the SEC or the DOJ (if, for example, the DOJ deems us to have violated the DPA), securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects and the market value of our stock.

Material adverse legal judgments, fines, penalties or settlements could adversely affect our financial health.

We estimate that our available cash and our cash flow from operations will be adequate to fund our operations for the foreseeable future. In making this estimate, we have not assumed the need to make any material payments in connection with any pending litigation or investigations. As required by generally accepted accounting principles in the United States, we establish reserves based on our assessment of contingencies. Subsequent developments in legal proceedings, including current or future asbestos-related litigation, may affect our assessment and estimates of the loss contingency recorded as a reserve and we may be required to make additional material payments, which could result in an adverse effect on our results of operations.

Such an outcome could have important consequences. For example, it could:

increase our vulnerability to general adverse economic and industry conditions;

limit our flexibility in planning for, or reacting to, changes in our businesses and the industries in which we operate;

restrict our ability to exploit business opportunities; and

make it more difficult for us to satisfy our payment obligations with respect to our outstanding indebtedness.

If the distribution of WABCO's shares by Trane on July 31, 2007 were to fail to qualify as tax-free for U.S. federal income tax purposes under Section 355 of the Internal Revenue Code (the Code), then Trane may be required to pay U.S. federal income taxes as well as Trane's shareholders who received WABCO common stock in the distribution.

On July 31, 2007, Trane (then known as American Standard Companies Inc.) completed the spinoff of its vehicle control systems business into a new publicly traded company named WABCO. At the time, Trane received a private letter ruling from the Internal Revenue Service (IRS) substantially to the effect that the distribution qualified as tax-free for U.S. federal income tax purposes under Section 355 of the Code. In addition, Trane received an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, tax counsel to Trane, substantially to the effect that the distribution will qualify as tax-free to Trane, WABCO and Trane shareholders under Section 355 and related provisions of the Code. The ruling and opinion were based on, among other things, certain assumptions as well as on the accuracy of certain factual representations and statements made by WABCO and Trane. In rendering its ruling, the IRS also relied on certain covenants that Trane and WABCO entered into, including the adherence to certain restrictions on WABCO's

and Trane's future actions.

In connection with our acquisition of Trane in June 2008, we received an opinion of Simpson Thacher & Bartlett LLP, tax counsel to us, substantially to the effect that the distribution should continue to qualify

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as tax-free to Trane, WABCO and Trane shareholders under Section 355 and related provisions of the Code. Notwithstanding receipt by Trane and us of the private letter ruling as well as the opinions of counsel, there can be no assurance that the IRS will not later assert that the distribution should be treated as a taxable transaction.

If the distribution fails to qualify for tax-free treatment, then Trane would recognize a gain in an amount equal to the excess of (i) the fair market value of WABCO's common stock distributed to the Trane shareholders over (ii) Trane's tax basis in such common stock. Under the terms of the Tax Sharing Agreement, in the event the distribution were to fail to qualify as a tax-free reorganization and such failure was not the result of actions taken after the distribution by Trane or any of its subsidiaries or shareholders, WABCO would be responsible for all taxes imposed on Trane as a result thereof. In addition, each Trane shareholder who received WABCO common stock in the distribution generally would be treated as having received a taxable distribution in an amount equal to the fair market value of WABCO's common stock received (including any fractional share sold on behalf of the shareholder), which would be taxable as a dividend to the extent of the shareholder's ratable share of Trane's current and accumulated earnings and profits at the time (as increased to reflect any current income including any gain recognized by Trane on the taxable distribution). The balance, if any, of the distribution would be treated as a nontaxable return of capital to the extent of the Trane shareholder's tax basis in its Trane stock, with any remaining amount being taxed as capital gain.

Risks Relating to Our Reorganization as a Bermuda Company

The reorganization exposed us and our shareholders to the risks described below. In addition, we cannot be assured that all of the anticipated benefits of the reorganization will be realized.

Changes in tax laws, changes in our status under U.S. or other tax laws or adverse determinations by taxing authorities could increase our tax burden or otherwise affect our financial condition or operating results, as well as subject our shareholders to additional taxes.

The realization of any tax benefit related to our reorganization could be impacted by changes in tax laws, tax treaties or tax regulations or the interpretation or enforcement thereof by the IRS or any other tax authority. From time to time, proposals have been made and/or legislation has been introduced to change the U.S. tax law that if enacted could increase our tax burden and could have a material adverse impact on our financial condition and results of operations. For instance, recent legislative proposals would broaden the circumstances under which we would be considered a U.S. resident, which would significantly diminish the realization of any tax benefit related to our reorganization. Other legislative proposals could override certain tax treaties and limit the treaty benefits on certain payments by our U.S. subsidiaries to our non-U.S. affiliates, which would adversely affect our effective tax rate. We cannot predict the outcome of any specific legislation. While we are currently monitoring these proposals and are investigating all options, we could still be subject to increased U.S. taxation on a going forward basis no matter what action we undertake if certain legislative proposals are enacted and/or certain tax treaties are amended.

While our U.S. operations are subject to U.S. tax, we believe that a significant portion of our non-U.S. operations are generally not subject to U.S. tax other than withholding taxes. Our conclusions are based on, among other things, our determination that we, and a significant portion of our foreign subsidiaries, are not currently controlled foreign corporations (CFC) within the meaning of the U.S. tax laws, although the IRS or a court may not concur with our conclusions. A non-U.S. corporation, such as us, will constitute a CFC for U.S. federal income tax purposes if certain ownership criteria are met. If the IRS or a court determined that we (or any of our non-U.S. subsidiaries) were a CFC, then each of our

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U.S. shareholders who own (directly, indirectly, or constructively) 10% or more of the total combined voting power of all classes of our stock (or the stock of any of our non-U.S. subsidiaries) on the last day of the applicable taxable year (a 10% U.S. Voting Shareholder) would be required to include in gross income for U.S. federal income tax purposes its pro rata share of our subpart F and other similar types of income (and the subpart F and other similar types of income of any of our subsidiaries determined to be a CFC) for the period during which we (and our non-U.S. subsidiaries) were a CFC. In addition, gain on the sale of our shares realized by such a shareholder may be treated as ordinary income to the extent of the shareholder's proportionate share of our and our CFC subsidiaries' undistributed earnings and profits accumulated during the shareholder's holding period of the shares while we (or any of our non-U.S. subsidiaries) are a CFC. Treatment of us or any of our non-U.S. subsidiaries as a CFC could have a material adverse impact on our financial condition and results of operations.

On July 20, 2007, we, and our consolidated subsidiaries, received a notice from the IRS containing proposed adjustments to our consolidated subsidiaries' tax filings in connection with an audit of the 2001 and 2002 tax years. The IRS did not contest the validity of our reincorporation in Bermuda. The most significant adjustments proposed by the IRS involve treating the entire intercompany debt incurred in connection with our reincorporation in Bermuda as equity. As a result of this recharacterization, the IRS has disallowed the deduction of interest paid on the debt and imposed dividend withholding taxes on the payments denominated as interest. Proposed adjustments on this issue, if upheld in their entirety, would result in additional taxes with respect to the 2002 tax year of approximately \$190 million plus interest and would require us to record additional charges associated with this matter. For a further discussion of the IRS audit, see Legal Proceedings and Note 19 to the consolidated financial statements.

We strongly disagree with the view of the IRS and are vigorously contesting these proposed adjustments. Although the outcome of this matter cannot be predicted with certainty, based upon an analysis of the strength of our position, we believe that we have adequately reserved for this matter. At this time, the IRS has not yet begun their examination of our consolidated subsidiaries' tax filings for years subsequent to the 2002 tax year. We believe it likely, if the above adjustments or a portion of such adjustments by the IRS are ultimately sustained, that these adjustments will also affect subsequent tax years.

As noted above, the IRS did not contest the validity of our reincorporation in Bermuda in the above-mentioned notice. We believe that neither we nor our consolidated subsidiary IR-New Jersey will incur significant U.S. federal income or withholding taxes as a result of the transfer of the shares of our subsidiaries that occurred as part of the reorganization. However, we cannot give any assurances that the IRS will agree with our determination.

The inability to realize any anticipated tax benefits related to our reorganization, discussed above in this section Risks Relating to our Reorganization as a Bermuda Company , could have a material adverse impact on our financial condition and results of operations.

Legislation regarding U.S. companies which reincorporate or have reincorporated outside the U.S. could adversely affect us and our subsidiaries.

The U.S. federal government and various states and municipalities have enacted or may enact legislation intended to deny government contracts to U.S. companies that reincorporate outside of the U.S. or have reincorporated outside of the U.S.

For instance, the Homeland Security Act of 2002, as amended, includes a provision that prohibits inverted domestic corporations and their subsidiaries from entering into contracts with the Department

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of Homeland Security. In addition, the State of California adopted legislation intended to limit the eligibility of certain non-U.S. chartered companies to participate in certain state contracts. More recently, the 2008 Consolidated Appropriations Act, which became effective in December 2007, prohibits any federal government agency from using funds appropriated by Congress for fiscal year 2008 to pay an inverted domestic corporation or any of its subsidiaries for work performed or products provided under certain federal contracts (Affected Contracts). Although the amount of monies already paid to us or to be paid to us under the Affected Contracts is not material to the Company, we cannot provide any assurance that the impact of future actions taken by the government in this area will not be materially adverse to our operations.

Bermuda law differs from the laws in effect in the United States and may afford less protection to holders of our securities.

We are organized under the laws of Bermuda. It may not be possible to enforce court judgments in Bermuda that are obtained in the U.S. against us or our directors or officers in Bermuda based on the civil liability provisions of the U.S. federal or state securities laws. We have been advised that the U.S. and Bermuda do not currently have a treaty providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. Therefore, a final judgment for the payment of money rendered by any U.S. federal or state court based on civil liability, whether or not based solely on U.S. federal or state securities laws, would not automatically be enforceable in Bermuda.

In addition, as a result of Bermuda law, it would be difficult for a holder of our securities to effect service of process within the United States. However, we have irrevocably agreed that we may be served with process with respect to actions based on offers and sales of securities made in the United States by having Ingersoll-Rand Company, 155 Chestnut Ridge Road, Montvale, New Jersey 07645, be our U.S. agent appointed for that purpose.

Bermuda companies are governed by the Companies Act 1981 of Bermuda, which differs in some material respects from laws generally applicable to U.S. corporations and shareholders, including, among others, differences relating to interested director and officer transactions, shareholder lawsuits and indemnification. Under Bermuda law, the duties of directors and officers of a Bermuda company are generally owed to the company only. Shareholders of Bermuda companies do not generally have rights to take action against directors or officers of the company, and may only do so in limited circumstances. Under Bermuda law, a company may also agree to indemnify directors and officers for any personal liability, not involving fraud or dishonesty, incurred in relation to the company. Thus, our shareholders may have more difficulty protecting their interests than would holders of securities of a corporation incorporated in a jurisdiction of the U.S.

Table of Contents**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

Item 2. PROPERTIES

As of December 31, 2008, we owned or leased a total of approximately 22.1 million square feet of space worldwide. Manufacturing and assembly operations are conducted in 47 plants in the United States; 28 plants in Europe; 18 plants in Asia; 10 plants in Latin America; and 1 plant in Canada. We also maintain various warehouses, offices and repair centers throughout the world.

Substantially all plant facilities are owned by us with the remainder under long-term lease arrangements. We believe that our plants have been well maintained, are generally in good condition and are suitable for the conduct of our business. At December 31, 2008, we were productively utilizing the majority of the space in our facilities.

The locations by segment of our major manufacturing facilities at December 31, 2008 were as follows:

	Air Conditioning Systems and Services	
Americas	Europe, Middle East, Africa	Asia Pacific
Parana, Brazil	Charmes, France	Guang Dong, China
Monterrey, Mexico	Golbey, France	Taicang, China
Fort Smith, Arkansas		Taipei, Taiwan
Pueblo, Colorado		
Lynn Haven, Florida		
Macon, Georgia		
Vidalia, Georgia		
Lexington, Kentucky		
Trenton, New Jersey		
Columbia, South Carolina		
Clarksville, Tennessee		
Tyler, Texas		
La Crosse, Wisconsin		
	Climate Control Technologies	
Americas	Europe, Middle East, Africa	Asia Pacific
Londrina, Brazil	Kolin, Czech Republic	Luoyang, China
Monterrey, Mexico	Galway, Ireland	Shenzen, China
Mexico City, Mexico	Barcelona, Spain	Suzhou, China
Arecibo, Puerto Rico	Pamplona, Spain	Tauranga, New Zealand
Chino, California	Peralta, Spain	
Louisville, Georgia		
Suwanee, Georgia		
Minneapolis, Minnesota		
Bridgeton, Missouri		
Hastings, Nebraska		

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Americas	Industrial Technologies	Asia Pacific
Montreal, Canada	Europe, Middle East, Africa	Changzhou, China
Augusta, Georgia	Douai, France	Guanbxi, China
Campbellsville, Kentucky	Wasquehal, France	Nanjing, China
Madison Heights, Michigan	Oberhausen, Germany	Shanghai, China
Rochester Hills, Michigan	Fogliano Redipuglia, Italy	Ahmadabad, India
Mocksville, North Carolina	Vignate, Italy	New Delhi, India
Athens, Pennsylvania	Pavlovo, Russia	
West Chester, Pennsylvania		
Seattle, Washington		

Americas	Security Technologies	Asia Pacific
Ensenada, Mexico	Europe, Middle East, Africa	Shanghai, China
Tecate, Mexico	Feuquieres, France	Auckland, New Zealand
Tijuana, Mexico	Renchen, Germany	
San Jose, California	Monsampolo, Italy	
Security, Colorado	Duzce, Turkey	
Princeton, Illinois		
Indianapolis, Indiana		
Cincinnati, Ohio		
Caracas, Venezuela		
Item 3. <u>LEGAL PROCEEDINGS</u>		

In the normal course of business, we are involved in a variety of lawsuits, claims and legal proceedings, including commercial and contract disputes, employment matters, product liability claims, environmental liabilities and intellectual property disputes. In our opinion, pending legal matters are not expected to have a material adverse effect on the results of operations, financial condition, liquidity or cash flows.

Oil for Food Program and Foreign Corrupt Practices Act (FCPA) matters

As previously reported, on November 10, 2004, the Securities and Exchange Commission (SEC) issued an Order directing that a number of public companies, including the Company, provide information relating to their participation in transactions under the United Nations Oil for Food Program. Upon receipt of the Order, the Company undertook a thorough review of its participation in the Oil for Food Program, provided the SEC with information responsive to the Order and provided additional information requested by the SEC. During a March 27, 2007 meeting with the SEC, at which a representative of the Department of Justice (DOJ) was also present, the Company began discussions concerning the resolution of this matter with both the SEC and DOJ. On October 31, 2007, the Company announced it had reached settlements with the SEC and DOJ relating to this matter. Under the terms of the settlements, the Company paid a total of \$6.7 million in penalties, interest and disgorgement of profits. The Company has consented to the entry of a civil injunction in the SEC action and has entered into a three-year deferred prosecution agreement (DPA) with the DOJ. Under both settlements, the Company has implemented and will continue to implement improvements to its compliance program that are consistent with its longstanding policy against improper payments. In the settlement documents, the Government noted that the Company thoroughly cooperated with the investigation, that the

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Company had conducted its own complete investigation of the conduct at issue, promptly and thoroughly reported its findings to them, and took prompt remedial measures.

In a related matter, on July 10, 2007, representatives of the Italian Guardia di Finanza (Financial Police) requested documents from Ingersoll-Rand Italiana S.p.A pertaining to certain Oil for Food transactions undertaken by that subsidiary of the Company which resulted in charges being filed against that subsidiary. Such transactions had previously been reported to the SEC and DOJ. At a December 12, 2008 hearing, all charges against the subsidiary were dismissed.

Additionally, we have reported to the DOJ and SEC that we are currently investigating certain matters involving Trane, including one relating to the Oil for Food Program, and which raise potential issues under the FCPA and other applicable anti-corruption laws. We have indicated to the SEC and DOJ that we are conducting a thorough investigation of these matters and that we would report back to them with our findings. The investigation of these matters began in earnest promptly after our acquisition of Trane in June 2008 and is currently in progress. Previously, we had reported to the SEC and DOJ potential FCPA issues relating to one of our businesses in China, and we have reported back to them and shared our audit report, which indicated no FCPA violations. These matters (and other matters which may arise or of which we become aware in the future) may be deemed to violate the FCPA and other applicable anti-corruption laws. Such determinations could subject us to, among other things, further enforcement actions by the SEC or the DOJ (if, for example, the DOJ deems us to have violated the DPA), securities litigation and a general loss of investor confidence, any one of which could adversely affect our business prospects and the market value of our stock.

The European Commission Investigation

In November 2004, Trane was contacted by the European Commission as part of a multi-company investigation into possible infringement of European Union competition law relating to the distribution of bathroom fixtures and fittings in certain European countries. On March 28, 2007, Trane, along with a number of other companies, received a Statement of Objections from the European Commission. The Statement of Objections, an administrative complaint, alleges infringements of European Union competition rules by numerous bathroom fixture and fittings companies, including Trane and certain of its European subsidiaries engaged in the Bath and Kitchen business. Certain of these legal entities were transferred to WABCO as part of a legal reorganization in connection with the spinoff of Trane's Vehicle Control Systems business that occurred on July 31, 2007. Trane and certain of its subsidiaries and, in light of that legal reorganization, certain of WABCO's subsidiaries will be jointly and severally liable for any fines that result from the investigation. However, pursuant to an Indemnification and Cooperation Agreement among Trane and certain other parties (Indemnification Agreement), American Standard Europe BVBA (renamed WABCO Europe BVBA) (WABCO Europe), which is a subsidiary of WABCO following the reorganization, will be responsible for, and will indemnify Trane and its subsidiaries (including certain subsidiaries formerly engaged in the Bath and Kitchen business) and their respective affiliates against, any fines related to this investigation. Trane and the charged subsidiaries responded to the European Commission on August 1, 2007 and July 31, 2007, respectively. A hearing with the European Commission regarding the response to the Statement of Objections was conducted from November 12-14, 2007, in Brussels. WABCO Europe and other former Trane subsidiaries participated in the hearing. Trane, however, did not participate in the hearing.

In 2006, the European Commission adopted new fining guidelines (2006 Guidelines) and stated its intention to apply these guidelines in all cases in which a Statement of Objections is issued after September 2006. In applying the 2006 Guidelines, the Commission retains considerable discretion in calculating the fine although the European Union regulations provide for a cap on the maximum fine equal to ten percent of Trane's worldwide revenue attributable to all of its products for the fiscal year prior to the year in which the fine is imposed. If the maximum fine is levied in 2009,

the total liability could be approximately \$1.1 billion based on Trane's last full fiscal year of worldwide revenue, subject

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to a probable reduction for leniency of at least 20 percent provided WABCO Europe, as the leniency applicant, fulfilled all conditions set forth in the European Commission's leniency notice. WABCO has stated in its Form 10-K for the fiscal year ended December 31, 2008 that its ability to satisfy its obligations under the Indemnification Agreement is contingent on its funding capability at the time of the fine, which could be affected by, among other things, its ability to access its then existing credit facilities, its ability to obtain alternative sources of financing, its ability to obtain some payment relief from the European Commission or its ability to obtain a suspension of the payment obligation from the European Court of First Instance.

Tax Related Matters

On July 20, 2007, the Company and its consolidated subsidiaries received a notice from the IRS containing proposed adjustments to the Company's tax filings in connection with an audit of the 2001 and 2002 tax years. The IRS did not contest the validity of the Company's reincorporation in Bermuda. The most significant adjustments proposed by the IRS involve treating the entire intercompany debt incurred in connection with the Company's reincorporation in Bermuda as equity. As a result of this recharacterization, the IRS has disallowed the deduction of interest paid on the debt and imposed dividend withholding taxes on the payments denominated as interest. These adjustments proposed by the IRS, if upheld in their entirety, would result in additional taxes with respect to 2002 of approximately \$190 million plus interest, and would require the Company to record additional charges associated with this matter. At this time, the IRS has not yet begun their examination of the Company's tax filings for years subsequent to 2002. However, if these adjustments or a portion of these adjustments proposed by the IRS are ultimately sustained, it is likely to also affect subsequent tax years.

The Company strongly disagrees with the view of the IRS and filed a protest with the IRS in the third quarter of 2007. The Company has and intends to continue to vigorously contest these proposed adjustments. The Company, in consultation with its outside advisors, carefully considered many factors in determining the terms of the intercompany debt, including the obligor's ability to service the debt and the availability of equivalent financing from unrelated parties, two factors prominently cited by the IRS in denying debt treatment. The Company believes that its characterization of that obligation as debt for tax purposes was supported by the relevant facts and legal authorities at the time of its creation. The subsequent financial results of the relevant companies, including the actual cash flow generated by operations and the production of significant additional cash flow from dispositions have confirmed the ability to service this debt. Although the outcome of this matter cannot be predicted with certainty, based upon an analysis of the strength of its position, the Company believes that it is adequately reserved for this matter. As the Company moves forward to resolve this matter with the IRS, it is reasonably possible that the reserves established may be adjusted within the next 12 months. However, the Company does not expect that the ultimate resolution will have a material adverse impact on its future results of operations or financial position. For a further discussion of tax matters, see Note 19 to the consolidated financial statements.

Asbestos Related Matters

Certain wholly owned subsidiaries of the Company are named as defendants in asbestos-related lawsuits in state and federal courts. In virtually all of the suits, a large number of other companies have also been named as defendants. The vast majority of those claims has been filed against either Ingersoll Rand Company (IR-New Jersey) or Trane and generally allege injury caused by exposure to asbestos contained in certain historical products sold by IR-New Jersey or Trane, primarily pumps, boilers and railroad brake shoes. Neither IR-New Jersey nor Trane was a producer or manufacturer of asbestos, however, some formerly manufactured products utilized asbestos-containing components such as gaskets and packings purchased from third-party suppliers.

See also the discussion under Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, Environmental and Asbestos Matters and also Note 22 to the consolidated financial statements.

Table of Contents**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of the Company's security holders during the last quarter of its fiscal year ended December 31, 2008.

Executive Officers of the Registrant

Pursuant to the General Instruction G(3) of Form 10-K, the following list of executive officers of the Company as of February 25, 2008 is included as an unnumbered item in Part I of this report in lieu of being included in the Company's proxy Statement for its 2008 Annual General Meeting of Shareholders.

Name and Age	Date of Service as an Executive Officer	Principal Occupation and Other Information for Past Five Years
Herbert L. Henkel (60)	4/5/1999	Chairman of Board and Chief Executive Officer (since October 1999)
Michael W. Lamach (45)	2/16/2004	President and Chief Operating Officer (since February 2009); Senior Vice President and President, Trane Commercial (2008-2009); Senior Vice President and President, Security Technologies (2004-2008)
Steven R. Shawley (56)	8/1/2005	Senior Vice President and Chief Financial Officer (since June 2008); Senior Vice President and President, Climate Control Technologies (2005-2008); President Climate Control Americas (2003-2005)
Marcia J. Avedon (47)	2/7/2007	Senior Vice President, Human Resources and Communication (since February 2007); Merck & Co., Inc., Senior Vice President, Human Resources (2003-2006)
James R. Bolch (51)	10/16/2005	Senior Vice President and President, Industrial Technologies Sector (since October 2005); Schindler Elevator Corporation, Executive Vice President, Service Business (2004-2005)
William B. Gauld (55)	10/2/2006	Senior Vice President, Enterprise Services (since October 2006); Principal, The W Group (2005-2006); Pearson, plc, Chief Information Officer (2001-2005)
Steven B. Hochhauser (47)	6/16/2008	President, Security Technologies (since June 2008); Johns Manville, Chairman, President and Chief Executive Officer (2004-2007) and Chief Operating Officer (2002-2004)
Patricia Nachtigal (62)	11/2/1988	Director (since January 1, 2002); Senior Vice President and General Counsel (since November 1988)
David R. Pannier (58)	6/5/2008	President, Trane Residential (since June 2008); Trane Inc., President, Trane Residential (2002-2008)
Didier Teirlinck (52)	6/4/2008	President, Climate Control Technologies (since June 2008); President, Climate Control Europe (2005-2008); President, Volvo Equipment (2000-2005)
Richard J. Weller (52)	9/8/2008	Vice President and Controller (since September 2008); Vice President, Finance (June-September 2008); Vice President, Finance, Security Technologies Sector (2005-2008); Textron Inc., Vice President, Finance, Shared Services (2002-2005)

No family relationship exists between any of the above-listed executive officers of the Company. All officers are elected to hold office for one year or until their successors are elected and qualified.

Table of Contents**PART II****Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Information regarding the principal market for our common shares and related shareholder matters is as follows:

Our Class A common shares are traded on the New York Stock Exchange under the symbol IR. As of February 20, 2009, the approximate number of record holders of Class A common shares was 7,102. The high and low sales price per share and the dividend paid per share for the following periods were as follows:

	Common shares		
	High	Low	Dividend
2008			
First quarter	\$ 46.57	\$ 34.46	\$ 0.18
Second quarter	46.84	36.54	0.18
Third quarter	41.14	29.18	0.18
Fourth quarter	30.60	11.75	0.18
2007			
First quarter	\$ 45.62	\$ 38.25	\$ 0.18
Second quarter	56.63	43.39	0.18
Third quarter	56.66	44.52	0.18
Fourth quarter	55.94	42.94	0.18

The Bank of New York Mellon (BNY Mellon Shareowner Services, P.O. Box 358015, New York, NY 15252-8015, (800) 507-9357) is our transfer agent, registrar and dividend reinvestment agent.

Future dividends on our Class A common shares, if any, will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements and surplus, financial condition, contractual restrictions and other factors that the Board of Directors may deem relevant, as well as our ability to pay dividends in compliance with the Bermuda Companies Act. This Act regulates the payment of dividends and the making of distributions from contributed surplus. We may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that: (i) we are, or would be after the payment, unable to pay our liabilities as they become due; or (ii) the realizable value of our assets would thereby be less than the aggregate of our liabilities and issued share capital and share premium accounts.

Information regarding equity compensation plans required to be disclosed pursuant to this Item is incorporated by reference from our definite Proxy Statement for the Annual General Meeting of Shareholders.

Shares of IR-Limited owned by a subsidiary are treated as treasury stock and are recorded at cost on the balance sheet. During 2008, we issued 45.4 million IR-Limited Class A common shares to fund the equity portion of the consideration paid for the Trane acquisition. During 2007, we repurchased 39.7 million Class A common shares at a cost \$1,999.9 million under our existing \$4 billion share repurchase program. During 2006, we completed our prior \$2 billion share repurchase program by repurchasing 27.7 million Class A common shares at a cost of \$1,096.3 million.

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Total share repurchases for the year ended December 31, 2008 are as follows:

Period	Total number of shares purchased (000 s)	Average price paid per share	Total number of shares purchased as part of the publicly announced program (000 s)	Approximate dollar value of shares still available to be purchased under the program (\$000 s)
01/01/2008 - 03/31/2008	-	-	-	\$ 2,000,100
04/01/2008 - 06/30/2008	45.2	43.83	45.2	1,998,120
07/01/2008 - 09/30/2008	-	-	-	1,998,120
10/01/2008 - 12/31/2008	-	-	-	1,998,120
Total	45.2		45.2	

Performance Graph

The following graph compares the cumulative total shareholder return on our Class A common shares with the cumulative total return on (i) the Standard & Poor's 500 Stock Index, (ii) the Standard & Poor's 500 Industrial Machinery Index, and (iii) the Standard & Poor's 500 Industrial Index for the five years ended December 31, 2008. The graph assumes an investment of \$100 in our Class A common shares, the Standard & Poor's 500 Stock Index, the Standard & Poor's 500 Industrial Machinery Index, and the Standard & Poor's 500 Industrial Index on December 31, 2003 and assumes the reinvestment of dividends.

We are including a new index, the Standard & Poor's 500 Industrial Index, in the graph this year because we have significantly changed our business portfolio over the past three years. During this period, we have divested heavy machinery and construction-related businesses, which focused on original equipment revenues and were more affected by cyclical market behavior. With the acquisition of Trane, our businesses are more focused on replacement and recurring revenue markets. Consequently, while we are a member of both the Standard & Poor's 500 Industrial Machinery Index and the Standard & Poor's 500 Industrial Index, we believe that a comparison of our performance to the Standard & Poor's 500 Industrial Index is a more appropriate measure.

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In millions, except per share amounts:

At and for the years ended December 31,	2008	2007	2006	2005	2004
Net revenues	\$ 13,227.4	\$ 8,763.1	\$ 8,033.7	\$ 7,263.7	\$ 6,663.2
Earnings (loss) from continuing operations	(2,567.4)	733.1	765.0	731.8	554.2
Earnings (loss) from discontinued operations	(57.4)	3,233.6	267.5	322.4	664.5
Total assets	20,924.5	14,376.2	12,145.9	11,756.4	11,414.6
Total debt	5,124.1	1,453.7	1,984.6	2,117.0	1,880.4
Shareholders' equity	6,661.4	7,907.9	5,404.8	5,761.9	5,733.8
Basic earnings (loss) per common share:					
Continuing operations	\$ (8.54)	\$ 2.52	\$ 2.39	\$ 2.17	\$ 1.60
Discontinued operations	(0.19)	11.12	0.84	0.95	1.92
Diluted earnings (loss) per common share:					
Continuing operations	\$ (8.54)	\$ 2.48	\$ 2.37	\$ 2.14	\$ 1.58
Discontinued operations	(0.19)	10.95	0.83	0.95	1.89
Dividends per common share	\$ 0.72	\$ 0.72	\$ 0.68	\$ 0.57	\$ 0.44

1. Earnings and dividends per common share amounts have been restated to reflect a two-for-one stock split that occurred in August 2005.
2. 2006-2004 amounts have been restated to reflect Compact Equipment and the Road Development business unit as discontinued operations.
3. 2008 amounts include the results of Trane since the acquisition date (June 5, 2008 through December 31, 2008).
4. 2008 Earnings (loss) from continuing operations include an after-tax, non-cash asset impairment charge of \$3.4 billion that was recognized in the fourth quarter.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under Item 1A. Risk Factors in this Annual Report on Form 10-K. The following section is qualified in its entirety by the more detailed information, including our financial statements and the notes thereto, which appears elsewhere in this Annual Report.

Overview

Organization

Ingersoll-Rand Company Limited (IR-Limited), a Bermuda company, and its consolidated subsidiaries (we, our, the Company) is a diversified, global company that provides products, services and solutions to enhance the quality and comfort of air in homes and buildings, transport and protect food and perishables, secure homes and commercial properties, and increase industrial productivity and efficiency. Our business segments consist of Air Conditioning Systems and Services, Climate Control Technologies, Industrial Technologies and Security Technologies, each with strong brands and leading positions within their respective markets. We generate revenue and cash primarily through the design, manufacture, sale and service of a diverse portfolio of industrial and commercial products that include well-recognized, premium brand names such as Club Car[®], Hussmann[®], Ingersoll-Rand[®], Schlage[®], Thermo King[®] and Trane[®].

We are dedicated to inspiring progress for our customers, shareholders, employees and communities by achieving:

Dramatic Growth, by focusing on innovative solutions for our customers;

Operational Excellence, by pursuing continuous improvement in all of our operations; and

Dual Citizenship, by bringing together the talents of all Ingersoll Rand people to leverage the capabilities of our global enterprise.

To achieve these goals and to become a more diversified company with strong growth prospects, we transformed our enterprise portfolio by divesting cyclical, low-growth and asset-intensive businesses. In addition, our acquisition strategy has helped deliver more consistent revenue and earnings performance across all phases of the economic cycle. Aside from our portfolio transformation, we continue to focus on increasing our recurring revenue stream, which includes revenues from parts, service, used equipment and rentals. We also intend to continuously improve the efficiencies, capabilities, products and services of our high-potential businesses.

Trends and Economic Events

We are a global corporation with worldwide operations. As a global business, our operations are affected by worldwide, regional and industry-specific economic factors, as well as political factors, wherever we operate or do business. Our geographic and industry diversity, as well as the diversity of our product sales and services, has helped limit the impact of any one industry or the economy of any single country on our consolidated operating results.

The recent extreme volatility and disruption of financial markets in the United States, Europe and Asia have contributed to weakening worldwide economic conditions. As a result, we have seen weaker

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demand for many of our products and services during the second half of 2008. In addition, the uncertainty related to the cost and availability of credit has further depressed the overall business climate. Our revenues from continuing operations for 2008 increased 50.9% compared with 2007, primarily associated with the acquisition of Trane Inc. (Trane). Excluding the results of Trane, our revenues from continuing operations for 2008 increased less than 1% compared with 2007.

Despite the increasingly challenging economic environment, we continue to execute our business strategy. The divestiture of both Compact Equipment and the Road Development business unit in 2007, in addition to the acquisition of Trane in 2008, has enabled us to become more balanced across the products we offer. In addition, our current enterprise-wide restructuring actions initiated in the fourth quarter of 2008 are designed to streamline the footprint of our manufacturing facilities and reduce our general and administrative cost base.

Given the broad range of products manufactured and geographic markets served, management uses a variety of factors to predict the outlook for the Company. We monitor key competitors and customers in order to gauge relative performance and the outlook for the future. In addition, our order rates are indicative of future revenue and thus a key measure of anticipated performance. In those industry segments where we are a capital equipment provider, revenues depend on the capital expenditure budgets and spending patterns of our customers, who may delay or accelerate purchases in reaction to changes in their businesses and in the economy.

For 2009, we expect current market conditions continuing to negatively affect our financial results. Declining markets in North America and Western Europe partially offset by slight to moderate growth in the developing economies of Eastern Europe, Asia and Latin America will have a negative impact. In addition, with more than 40% of our revenues generated outside of the U.S., the recent appreciation of the U.S. dollar against most major currencies could negatively impact our 2009 revenue.

Despite the current economic turmoil, we have a solid foundation of global brands and leading market shares in all of our major product lines. In addition, our growing geographic and industry diversity coupled with our large installed product base provides growth opportunities within our service, parts and replacement revenue streams.

Acquisition of Trane

At the close of business on June 5, 2008 (the Acquisition Date), we completed the acquisition of 100% of the outstanding common shares of Trane. Trane, previously named American Standard Companies Inc., provides systems and services that enhance the quality and comfort of the air in homes and buildings around the world. Trane's systems and services have leading positions in premium commercial, residential, institutional and industrial markets, a reputation for reliability, high quality and product innovation and a powerful distribution network. Trane's 2007 annual revenues were \$7.5 billion.

We paid a combination of (i) 0.23 of an IR-Limited Class A common share and (ii) \$36.50 in cash, without interest, for each outstanding share of Trane common stock. The total cost of the acquisition was approximately \$9.6 billion, including change in control payments and direct costs of the transaction. We financed the cash portion of the acquisition with a combination of cash on hand, commercial paper and a 364-day senior unsecured bridge loan facility.

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The components of the purchase price were as follows:

In billions

Cash consideration	\$	7.3
Stock consideration (Issuance of 45.4 million IR-Limited Class A common shares)		2.0
Estimated fair value of Trane stock options converted to 7.4 million IR-Limited stock options		0.2
Transaction costs		0.1
Total	\$	9.6

As a result of the acquisition, the results of the operations of Trane have been included in the statement of financial position at December 31, 2008 and the consolidated statements of operations and cash flows since the Acquisition Date. For further details on the acquisition of Trane, see Note 3 to the consolidated financial statements.

Significant events in 2008

As discussed in Acquisition of Trane above, on June 5, 2008, we acquired 100% of the outstanding common shares of Trane for approximately \$9.6 billion.

In August 2008, we filed a universal shelf registration statement with the Securities and Exchange Commission (SEC) for an indeterminate amount of securities for future issuance and issued \$1.6 billion of long-term debt pursuant to the shelf registration statement. This issuance consisted of \$250 million Senior Floating Rate Notes due in 2010, \$600 million 6.000% Senior Notes due in 2013 and \$750 million 6.875% Senior Notes due in 2018. These notes are fully and unconditionally guaranteed by IR-Limited, which directly owns 100% of the subsidiary issuer, IR Global Holding Company Limited. The net proceeds from the offering were used to partially reduce the amount outstanding under the senior unsecured bridge loan facility, which had a balance of \$754 million at December 31, 2008.

In October 2008, we announced plans to initiate enterprise-wide restructuring actions. These actions include streamlining the footprint of manufacturing facilities and reducing the general and administrative cost base. Projected costs will approximate \$110 million. As of December 31, 2008, we have incurred \$71 million of costs associated with this restructuring.

In the fourth quarter of 2008, we tested goodwill and other indefinite-lived intangible assets for impairment. As a result of decreased global equity valuations, the tightening of industrial and retail end markets and a resulting decline in our 2009 projected financial performance, we incurred a non-cash pre-tax impairment charge of \$3,710.0 million, \$3,385.0 million after-tax.

Significant events in 2007

On November 30, 2007, we completed the sale of our Bobcat, Utility Equipment and Attachments business units (collectively, Compact Equipment) to Doosan Infracore for cash proceeds of approximately \$4.9 billion, subject to post-closing purchase price adjustments. Compact Equipment manufactured and sold compact equipment including skid-steer loaders, compact track loaders, mini-excavators and telescopic tool handlers; portable air compressors, generators, light towers; general-purpose light construction equipment; and attachments. We are currently in the process of resolving the final purchase price adjustments with Doosan Infracore.

On April 30, 2007, we completed the sale of our Road Development business unit to AB Volvo (publ) for cash proceeds of approximately \$1.3 billion. The Road Development business unit manufactured and sold asphalt paving equipment, compaction equipment, milling machines and construction-related material handling equipment.

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During the fourth quarter of 2007, we recorded a non-cash charge to earnings of discontinued operations of \$449 million (\$277 million after-tax) relating to the company's liability for all pending and estimated future asbestos claims through 2053. This charge resulted from an increase in our recorded liability for asbestos claims by \$538 million, from \$217 million to \$755 million, offset by a corresponding \$89 million increase in our recorded asset for probable asbestos-related insurance recoveries, from \$161 million to \$250 million at December 31, 2007. For a further discussion of asbestos matters, see Note 22 to the consolidated financial statements.

On July 20, 2007, the Company and its consolidated subsidiaries received a notice from the Internal Revenue Service (IRS) containing proposed adjustments to the Company's tax filings in connection with an audit of the 2001 and 2002 tax years. The IRS did not contest the validity of the Company's reincorporation in Bermuda. The most significant adjustments proposed by the IRS involve treating the entire intercompany debt incurred in connection with the Company's reincorporation in Bermuda as equity. As a result of this recharacterization, the IRS has disallowed the deduction of interest paid on the debt and imposed dividend withholding taxes on the payments denominated as interest. These adjustments proposed by the IRS, if upheld in their entirety, would result in additional taxes with respect to 2002 of approximately \$190 million plus interest, and would require the Company to record additional charges associated with this matter. At this time, the IRS has not yet begun their examination of the Company's tax filings for years subsequent to 2002. However, if these adjustments or a portion of these adjustments proposed by the IRS are ultimately sustained, it is likely to also affect subsequent tax years.

The Company strongly disagrees with the view of the IRS and filed a protest with the IRS in the third quarter of 2007. The Company has and intends to continue to vigorously contest these proposed adjustments. The Company, in consultation with its outside advisors, carefully considered many factors in determining the terms of the intercompany debt, including the obligor's ability to service the debt and the availability of equivalent financing from unrelated parties, two factors prominently cited by the IRS in denying debt treatment. The Company believes that its characterization of that obligation as debt for tax purposes was supported by the relevant facts and legal authorities at the time of its creation. The subsequent financial results of the relevant companies, including the actual cash flow generated by operations and the production of significant additional cash flow from dispositions have confirmed the ability to service this debt. Although the outcome of this matter cannot be predicted with certainty, based upon an analysis of the strength of its position, the Company believes that it is adequately reserved for this matter. As the Company moves forward to resolve this matter with the IRS, it is reasonably possible that the reserves established may be adjusted within the next 12 months. However, the Company does not expect that the ultimate resolution will have a material adverse impact on its future results of operations or financial position. See Note 19 to the consolidated financial statements for a further discussion of tax matters.

During 2007, we repurchased 39.7 million Class A common shares at a cost \$1,999.9 million under our existing \$4 billion share repurchase program. This repurchase program was originally authorized by the Board of Directors in December 2006 to repurchase up to \$2 billion and subsequently expanded to \$4 billion in May 2007.

Significant Events in 2006

During 2006, we completed our original \$2 billion share repurchase program by repurchasing 27.7 million Class A common shares at a cost of \$1,096.3 million. This share repurchase program was originally authorized by the Board of Directors in August 2004 and subsequently expanded in August 2005. In December 2006, the Board of Directors authorized a new share repurchase program to repurchase up to \$2 billion worth of Class A common shares. No amounts were repurchased under the December 2006 authorization as of December 31, 2006.

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