

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## EMERSON ELECTRIC CO. & SUBSIDIARIES

Years ended September 30 | Dollars in millions, except per share amounts or where noted

### (1) Summary of Significant Accounting Policies

#### FINANCIAL STATEMENT PRESENTATION

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from these estimates. Certain operating results have been classified as discontinued operations. See Note 3.

Emerson adopted updates to ASC 810, *Consolidation*, in the first quarter of 2010. The updates require an entity to separately disclose noncontrolling interests in subsidiaries as a separate line item in the income statement and as a separate component of equity in the balance sheet. Adoption did not have a material impact on the Company's financial statements. As required, certain prior year amounts were reclassified as this change was retrospectively applied to prior periods.

Effective October 1, 2009, the Company adopted ASC 805, *Business Combinations*, which requires that assets acquired, liabilities assumed and contractual contingencies be measured at fair value as of the acquisition date and all acquisition costs be expensed as incurred. See Note 3 for a discussion of acquisition activity.

In the first quarter of 2010, the Company adopted updates to ASC 260, *Earnings per Share*, regarding the two-class method of computing earnings per share (EPS). This method requires earnings to be allocated to participating securities (for Emerson, certain employee stock awards) in the EPS computation based on each security's respective dividend rate. This change had an inconsequential impact on EPS.

#### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its controlled affiliates. Intercompany transactions, profits and balances are eliminated in consolidation. Investments of 20 percent to 50 percent of the voting shares of other entities are accounted for by the equity method. Investments in publicly-traded companies of less than 20 percent are carried at fair value, with changes in fair value reflected in accumulated other comprehensive income. Investments in nonpublicly traded companies of less than 20 percent are carried at cost.

#### FOREIGN CURRENCY TRANSLATION

The functional currency for most of the Company's non-U.S. subsidiaries is the local currency. Adjustments resulting from translating local currency financial statements into U.S. dollars are reflected in accumulated other comprehensive income.

#### FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurement*, established a formal hierarchy and framework for measuring financial statement items at fair value and expanded disclosure about fair value measurements and the reliability of valuation inputs. Under ASC 820, measurement assumes the transaction to sell an asset or transfer a liability occurs in the principal or at least the most advantageous market for that asset or liability. Within the hierarchy, Level 1 instruments use observable market prices for the identical item in active markets and have the most reliable valuations. Level 2 instruments are valued through broker/dealer quotation or through market-observable inputs for similar items in active markets, including forward and spot prices, interest rates and volatilities. Level 3 instruments are valued using inputs not observable in an active market, such as company-developed future cash flow estimates, and are considered the least reliable. Valuations for all of Emerson's financial instruments fall within Level 2. The fair value of the Company's long-term debt is estimated using current interest rates and pricing from financial institutions and other market sources for debt with similar maturities and characteristics. In 2010, Emerson adopted the portions of ASC 820 related to nonfinancial assets and liabilities, including goodwill and certain other intangible and long-lived assets. Adoption did not have a material impact on the Company's financial statements.

#### CASH EQUIVALENTS

Cash equivalents consist of highly liquid investments with original maturities of three months or less.

## INVENTORIES

Inventories are stated at the lower of cost or market. The majority of inventory is valued based on standard costs that approximate average costs, while the remainder is principally valued on a first-in, first-out basis. Cost standards are revised at the beginning of each fiscal year. The annual effect of resetting standards plus any operating variances incurred during each period are allocated between inventories and cost of sales.

## PROPERTY, PLANT AND EQUIPMENT

The Company records investments in land, buildings, and machinery and equipment at cost. Depreciation is computed principally using the straight-line method over estimated service lives, which for principal assets are 30 to 40 years for buildings and 8 to 12 years for machinery and equipment. Long-lived tangible assets are reviewed for impairment whenever events or changes in business circumstances indicate the carrying value of the assets may not be recoverable. Impairment losses are recognized based on fair value if the sum of expected future undiscounted cash flows of the related assets is less than their carrying values.

## GOODWILL AND OTHER INTANGIBLE ASSETS

Assets and liabilities acquired in business combinations are accounted for using the acquisition method and recorded at their respective fair values. Substantially all goodwill is assigned to the reporting unit that acquires a business. A reporting unit is an operating segment as defined in ASC 280, *Segment Reporting*, or a business one level below an operating segment if discrete financial information for that business unit is prepared and regularly reviewed by the segment manager. The Company conducts impairment tests of goodwill on an annual basis in the fourth quarter and between annual tests if events or circumstances indicate the fair value of a reporting unit may be less than its carrying value. If a reporting unit's carrying amount exceeds its estimated fair value, goodwill impairment is recognized to the extent that recorded goodwill exceeds the implied fair value of that goodwill. Fair values of reporting units are Level 3 measures and are developed under an income approach that discounts estimated future cash flows using risk-adjusted interest rates.

All of the Company's identifiable intangible assets are subject to amortization. Identifiable intangibles consist of intellectual property such as patents and trademarks, customer relationships and capitalized software, and are amortized on a straight-line basis over the estimated useful life. These intangibles are also subject to evaluation for potential impairment if events or circumstances indicate the carrying amount may not be recoverable. See Note 6.

## WARRANTY

Warranties vary by product line and are competitive for the markets in which the Company operates. Warranties generally extend for a period of one to two years from the date of sale or installation. Provisions for warranty are determined primarily based on historical warranty cost as a percentage of sales or a fixed amount per unit sold based on failure rates, adjusted for specific problems that may arise. Product warranty expense is less than one percent of sales.

## REVENUE RECOGNITION

The Company recognizes nearly all of its revenues through the sale of manufactured products and records the sale when products are shipped or delivered, and title passes to the customer with collection reasonably assured. In certain limited circumstances, revenue is recognized using the percentage-of-completion method, as performance occurs, or in accordance with ASC 985-605 related to software. Management believes that all relevant criteria and conditions are considered when recognizing revenue.

Sales arrangements sometimes involve delivering multiple elements, including services such as installation. In these instances, the revenue assigned to each element is based on vendor-specific objective evidence, third-party evidence or management estimate of the relative selling price, with revenue recognized individually for delivered elements only if they have value to the customer on a stand-alone basis, the performance of the undelivered items is probable and substantially in the Company's control or the undelivered elements are inconsequential or perfunctory, and there are no unsatisfied contingencies related to payment. Approximately ten percent of the Company's revenues arise from qualifying sales arrangements that include the delivery of multiple elements, principally in the Network Power and Process Management segments. The vast majority of these deliverables are tangible products, with a small portion attributable to installation, service and maintenance. Selling prices are primarily determined using vendor-specific objective evidence. Generally, contract duration is short-term and cancellation, termination or refund provisions apply only in the event of contract breach and have historically not been invoked.

As of October 1, 2010, certain updates became effective for ASC 605, *Revenue Recognition*, regarding the allocation of consideration in multiple deliverables arrangements. Under the updated ASC 605, the allocation of consideration is now based on vendor-specific objective evidence, third party evidence or management estimates of selling price. The impact of this change on any period presented was inconsequential.

## DERIVATIVES AND HEDGING

In the normal course of business, the Company is exposed to changes in interest rates, foreign currency exchange rates and commodity prices due to its worldwide presence and diverse business profile. Emerson's foreign currency exposures primarily relate to transactions denominated in euros, Mexican pesos, Canadian dollars and Chinese renminbi. Primary commodity exposures are price fluctuations on forecasted purchases of copper and aluminum and related products. As part of the Company's risk management strategy, derivative instruments are selectively used in an effort to minimize the impact of these exposures. Foreign exchange forwards and options are utilized to hedge foreign currency exposures impacting sales or cost of sales transactions, firm commitments and the fair value of assets and liabilities, while swap and option contracts are used to minimize the effect of commodity price fluctuations on the cost of sales. All derivatives are associated with specific underlying exposures and the Company does not hold derivatives for trading or speculative purposes. The duration of hedge positions is generally two years or less and amounts currently hedged beyond 18 months are not significant.

All derivatives are accounted for under ASC 815, *Derivatives and Hedging*, and are recognized on the balance sheet at fair value. For derivatives hedging variability in future cash flows, the effective portion of any gain or loss is deferred in stockholders' equity and recognized in earnings when the underlying hedged transaction impacts earnings. The majority of the Company's derivatives that are designated as hedges and qualify for deferral accounting are cash flow hedges. For derivatives hedging the fair value of existing assets or liabilities, both the gain or loss on the derivative and the offsetting loss or gain on the hedged item are recognized in earnings each period. Currency fluctuations on non-U.S. dollar obligations that have been designated as hedges of non-U.S. dollar net asset exposures are reported in equity. To the extent that any hedge is not fully effective at offsetting cash flow or fair value changes in the underlying hedged item, there could be a net earnings impact. The Company also uses derivatives to hedge economic exposures that do not receive deferral accounting under ASC 815. The underlying exposures for these hedges relate primarily to purchases of commodity-based components used in the Company's manufacturing processes, and the revaluation of certain foreign-currency-denominated assets and liabilities. Gains or losses from the ineffective portion of any hedge, as well as any gains or losses on derivative instruments not designated as hedges, are recognized in the income statement immediately.

If credit ratings on the Company's debt fall below pre-established levels, derivatives counterparties can require immediate full collateralization on instruments in net liability positions. Similarly, Emerson can demand full collateralization should any of the Company's counterparties' credit rating fall below certain thresholds. Counterparties to derivative arrangements are companies with high credit ratings. Risk from credit loss when derivatives are in asset positions is considered immaterial. The Company has master netting arrangements in place with its counterparties that allow the offsetting of certain derivative-related amounts receivable and payable when settlement occurs in the same period. Accordingly, counterparty balances are netted in the consolidated balance sheet. Net values of commodity contracts and foreign currency contracts are reported in current assets or accrued expenses depending on the position as of the balance sheet date. See Note 7.

## INCOME TAXES

The provision for income taxes is based on pretax income reported in the consolidated statements of earnings and currently enacted tax rates for each jurisdiction. Certain income and expense items are recognized in different time periods for financial reporting and income tax filing purposes, and deferred income taxes are provided for the effect of temporary differences. The Company also provides for U.S. federal income taxes, net of available foreign tax credits, on earnings intended to be repatriated from non-U.S. locations. No provision has been made for U.S. income taxes on approximately \$5.9 billion of undistributed earnings of non-U.S. subsidiaries as of September 30, 2011, as these earnings are considered permanently invested or otherwise indefinitely retained for continuing international operations. Recognition of U.S. taxes on undistributed earnings would be triggered by a management decision to repatriate those earnings, although there is no current intention to do so. Determination of the amount of taxes that might be paid on these undistributed earnings if eventually remitted is not practicable. See Note 13.

## COMPREHENSIVE INCOME

Comprehensive income is primarily composed of net earnings plus changes in foreign currency translation, pension and postretirement adjustments, and the effective portion of changes in the fair value of cash flow hedges. Accumulated other comprehensive income, net of tax (a component of equity), consists of foreign currency translation credits of \$671 and of \$649, pension and postretirement charges of \$1,164 and \$1,108 and cash flow hedges and other charges of \$69 and credits of \$33, respectively, at September 30, 2011 and 2010. Accumulated other comprehensive income attributable to noncontrolling interests in subsidiaries consists primarily of earnings and foreign currency translation.

## RETIREMENT PLANS

Effective September 30, 2010, the Company adopted updates to ASC 715, *Compensation - Retirement Benefits*. These updates expand disclosure about an entity's investment policies and strategies for assets held by defined benefit pension or postretirement plans, including information regarding major classes of plan assets, inputs and valuation techniques used to measure the fair value of assets, and concentrations of risk within the plans. See Note 10.

## (2) Weighted Average Common Shares

Basic earnings per common share consider only the weighted average of common shares outstanding while diluted earnings per common share consider the dilutive effects of stock options and incentive shares. Options to purchase approximately 4.6 million, 3.9 million and 7.6 million shares of common stock were excluded from the computation of diluted earnings per share in 2011, 2010 and 2009, respectively, as the effect would have been antidilutive. Earnings allocated to participating securities were inconsequential for all years presented. Reconciliations of weighted average shares for basic and diluted earnings per common share follow:

(SHARES IN MILLIONS)	2009	2010	2011
Basic shares outstanding	753.7	750.7	748.5
Dilutive shares	5.0	6.3	5.0
Diluted shares outstanding	758.7	757.0	753.5

## (3) Acquisitions and Divestitures

The Company acquired several small businesses during 2011, mainly in the Process Management and Climate Technologies segments. Total cash paid for all businesses was approximately \$232, net of cash acquired of \$2. Annualized sales for businesses acquired in 2011 were approximately \$100. Goodwill of \$125 (none of which is expected to be deductible for tax purposes) and identifiable intangible assets of \$75, primarily customer relationships and patents and technology with a weighted-average life of approximately 12 years, were recognized from these transactions. All of these acquisitions were complementary to the existing business portfolio and none was individually significant.

In the fourth quarter of 2011, the Company sold its heating elements unit, which was previously included in the Tools and Storage segment, for \$73, resulting in an after-tax gain of \$21 (\$30 of income taxes). Heating elements had 2011 fourth quarter sales of \$12 and net earnings of \$1. Only the gain on divestiture and fourth quarter operating results for heating elements, and the impact of finalizing the 2010 Motors and LANDesk divestitures, have been classified as discontinued operations for 2011; prior fiscal 2011 quarters and prior year results of operations for heating elements were inconsequential and have not been reclassified.

The Company acquired one-hundred percent of Chloride Group PLC during the fourth quarter of 2010 and Avocent Corporation during the first quarter of 2010. Chloride provides commercial and industrial uninterruptible power supply systems and services, which significantly strengthened the Company's Network Power business in Europe, and is included in the Network Power segment. Avocent products enhance companies' integrated data center management capabilities, which strongly positions Emerson for the growth of infrastructure management in data centers worldwide, and is included in the Network Power segment.

The purchase price of Avocent and Chloride was allocated to assets and liabilities as follows:

Accounts receivable	\$ 197
Inventory	155
Property, plant & equipment and other assets	148
Intangibles	1,071
Goodwill	1,509
Assets held for sale, including deferred taxes	278
Total assets	3,358
Accounts payable and accrued expenses	183
Debt assumed	165
Deferred taxes and other liabilities	395
Cash paid, net of cash acquired	\$2,615

Results of operations for 2010 included combined sales of \$373 and a combined net loss of \$73 from Avocent and Chloride, including intangible asset amortization, interest, first year acquisition accounting charges and deal costs. Pro forma sales and net earnings common stockholders of the Company including full year results of operations for Avocent and Chloride were approximately \$21.6 billion and \$2.1 billion in 2010, and \$21.0 billion and \$1.6 billion in 2009, respectively. These pro forma results include intangible asset amortization and interest cost in both periods, and first year acquisition accounting charges and deal costs in 2009.

In addition to Chloride and Avocent, the Company acquired SSB, a designer and manufacturer of electrical pitch systems and controls used in wind turbine generators which is reported in the Industrial Automation segment, and other smaller businesses during 2010 reported mainly in the Process Management and Industrial Automation segments. Total cash paid for all businesses was approximately \$2,843, net of cash acquired of \$150. Additionally, the Company assumed debt of \$169. Annualized sales for businesses acquired in 2010 were approximately \$1.1 billion. Identifiable intangible assets of \$1,166, primarily customer relationships and intellectual property with a weighted-average life of approximately 10 years, were recognized along with goodwill of \$1,633, of which only a small amount is tax deductible.

In the fourth quarter 2010, the Company sold the LANDesk business unit, which was acquired as part of Avocent and was not a strategic fit with Emerson, for \$230, resulting in an after-tax gain of \$12 (\$10 of income taxes). Additionally, LANDesk incurred operating losses of \$19. This business was classified as discontinued operations throughout 2010. Also in the fourth quarter of 2010, the Company sold its appliance motors and U.S. commercial and industrial motors businesses (Motors) which had slower growth profiles and were formerly reported in the Tools and Storage segment. Proceeds from the sale were \$622 resulting in an after-tax gain of \$155 (\$126 of income taxes). The Motors disposition included working capital of \$98, property, plant and equipment of \$152, goodwill of \$44, and other of \$47. The Motors businesses had total annual sales of \$827 and \$813 and net earnings (excluding the divestiture gain) of \$38 and \$9 in 2010 and 2009, respectively. Results of operations for Motors have been reclassified into discontinued operations for 2010 and earlier periods.

The Company acquired one-hundred percent of Roxar ASA during the third quarter of 2009, Trident Powercraft Private Limited during the second quarter of 2009 and System Plast S.p.A. during the first quarter of 2009. Roxar is a global supplier of measurement solutions and software for reservoir production optimization, enhanced oil and gas recovery and flow assurance and is included in the Process Management segment. Trident Power is a manufacturer and supplier of power generating alternators and other products and is included in the Industrial Automation segment. System Plast is a manufacturer of engineered modular belts and custom conveyer components for the food processing and packaging industries and is included in the Industrial Automation segment. In addition to Roxar, Trident Power and System Plast, the Company acquired other smaller businesses during 2009, mainly in the Climate Technologies, Tools and Storage and Process Management segments. Total cash paid for all businesses was approximately \$776, net of cash acquired of \$31. Additionally, the Company assumed debt of \$230. Annualized sales for businesses acquired in 2009 were approximately \$530. Goodwill of \$541 (\$34 of which is expected to be deductible for tax purposes) and identifiable intangible assets of \$365, primarily customer relationships and patents and technology with a weighted-average life of 12 years, were recognized from these transactions in 2009.

The results of operations of the businesses discussed above have been included in the Company's consolidated results of operations since the respective dates of acquisition.

## (4) Other Deductions, Net

Other deductions, net are summarized as follows:

	2009	2010	2011
Amortization of intangibles (intellectual property and customer relationships)	\$108	176	261
Rationalization of operations	284	126	81
Other	121	71	57
Gains, net	(39)	(4)	(24)
Total	\$474	369	375

Other deductions, net increased for 2011 primarily due to higher amortization expense on acquired intangible assets, partially offset by lower rationalization expense and higher gains. Other is composed of several items that are individually immaterial, including foreign currency gains and losses, bad debt expense, equity investment income and losses, as well as one-time items such as litigation and disputed matters and insurance recoveries. Other decreased in 2011 primarily because of lower acquisition-related costs, partially offset by a \$19 impairment charge related to the Industrial Automation wind turbine pitch control business, reflecting a slowdown in investment for alternative energy in the current economic environment. Other decreased in 2010 primarily because of \$45 of lower foreign currency transaction losses compared with 2009. Gains, net for 2011 include \$15 related to the acquisition of full ownership of a Process Management joint venture in India. Gains, net for 2009 included \$25 (\$17 after-tax) related to the sale of an asset for which the Company received \$41.

## (5) Rationalization of Operations

Rationalization of operations expense reflects costs associated with the Company's efforts to continually improve operational efficiency and deploy assets globally in order to remain competitive on a worldwide basis. Each year the Company incurs costs for actions to size its businesses to a level appropriate for current economic conditions and to improve its cost structure for future growth. Rationalization expenses result from numerous individual actions implemented across the Company's various operating divisions on an ongoing basis and include costs for moving facilities to best-cost locations, starting up plants after relocation or geographic expansion to serve local markets, exiting certain product lines, curtailing/downsizing operations because of changing economic conditions and other costs resulting from asset redeployment decisions. Shutdown costs include severance, benefits, stay bonuses, lease and contract terminations and asset write-downs. In addition to the costs of moving fixed assets, start-up and moving costs include employee training and relocation. Vacant facility costs include security, maintenance, utility and other costs.

The Company reported rationalization expenses of \$81, \$126 and \$284, respectively for 2011, 2010 and 2009, with the significantly higher expense in 2009 due to actions taken in response to the severe economic environment worldwide. The Company currently expects to incur rationalization expense in 2012 in the range of approximately \$100 to \$125, including the costs to complete actions initiated before the end of 2011 and actions anticipated to be approved and initiated during 2012.

The change in the liability for the rationalization of operations during the years ended September 30 follows:

	2010	EXPENSE	PAID / UTILIZED	2011
Severance and benefits	\$57	17	50	24
Lease and other contract terminations	8	3	8	3
Fixed asset write-downs	–	12	12	–
Vacant facility and other shutdown costs	4	11	13	2
Start-up and moving costs	–	38	37	1
<b>Total</b>	<b>\$69</b>	<b>81</b>	<b>120</b>	<b>30</b>

	2009	EXPENSE	PAID / UTILIZED	2010
Severance and benefits	\$112	73	128	57
Lease and other contract terminations	7	9	8	8
Fixed asset write-downs	–	9	9	–
Vacant facility and other shutdown costs	2	14	12	4
Start-up and moving costs	1	21	22	–
<b>Total</b>	<b>\$122</b>	<b>126</b>	<b>179</b>	<b>69</b>

Rationalization of operations expense by segment is summarized as follows:

	2009	2010	2011
Process Management	\$ 55	35	11
Industrial Automation	47	48	32
Network Power	118	25	20
Climate Technologies	48	13	11
Tools and Storage	16	5	7
<b>Total</b>	<b>\$284</b>	<b>126</b>	<b>81</b>

During 2011, the Company's business segments incurred start-up and moving costs related to relocating assets to best cost locations, geographic expansion to directly serve local markets, or shutdown costs for the consolidation of facilities within geographic locations to increase operational efficiency. Severance and benefits expense relates to exiting approximately 20 facilities, including those consolidated within regions, and eliminating approximately 2,800 positions. Start-up and moving costs were substantially incurred in Industrial Automation and Network Power, while Industrial Automation incurred most of the fixed-asset write-downs. Facilities consolidation largely occurred in North America and Europe. Vacant facilities and other shutdown costs were not material for any segment.

Costs incurred during 2010 included actions to exit approximately 25 production, distribution or office facilities and eliminate approximately 3,500 positions, as well as costs related to facilities exited in previous periods. All the Company's business segments incurred shutdown costs due to workforce reductions and/or the consolidation of facilities. Start-up and moving costs, vacant facilities and other costs were not material for any segment. In addition to force-count reductions, actions in 2010 included Process Management consolidating some North American and European production; Industrial Automation consolidating production and sales within Europe and North America; Network Power consolidating North American production and shifting some capabilities from North America and Europe to Asia; and Climate Technologies consolidating or downsizing production in North America and Europe.

Costs incurred during 2009 included exiting approximately 25 production, distribution or office facilities and eliminating approximately 20,000 positions, of which approximately one-half were from restructuring actions and the remainder through layoffs and attrition, as well as costs related to facilities exited in previous periods. All the Company's business segments incurred shutdown costs due to workforce reductions and/or the consolidation of facilities. Start-up and moving costs were primarily attributable to Network Power and Industrial Automation, while Network Power incurred most of the asset write-downs. Vacant facilities and other costs were immaterial for any segment. In addition to worldwide forcecount reductions, actions during 2009 included Industrial Automation consolidating production facilities; Network Power primarily incurring integration costs for the Embedded Computing acquisition, but also consolidating production in North America and Europe and shifting certain capabilities from Europe to Asia; Climate Technologies consolidating or downsizing production in North America, Europe and Asia; and Tools and Storage consolidating and downsizing production in North America.

## (6) Goodwill and Other Intangibles

Purchases of businesses are accounted for under the acquisition method, with substantially all goodwill assigned to the reporting unit that acquires the business. Under an impairment test performed annually, if the carrying amount of a reporting unit's goodwill exceeds its estimated fair value, impairment is recognized to the extent that the carrying amount exceeds the implied fair value of the goodwill. Fair values of reporting units are estimated using discounted cash flows and are subject to change due to changes in underlying economic conditions. The change in the carry amount of goodwill by business segment follows. See Notes 3 and 4 for further discussion of changes in goodwill related to acquisitions, divestitures and impairment.

	PROCESS MANAGEMENT	INDUSTRIAL AUTOMATION	NETWORK POWER	CLIMATE TECHNOLOGIES	TOOLS AND STORAGE	TOTAL
Balance, September 30, 2009	\$2,279	1,304	2,417	473	605	7,078
Acquisitions	27	97	1,509			1,633
Divestitures			(2)		(44)	(46)
Foreign currency translation and other	(32)	(22)	73	(9)	(19)	(9)
Balance, September 30, 2010	\$2,274	1,379	3,997	464	542	8,656
Acquisitions	110			15		125
Divestitures		(1)	(8)		(6)	(15)
Impairment		(19)				(19)
Foreign currency translation and other	(16)	34	1	4	1	24
<b>Balance, September 30, 2011</b>	<b>\$2,368</b>	<b>1,393</b>	<b>3,990</b>	<b>483</b>	<b>537</b>	<b>8,771</b>

The gross carrying amount and accumulated amortization of identifiable intangible assets by major class follow:

	CUSTOMER RELATIONSHIPS		INTELLECTUAL PROPERTY		CAPITALIZED SOFTWARE		TOTAL	
	2010	2011	2010	2011	2010	2011	2010	2011
Gross carrying amount	\$1,414	1,499	1,127	1,110	918	971	3,459	3,580
Less: Accumulated amortization	181	330	420	518	708	763	1,309	1,611
Net carrying amount	\$1,233	1,169	707	592	210	208	2,150	1,969

Total intangible asset amortization expense for 2011, 2010 and 2009 was \$345, \$254 and \$184, respectively. Based on intangible asset balances as of September 30, 2011, amortization expense is expected to approximate \$312 in 2012, \$267 in 2013, \$231 in 2014, \$198 in 2015 and \$173 in 2016.

## (7) Financial Instruments

### HEDGING ACTIVITIES

The notional value of foreign currency hedge positions was approximately \$1.5 billion as of September 30, 2011. Commodity hedges outstanding as of September 30, 2011 included a total of approximately 107 million pounds of copper and aluminum. All derivatives receiving deferral accounting are cash flow hedges. The majority of hedging gains and losses deferred as of September 30, 2011 are expected to be recognized over the next 12 months as the underlying forecasted transactions occur. Amounts included in earnings and other comprehensive income follow:

		GAIN (LOSS) TO EARNINGS			GAIN (LOSS) TO OTHER COMPREHENSIVE INCOME		
		2009	2010	2011	2009	2010	2011
<b>Deferred</b>	<b>Location</b>						
Foreign currency	Sales	\$ (24)	(5)	11	(18)	11	2
Foreign currency	Cost of sales	(32)	6	22	(40)	30	(16)
Commodity	Cost of sales	(96)	42	52	(40)	44	(58)
<b>Not Deferred</b>							
Foreign currency	Other deductions, net	(67)	117	10			
Commodity	Cost of sales	(11)	-	(1)			
<b>Total</b>		<b>\$(230)</b>	<b>160</b>	<b>94</b>	<b>(98)</b>	<b>85</b>	<b>(72)</b>

Regardless of whether or not derivatives receive deferral accounting, the Company expects hedging gains or losses to be essentially offset by losses or gains on the related underlying exposures. The amounts ultimately recognized will differ from those presented above for any open positions, which remain subject to ongoing market price fluctuations until settlement. Derivatives receiving deferral accounting are highly effective, no amounts were excluded from the assessment of hedge effectiveness, and hedge ineffectiveness was immaterial in 2011, 2010 and 2009, including gains or losses on derivatives that were discontinued because forecasted transactions were no longer expected to occur.

### FAIR VALUE MEASUREMENTS

Fair values of derivative contracts outstanding as of September 30 follow:

	ASSETS		LIABILITIES	
	2010	2010	2011	2011
<b>Exposure</b>				
Foreign currency	\$67	(50)	17	(48)
Commodity	\$31	(3)	-	(83)

The Company posted \$53 of collateral as of September 30, 2011. The maximum collateral the Company could have been required to post as of September 30, 2011 was \$116. The fair value of long-term debt was \$5,276 and \$5,292, respectively, as of September 30, 2011 and 2010, which exceeded the carrying value by \$673 and \$635, respectively.

## (8) Short-Term Borrowings and Lines of Credit

Short-term borrowings and current maturities of long-term debt are summarized as follows:

	2010	2011
Current maturities of long-term debt	\$ 71	279
Commercial paper	401	588
Payable to banks	8	10
Total	\$480	877
Weighted-average short-term borrowing interest rate at year end	0.3%	0.1%

The Company periodically issues commercial paper as a source of short-term financing. In December 2010 the Company entered into a \$2.75 billion four-year revolving backup credit facility to support short-term borrowings, which replaced a \$2.83 billion five-year revolving credit facility dated April 2006. The Company did not draw upon either facility in 2011, 2010 or 2009. The credit facility contains no financial covenants and is not subject to termination based on a change in credit ratings or material adverse changes.

## (9) Long-Term Debt

Long-term debt is summarized as follows:

	2010	2011
5.75% notes due November 2011	\$ 250	250
4.625% notes due October 2012	250	250
4.5% notes due May 2013	250	250
5.625% notes due November 2013	250	250
5.0% notes due December 2014	250	250
4.125% notes due April 2015	250	250
4.75% notes due October 2015	250	250
5.125% notes due December 2016	250	250
5.375% notes due October 2017	250	250
5.25% notes due October 2018	400	400
5.0% notes due April 2019	250	250
4.875% notes due October 2019	500	500
4.25% notes due November 2020	300	300
6.0% notes due August 2032	250	250
6.125% notes due April 2039	250	250
5.25% notes due November 2039	300	300
Other	157	103
Long-term debt	4,657	4,603
Less: Current maturities	71	279
Total, net	\$4,586	4,324

Long-term debt maturing during each of the four years after 2012 is \$560, \$265, \$500 and \$250, respectively. Total interest paid related to short-term borrowings and long-term debt was approximately \$239, \$264 and \$230 in 2011, 2010 and 2009, respectively.

The Company maintains a universal shelf registration statement on file with the SEC under which it could issue debt securities, preferred stock, common stock, warrants, share purchase contracts and share purchase units without a predetermined limit. Securities can be sold in one or more separate offerings with the size, price and terms to be determined at the time of sale.

## (10) Retirement Plans

Retirement plans expense includes the following components:

	U.S. PLANS			NON-U.S. PLANS		
	2009	2010	2011	2009	2010	2011
Defined benefit plans:						
Service cost (benefits earned during the period)	\$ 46	51	52	22	24	30
Interest cost	174	175	172	45	45	50
Expected return on plan assets	(243)	(263)	(279)	(37)	(42)	(49)
Net amortization	70	122	147	17	20	22
Net periodic pension expense	47	85	92	47	47	53
Defined contribution plans	80	81	98	37	36	50
Total retirement plans expense	\$ 127	166	190	84	83	103

Reconciliations of the actuarial present value of the projected benefit obligations and of the fair value of plan assets for defined benefit pension plans follow:

	U.S. PLANS		NON-U.S. PLANS	
	2010	2011	2010	2011
Projected benefit obligation, beginning	\$ 3,202	3,466	864	1,061
Service cost	51	52	24	30
Interest cost	175	172	45	50
Actuarial (gain) loss	207	114	112	(125)
Benefits paid	(157)	(167)	(45)	(53)
Acquisitions/divestitures, net	(15)	–	61	–
Foreign currency translation and other	3	7	–	(3)
Projected benefit obligation, ending	\$ 3,466	3,644	1,061	960
Fair value of plan assets, beginning	\$ 2,822	3,206	634	714
Actual return on plan assets	328	29	60	–
Employer contributions	212	112	35	30
Benefits paid	(157)	(167)	(45)	(53)
Acquisitions/divestitures, net	–	–	41	–
Foreign currency translation and other	1	2	(11)	(1)
Fair value of plan assets, ending	\$ 3,206	3,182	714	690
Net amount recognized in the balance sheet	\$ (260)	(462)	(347)	(270)
Amounts recognized in the balance sheet:				
Noncurrent asset	\$ –	–	5	4
Noncurrent liability	\$ (260)	(462)	(352)	(274)
Accumulated other comprehensive loss	\$(1,439)	(1,659)	(338)	(240)

Approximately \$184 of the \$1,899 of losses deferred in accumulated other comprehensive income at September 30, 2011, will be amortized into earnings in 2012. As of September 30, 2011, retirement plans in total were underfunded by \$732.

As of the plans' September 30, 2011 and 2010 measurement dates, the total accumulated benefit obligation was \$4,345 and \$4,246, respectively. Also, as of the plans' respective measurement dates, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for retirement plans with accumulated benefit obligations in excess of plan assets were \$4,093, \$3,907 and \$3,380, respectively, for 2011, and \$1,120, \$1,043 and \$618, respectively, for 2010.

Future benefit payments for U.S. plans are estimated to be \$174 in 2012, \$183 in 2013, \$192 in 2014, \$200 in 2015, \$208 in 2016 and \$1,157 in total over the five years 2017 through 2021. Based on foreign currency exchange rates as of September 30, 2011, future benefit payments for non-U.S. plans are estimated to be \$43 in 2012, \$47 in 2013, \$49 in 2014, \$55 in 2015, \$55 in 2016 and \$308 in total over the five years 2017 through 2021. In 2012, the Company expects to contribute approximately \$150 to its retirement plans.

The weighted-average assumptions used in the valuations of pension benefits were as follows:

	U.S. PLANS			NON-U.S. PLANS		
	2009	2010	2011	2009	2010	2011
Assumptions used to determine net pension expense:						
Discount rate	6.50%	5.50%	5.00%	5.9%	5.3%	4.6%
Expected return on plan assets	8.00%	8.00%	8.00%	6.0%	5.9%	5.9%
Rate of compensation increase	3.25%	3.00%	3.00%	3.5%	3.9%	3.5%
Assumptions used to determine benefit obligations:						
Discount rate	5.50%	5.00%	4.75%	5.3%	4.6%	5.2%
Rate of compensation increase	3.00%	3.00%	3.00%	3.9%	3.5%	3.5%

The discount rate for the U.S. retirement plans was 4.75 percent as of September 30, 2011. An actuarially determined, company-specific yield curve is used to determine the discount rate. The expected return on plan assets assumption is determined by reviewing the investment returns of the plans for the past 10 years plus longer-term historical returns of an asset mix approximating Emerson's asset allocation targets, and periodically comparing these returns to expectations of investment advisors and actuaries to determine whether long-term future returns are expected to differ significantly from the past. The Company expects to reduce the assumed investment return on plan assets to 7.75 percent for 2012. Defined benefit pension plan expense for 2012 is expected to be approximately \$170, versus \$145 in 2011.

The Company's asset allocations at September 30, 2011 and 2010, and weighted-average target allocations are as follows:

	U.S. PLANS			NON-U.S. PLANS		
	2010	2011	TARGET	2010	2011	TARGET
Equity securities	65%	62%	60-70%	51%	50%	50-60%
Debt securities	29%	30%	25-35%	31%	32%	25-35%
Other	6%	8%	3-10%	18%	18%	10-20%
Total	100%	100%	100%	100%	100%	100%

The primary objective for the investment of plan assets is to secure participant retirement benefits while earning a reasonable rate of return. Plan assets are invested consistent with the provisions of the prudence and diversification rules of ERISA and with a long-term investment horizon. The Company continuously monitors the value of assets by class and routinely rebalances to remain within target allocations. The strategy for equity assets is to minimize concentrations of risk by investing primarily in companies in a diversified mix of industries worldwide, while targeting neutrality in exposure to market capitalization levels, growth versus value profile, global versus regional markets, fund types and fund managers. The approach for bonds emphasizes investment-grade corporate and government debt with maturities matching a portion of the longer duration pension liabilities. The bonds strategy also includes a high yield element which is generally shorter in duration. A small portion of U.S. plan assets is allocated to private equity partnerships and real asset fund investments for diversification, providing opportunities for above market returns. Leveraging techniques are not used and the use of derivatives in any fund is limited to exchange-traded futures contracts and is inconsequential.

The fair values of defined benefit plan assets as of September 30, organized by asset class and by the fair value hierarchy of ASC 820 as outlined in Note 1, follow:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL	%
<b>2011</b>					
U.S. equities	\$ 766	443	145	1,354	35%
International equities	476	291		767	20%
Emerging market equities	59	128		187	5%
Corporate bonds		522		522	14%
Government bonds		509		509	13%
High yield bonds		130		130	3%
Other	120	161	122	403	10%
<b>Total</b>	<b>\$1,421</b>	<b>2,184</b>	<b>267</b>	<b>3,872</b>	<b>100%</b>
<b>2010</b>					
U.S. equities	\$ 879	457	130	1,466	38%
International equities	533	256		789	20%
Emerging market equities	67	136		203	5%
Corporate bonds	23	449		472	12%
Government bonds	6	533		539	14%
High yield bonds	2	133		135	3%
Other	33	164	119	316	8%
<b>Total</b>	<b>\$1,543</b>	<b>2,128</b>	<b>249</b>	<b>3,920</b>	<b>100%</b>

## ASSET CLASSES

U.S. Equities reflects companies domiciled in the U.S., including multinational companies. International Equities is comprised of companies domiciled in developed nations outside the U.S. Emerging Market Equities is comprised of companies domiciled in portions of Asia, Eastern Europe and Latin America. Corporate Bonds represent investment-grade debt of issuers primarily from the U.S. Government Bonds include investment-grade instruments issued by federal, state and local governments, primarily in the U.S. High Yield Bonds include non-investment-grade debt from a diverse group of developed market issuers. Other includes cash, interests in mixed asset funds investing in commodities, natural resources, agriculture and exchange-traded real estate funds, life insurance contracts (U.S.) and shares in certain general investment funds of financial institutions or insurance arrangements (non-U.S.) that typically ensure no market losses or provide for a small minimum return guarantee.

## FAIR VALUE HIERARCHY CATEGORIES

Valuations of Level 1 assets for all classes are based on quoted closing market prices from the principal exchanges where the individual securities are traded. Cash is valued at cost, which approximates fair value. Equity securities categorized as Level 2 assets are primarily non-exchange-traded commingled or collective funds where the underlying securities have observable prices available from active markets. Valuation is based on the net asset value of fund units held as derived from the fair value of the underlying assets. Debt securities categorized as Level 2 assets are generally valued based on independent broker/dealer bids or by comparison to other debt securities having similar durations, yields and credit ratings. Other Level 2 assets are valued based on a net asset value of fund units held, which is derived from either broker/dealer quotation or market-observed pricing for the underlying assets. U.S. equity securities classified as Level 3 are fund investments in private companies. Valuation techniques and inputs for these assets include discounted cash flow analysis, earnings multiple approaches, recent transactions, transferability restrictions, prevailing discount rates, volatilities, credit ratings and other factors. In the Other class, interests in mixed assets funds are Level 2 and U.S. life insurance contracts and non-U.S. general fund investments and insurance arrangements are Level 3.

A reconciliation of the change in value for Level 3 assets follows:

	2010	2011
Beginning balance, October 1	\$221	249
Gains (Losses) on assets held	28	34
Gains (Losses) on assets sold	(9)	(9)
Purchases, sales and settlements, net	9	(7)
Ending balance, September 30	\$249	267

## (11) Postretirement Plans

The Company sponsors unfunded postretirement benefit plans (primarily health care) for U.S. retirees and their dependents. The components of net postretirement benefits expense for the years ended September 30 follow:

	2009	2010	2011
Service cost	\$ 4	5	3
Interest cost	30	24	17
Net amortization	15	1	(7)
Net postretirement expense	\$49	30	13

Reconciliations of the actuarial present value of accumulated postretirement benefit obligations follow:

	2010	2011
Benefit obligation, beginning	\$499	417
Service cost	5	3
Interest cost	24	17
Actuarial (gain) loss	(36)	(25)
Benefits paid	(32)	(20)
Plan amendments	(34)	-
Acquisitions/divestitures and other	(9)	-
Benefit obligation, ending (recognized in balance sheet)	\$417	392

As of September 30, 2011 there was \$84 of deferred actuarial gains in accumulated other comprehensive income, of which approximately \$10 will be amortized into earnings in 2012. The assumed discount rates used in measuring the benefit obligations as of September 30, 2011, 2010 and 2009, were 4.25 percent, 4.25 percent and 5.0 percent, respectively. The assumed health care cost trend rate for 2012 is 8.0 percent, declining to 5.0 percent in the year 2018, and for 2011 was 8.0 percent, declining to 5.0 percent in the year 2017. A one-percentage-point increase or decrease in the assumed health care cost trend rate for each year would increase or decrease 2011 postretirement expense and the benefit obligation as of September 30, 2011 less than 5 percent. The Company estimates that future health care benefit payments will be \$37 in 2012, \$37 in 2013, \$36 in 2014, \$36 in 2015, \$34 in 2016 and \$156 in total over the five years 2017 through 2021.

## (12) Contingent Liabilities and Commitments

Emerson is a party to a number of pending legal proceedings and claims, including those involving general and product liability and other matters, several of which claim substantial amounts of damages. The Company accrues for such liabilities when it is probable that future costs (including legal fees and expenses) will be incurred and such costs can be reasonably estimated. Accruals are based on developments to date; management's estimates of the outcomes of these matters; the Company's experience in contesting, litigating and settling similar matters; and any related insurance coverage. Although it is not possible to predict the ultimate outcome of these matters, the Company historically has been successful in defending itself against claims and suits that have been brought against it, and will continue to defend itself vigorously in all such matters. While the Company believes a material adverse impact is unlikely, given the inherent uncertainty of litigation, a remote possibility exists that a future development could have a material adverse impact on the Company.

The Company enters into certain indemnification agreements in the ordinary course of business in which the indemnified party is held harmless and is reimbursed for losses incurred from claims by third parties, usually up to a prespecified limit. In connection with divestitures of certain assets or businesses, the Company often provides indemnities to the buyer with respect to certain matters including, as examples, environmental or unidentified tax liabilities related to periods prior to the disposition. Because of the uncertain nature of the indemnities, the maximum liability cannot be quantified. As such, liabilities are recorded when they are both probable and reasonably estimable. Historically, payments under indemnity arrangements have been inconsequential.

At September 30, 2011, there were no known contingent liabilities (including guarantees, pending litigation, taxes and other claims) that management believes will be material in relation to the Company's financial statements, nor were there any material commitments outside the normal course of business.

## (13) Income Taxes

Pretax earnings from continuing operations consist of the following:

	2009	2010	2011
United States	\$1,169	1,303	1,891
Non-U.S.	1,281	1,576	1,740
Total pretax earnings from continuing operations	\$2,450	2,879	3,631

The principal components of income tax expense follow:

	2009	2010	2011
Current:			
Federal	\$230	496	503
State and local	25	33	37
Non-U.S.	313	413	477
Deferred:			
Federal	149	(55)	149
State and local	9	(1)	3
Non-U.S.	(38)	(38)	(42)
Income tax expense	\$688	848	1,127

Reconciliations of the U.S. federal statutory tax rate to the Company's effective tax rate follow:

	2009	2010	2011
Federal rate	35.0%	35.0%	35.0%
State and local taxes, net of federal tax benefit	0.9	0.7	0.7
Non-U.S. rate differential	(4.6)	(4.5)	(3.5)
Non-U.S. tax holidays	(2.0)	(2.2)	(1.0)
U.S. manufacturing deduction	(0.8)	(0.6)	(1.1)
Other	(0.4)	1.0	0.9
Effective income tax rate	28.1%	29.4%	31.0%

Non-U.S. tax holidays reduce tax rates in certain foreign jurisdictions and are expected to expire over the next seven years.

Following are reconciliations of the beginning and ending balances of unrecognized tax benefits before recoverability of cross-jurisdictional tax credits (federal, state and non-U.S.) and temporary differences. The amount of unrecognized tax benefits is not expected to significantly increase or decrease within the next 12 months.

	2010	2011
Beginning balance, at October 1	\$159	170
Additions for current year tax positions	48	13
Additions for prior year tax positions	20	27
Reduction for prior year tax positions	(34)	(22)
Reduction for settlements with tax authorities	(10)	(7)
Reduction for expirations of statute of limitations	(13)	(19)
Ending balance, at September 30	\$170	162

If none of the unrecognized tax benefits shown is ultimately paid, the tax provision and the calculation of the effective tax rate would be favorably impacted by \$126. The Company accrues interest and penalties related to income taxes in income tax expense. Total interest and penalties recognized were \$(3), \$(1) and \$6 in 2011, 2010 and 2009, respectively. As of September 30, 2011 and 2010, total accrued interest and penalties were \$36 and \$37, respectively.

The United States is the major jurisdiction for which the Company files income tax returns. Examinations by the U.S. Internal Revenue Service are complete through fiscal 2007. The status of state and non-U.S. tax examinations varies by the numerous legal entities and jurisdictions in which the Company operates.

The principal items that gave rise to deferred income tax assets and liabilities follow:

	2010	2011
Deferred tax assets:		
Net operating losses and tax credits	\$ 281	242
Accrued liabilities	225	219
Postretirement and postemployment benefits	153	137
Employee compensation and benefits	225	176
Pensions	143	196
Other	137	176
Total	1,164	1,146
Valuation allowances	(105)	(107)
Deferred tax liabilities:		
Intangibles	(918)	(890)
Property, plant and equipment	(265)	(284)
Other	(136)	(133)
Total	(1,319)	(1,307)
Net deferred income tax asset (liability)	\$ (260)	(268)

At September 30, 2011 and 2010, respectively, net current deferred tax assets were \$400 and \$374, and net noncurrent deferred tax liabilities were \$668 and \$634. Total income taxes paid were approximately \$1,030, \$890 and \$780 in 2011, 2010 and 2009, respectively. Approximately half of the \$242 net operating losses and tax credits can be carried forward indefinitely, while the remainder expire over varying periods.

## (14) Stock-Based Compensation

The Company's stock-based compensation plans include stock options, performance shares, restricted stock and restricted stock units. Although the Company has discretion, shares distributed under these plans are issued from treasury stock.

### STOCK OPTIONS

The Company's stock option plans permit key officers and employees to purchase common stock at specified prices. Outstanding options were granted at 100 percent of the average of the high and low market prices of the Company's common stock on the date of grant, generally vest one-third each year and expire 10 years from the date of grant. Compensation expense is recognized ratably over the vesting period based on the number of options expected to vest. The Company registered a new stock option plan in May 2011 and as of September 30, 2011, 23.2 million options were available for grant under the plans.

Changes in shares subject to option during the year ended September 30, 2011 follow:

(SHARES IN THOUSANDS)	AVERAGE EXERCISE PRICE PER SHARE	SHARES	TOTAL INTRINSIC VALUE OF AWARDS	AVERAGE REMAINING LIFE (YEARS)
Beginning of year	\$38.04	13,669		
Options granted	\$53.75	4,696		
Options exercised	\$33.20	(2,117)		
Options canceled	\$45.90	(296)		
End of year	\$43.16	15,952	\$78	6.3
Exercisable at year end	\$39.67	9,815	\$64	4.9

The weighted-average grant date fair value per option granted was \$11.00, \$8.51 and \$4.45 for 2011, 2010 and 2009, respectively. Cash received for option exercises was \$65 in 2011, \$53 in 2010 and \$33 in 2009. The total intrinsic value of options exercised was \$49, \$59 and \$10 in 2011, 2010 and 2009, respectively, and the actual tax benefit realized from tax deductions related to option exercises was \$16, \$4 and \$7, respectively.

The grant date fair value of each option is estimated using the Black-Scholes option-pricing model. Weighted-average assumptions used in the Black-Scholes valuations for 2011, 2010 and 2009 are as follows: risk-free interest rate based on the U.S. Treasury yield of 1.9 percent, 3.0 percent and 2.4 percent; dividend yield of 2.6 percent, 3.2 percent and 4.2 percent; and expected volatility based on historical volatility of 25 percent, 25 percent and 22 percent. The expected life of an option is seven years based on historical experience and expected future exercise patterns.

## PERFORMANCE SHARES, RESTRICTED STOCK AND RESTRICTED STOCK UNITS

The Company's incentive shares plans include performance share awards which distribute the value of common stock to key management personnel subject to certain operating performance conditions and other restrictions. Distribution is primarily in shares of common stock and partially in cash. Compensation expense is recognized over the service period based on the number of awards expected to be ultimately earned. Performance share awards are accounted for as liabilities in accordance with ASC 718, *Compensation – Stock Compensation*, with compensation expense adjusted at the end of each period to reflect the change in fair value of the awards.

As a result of the Company achieving the performance objective at the end of 2010 and employees providing an additional year of service, 4,777,248 rights to receive common shares vested and were distributed to participants in 2011 as follows: 2,841,534 issued in shares, 1,661,045 withheld for income taxes and 274,669 paid in cash. As of September 30, 2011, 5,367,146 rights to receive common shares (awarded primarily in 2010) were outstanding, contingent upon achieving the Company's performance objective through 2013 and the provision of service by the employees.

Incentive shares plans also include restricted stock awards, which involve distribution of common stock to key management personnel subject to cliff vesting at the end of service periods ranging from three to 10 years. The fair value of outstanding awards was determined based on the average of the high and low market prices of the Company's common stock on the date of grant, with compensation expense recognized ratably over the applicable service period. In 2011, 520,000 shares of restricted stock vested as a result of participants fulfilling the applicable service requirements and, accordingly, 299,990 shares were issued while 220,010 shares were withheld for income taxes in accordance with minimum withholding requirements. In 2010, the Company performed a one-time conversion of outstanding Avocent stock awards in conjunction with the acquisition and during 2010, 685,755 of these shares vested, with 467,452 Emerson shares issued and 218,303 shares withheld for taxes in accordance with minimum withholding requirements. As of September 30, 2011, there were 1,733,956 shares of unvested restricted stock outstanding, including 115,956 shares related to the one-time Avocent conversion.

Changes in awards outstanding but not yet earned under the incentive shares plans during the year ended September 30, 2011 follow:

(SHARES IN THOUSANDS)	AVERAGE GRANT DATE	
	SHARES	FAIR VALUE PER SHARE
Beginning of year	12,283	\$39.76
Granted	393	\$54.84
Earned/vested	(5,436)	\$41.44
Canceled	(139)	\$38.76
End of year	7,101	\$39.38

The total fair value of shares vested under the incentive shares plans was \$276, \$42 and \$3, respectively, in 2011, 2010 and 2009, of which \$113, \$15 and \$1, respectively, was paid in cash, primarily for tax withholding. As of September 30, 2011, 10 million shares remained available for award under the incentive shares plans.

Total compensation expense for the stock option and incentive shares plans was \$121, \$217 and \$54, for 2011, 2010 and 2009, respectively. The decrease from 2010 to 2011 reflects changes in the Company's stock price and the vesting and payment of a portion of the 2007 awards early in 2011. The increase from 2009 to 2010 reflects overlap of two performance share programs during the year (2007 awards for performance through 2010 and 2010 awards for performance through 2013) and a higher stock price in 2010. Income tax benefits recognized in the income statement for these compensation arrangements during 2011, 2010 and 2009 were \$32, \$65 and \$13, respectively. As of September 30, 2011, there was \$170 of total unrecognized compensation cost related to unvested awards granted under these plans, which is expected to be recognized over a weighted-average period of 1.9 years.

In addition to the stock option and incentive shares plans, in 2011 the Company awarded 15,656 shares of restricted stock and 3,914 restricted stock units under the restricted stock plan for non-management directors. As of September 30, 2011, 318,552 shares remained available for issuance under this plan.

## (15) Common Stock

At September 30, 2011, 55 million shares of common stock were reserved for issuance under the Company's stock-based compensation plans. During 2011, 18.7 million common shares were repurchased and 4.9 million treasury shares were reissued.

## (16) Business Segments Information

The Company designs and supplies products and technology and delivers engineering services in a wide range of industrial, commercial and consumer markets around the world. The business segments of the Company are organized primarily by the nature of the products and services they sell. The Process Management segment provides systems and software, measurement and analytical instrumentation, valves, actuators and regulators, and services and solutions that provide precision control, monitoring and asset optimization for plants that produce power or process fluids such as petroleum, chemicals, food and beverages, pulp and paper, and pharmaceuticals. The Industrial Automation segment provides commercial and industrial motors and drives, power transmission and materials handling equipment, low, medium and high voltage alternators and other power generation equipment, materials joining and precision cleaning products, fluid power and control mechanisms, and electrical distribution equipment which are used in a wide variety of manufacturing operations to provide integrated manufacturing solutions to customers. The Network Power segment designs, manufactures, installs and maintains power systems, including power conditioning and uninterruptible AC and DC power supplies, embedded power supplies, precision cooling systems, electrical switching equipment, and integrated infrastructure monitoring and management systems for telecommunications networks, data centers and other critical applications. The Climate Technologies segment supplies compressors, temperature sensors and controls, thermostats, flow controls and remote monitoring services to all elements of the climate control industry. The Tools and Storage segment provides tools for professionals and homeowners, home and commercial storage systems, and appliance solutions. The principal distribution method for each segment is a direct sales force, although the Company also uses independent sales representatives and distributors. Due to its global presence, certain of the Company's international operations are subject to risks such as nationalization of operations, significant currency exchange rate fluctuations and restrictions on the movement of funds.

The primary income measure used for assessing segment performance and making operating decisions is earnings before interest and income taxes. Intersegment selling prices approximate market prices. Accounting method differences between segment reporting and the consolidated financial statements are primarily management fees allocated to segments based on a percentage of sales and the accounting for pension and other retirement plans. Corporate assets are comprised of primarily cash and equivalents, investments and certain fixed assets. Summarized below is information about the Company's operations by business segment and by geographic region (also see Notes 3 through 6).

### BUSINESS SEGMENTS

	SALES			EARNINGS			TOTAL ASSETS		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Process Management	\$ 6,135	6,022	<b>7,000</b>	1,060	1,093	<b>1,402</b>	5,283	5,406	<b>5,915</b>
Industrial Automation	4,172	4,289	<b>5,294</b>	470	591	<b>830</b>	3,420	3,688	<b>3,818</b>
Network Power	5,456	5,828	<b>6,811</b>	579	800	<b>756</b>	4,973	8,072	<b>7,945</b>
Climate Technologies	3,197	3,801	<b>3,995</b>	411	691	<b>709</b>	2,131	2,172	<b>2,229</b>
Tools and Storage	1,725	1,755	<b>1,837</b>	276	357	<b>375</b>	1,804	1,314	<b>1,271</b>
	20,685	21,695	<b>24,937</b>	2,796	3,532	<b>4,072</b>	17,611	20,652	<b>21,178</b>
Differences in accounting methods				179	195	<b>231</b>			
Corporate and other (a)				(305)	(587)	<b>(449)</b>	2,152	2,191	<b>2,683</b>
Sales eliminations/Interest	(583)	(656)	<b>(715)</b>	(220)	(261)	<b>(223)</b>			
Total	\$20,102	21,039	<b>24,222</b>	2,450	2,879	<b>3,631</b>	19,763	22,843	<b>23,861</b>

(a) Corporate and other primarily reflects changes in incentive stock compensation expense, which decreased \$96 in 2011 due to changes in the Company's stock price and a reduced impact from incentive stock plans overlap compared to prior year, and increased \$163 in 2010 related to an increase in stock price and the overlap of two plans in 2010 (see Note 14). Corporate and other in 2010 also reflects higher acquisition-related costs.

	INTERSEGMENT SALES			DEPRECIATION AND AMORTIZATION EXPENSE			CAPITAL EXPENDITURES		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Process Management	\$ 2	3	7	166	183	198	100	105	194
Industrial Automation	499	570	640	143	150	148	99	114	138
Network Power	16	31	24	155	205	286	100	103	99
Climate Technologies	43	46	42	138	148	138	83	104	120
Tools and Storage	23	6	2	96	95	57	64	57	35
Corporate and other				29	35	40	85	41	61
Total	\$583	656	715	727	816	867	531	524	647

## GEOGRAPHIC

	SALES BY DESTINATION			PROPERTY, PLANT AND EQUIPMENT		
	2009	2010	2011	2009	2010	2011
United States and Canada	\$ 9,408	9,823	10,773	2,028	1,858	1,869
Asia	4,312	4,858	5,636	525	505	583
Europe	4,341	4,309	5,271	717	683	714
Latin America	1,004	1,065	1,319	227	229	262
Middle East/Africa	1,037	984	1,223	3	12	9
Total	\$20,102	21,039	24,222	3,500	3,287	3,437

Sales in the U.S. were \$9,900, \$9,101 and \$8,686 for 2011, 2010 and 2009, respectively, and Asia includes sales in China of \$3,079, \$2,692 and \$2,306, respectively. U.S.-located fixed assets were \$1,853, \$1,839 and \$2,010.

## (17) Other Financial Data

Items reported in earnings during the years ended September 30 include the following:

	2009	2010	2011
Depreciation expense	\$543	562	522
Research and development expense	\$460	473	555
Rent expense	\$363	353	372

The Company leases facilities, transportation and office equipment and various other items under operating lease agreements. The minimum annual rentals under noncancellable long-term leases, exclusive of maintenance, taxes, insurance and other operating costs, will approximate \$245 in 2012, \$179 in 2013, \$118 in 2014, \$78 in 2015 and \$54 in 2016.

Items reported in accrued expenses include the following:

	2010	2011
Employee compensation	\$683	640
Customer advanced payments	\$385	385
Product warranty	\$224	211

Other liabilities are summarized as follows:

	2010	2011
Deferred income taxes	\$ 762	764
Pension plans	612	736
Postretirement plans, excluding current portion	380	361
Other	702	660
Total	\$2,456	2,521

Other operating cash flow is comprised of the following:

	2009	2010	2011
Pension expense	\$ 94	132	145
Stock compensation expense	54	217	121
(Gain) Loss on sale of businesses, net of tax	-	(167)	(25)
Other	123	15	38
Total	\$271	197	279

## (18) Quarterly Financial Information (Unaudited)

	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER		FULL YEAR	
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011
Net sales	\$4,828	5,535	4,953	5,854	5,417	6,288	5,841	6,545	21,039	24,222
Gross profit	\$1,868	2,163	1,963	2,306	2,164	2,498	2,331	2,590	8,326	9,557
Earnings from continuing operations common stockholders	\$ 417	480	408	556	581	683	572	735	1,978	2,454
Net earnings common stockholders	\$ 425	480	405	556	585	683	749	761	2,164	2,480
Earnings per common share from continuing operations:										
Basic	\$ 0.55	0.63	0.54	0.74	0.77	0.91	0.76	0.98	2.62	3.26
Diluted	\$ 0.55	0.63	0.54	0.73	0.76	0.90	0.75	0.98	2.60	3.24
Net earnings per common share:										
Basic	\$ 0.56	0.63	0.54	0.74	0.78	0.91	0.99	1.02	2.87	3.29
Diluted	\$ 0.56	0.63	0.53	0.73	0.77	0.90	0.98	1.01	2.84	3.27
Dividends per common share	\$0.335	0.345	0.335	0.345	0.335	0.345	0.335	0.345	1.34	1.38
Common stock prices:										
High	\$43.71	58.74	51.10	62.24	53.73	61.29	53.82	58.47	53.82	62.24
Low	\$37.45	52.12	41.22	55.86	42.69	50.84	42.73	41.31	37.45	41.31

Earnings per share are computed independently each period; as a result, the quarterly amounts may not sum to the calculated annual figure. Results include discontinued operations, see Note 3.

Emerson Electric Co. common stock (symbol EMR) is listed on the New York Stock Exchange and the Chicago Stock Exchange.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Emerson Electric Co.:

We have audited the accompanying consolidated balance sheets of Emerson Electric Co. and subsidiaries as of September 30, 2011 and 2010, and the related consolidated statements of earnings, equity, and cash flows for each of the years in the three-year period ended September 30, 2011. We also have audited Emerson Electric Co.'s internal control over financial reporting as of September 30, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Emerson Electric Co.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Emerson Electric Co. and subsidiaries as of September 30, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2011, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Emerson Electric Co. maintained, in all material respects, effective internal control over financial reporting as of September 30, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Also as discussed in Note 1 to the consolidated financial statements, effective October 1, 2009, the Company changed its method of accounting for business combinations (ASC 805), noncontrolling interests (ASC 810) and earnings per share (ASC 260).

**KPMG LLP**

St. Louis, Missouri  
November 21, 2011