

# 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 (GAAP) requires management to make estimates and assumptions that affect reported amounts and related disclosures, and actual results could differ from those estimates. The Company has evaluated subsequent events through November 23, 2009. Certain prior year amounts have been reclassified to conform to the current year presentation. Operating results of the European appliance motor and pump business are classified as discontinued operations for 2008 and earlier periods, while the operating results of Brooks Instruments are classified as discontinued operations for 2008 only.

Emerson adopted the FASB Accounting Standards Codification (ASC) in the fourth quarter of fiscal 2009. The Codification reorganized and consolidated current U.S. GAAP topically and is now the single authoritative source for GAAP. The adoption had no effect on the Company's operations.

#### 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

Effective October 1, 2008, the Company adopted the recognition and disclosure provisions of FAS No. 157, "Fair Value Measurements" (now part of ASC 820, Fair Value Measurements and Disclosures), which established a formal hierarchy and framework for measuring 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. Due to the high credit quality of Emerson and its counterparties, the impact of adopting ASC 820 was inconsequential. ASC 820 is effective for nonfinancial assets and liabilities, including goodwill and certain other intangible and long-lived assets, beginning in fiscal 2010.

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. For derivatives in asset positions, no credit loss is anticipated as the counterparties to these agreements are companies with high credit ratings. The Company has master netting arrangements in place with its counterparties that allow the offsetting of derivative-related amounts receivable and payable when settlement occurs in the same period. Accordingly, counterparty balances are netted in the consolidated balance sheet, with the net values of commodity contracts currently reported in current assets and net values of foreign currency contracts reported in accrued expenses. See Note 7.

#### 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 values are based on standard costs that approximate average costs, while the remainder are principally valued on a first-in, first-out basis. Standard costs are revised at the beginning of each fiscal year. The effects of resetting standards and 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 expected future undiscounted cash flows of the related assets are less than their carrying values.

## GOODWILL AND OTHER INTANGIBLE ASSETS

Assets and liabilities acquired in business combinations are accounted for using the purchase 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 and between annual tests if an event occurs or circumstances change that indicates 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 an event occurs or circumstances change that indicate the carrying amount may not be recoverable. See Note 6.

## WARRANTY

Product warranties vary by product lines and are competitive for the markets in which the Company operates. Warranty generally extends 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 1 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, title passes to the customer and collection is reasonably assured. In certain instances, revenue is recognized on the percentage-of-completion method, when services are rendered, or in accordance with ASC 985-605, Software: Revenue Recognition. Product sales sometimes also include services such as installation. In these instances, revenue is assigned to each item based on that item's objectively determined fair value, with revenue recognized individually for delivered items only if the delivered items have value to the customer on a stand-alone basis and performance of the undelivered items is probable and substantially in the Company's control, or if the undelivered items are inconsequential or perfunctory. Management believes that all relevant criteria and conditions are considered when recognizing sales.

## 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. 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 explicitly associated with specific underlying exposures and the Company does not hold derivatives for trading or speculative purposes. Emerson's foreign currency exposures primarily relate to transactions denominated in euros, Mexican pesos, Canadian dollars and Swedish kroner. Primary commodity exposures are price fluctuations on forecasted purchases of copper, aluminum and related products. 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 only when the underlying hedged transaction occurs. 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 stockholders' 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.

The majority of hedging gains and losses deferred as of September 30, 2009 are generally expected to be recognized over the next 12 months as the underlying forecasted transactions occur. The amounts ultimately recognized may differ, favorably or unfavorably, from those disclosed because until the positions are settled they remain subject to ongoing market price fluctuations. Derivatives receiving deferral accounting are highly effective, no amounts were excluded from the assessment of hedge effectiveness, and hedge ineffectiveness was immaterial in 2009, 2008 and 2007, including gains or losses on derivatives that were discontinued because forecasted transactions were no longer expected to occur. Effective January 1, 2009, the Company adopted the expanded disclosure provisions of ASC 815.

## INCOME TAXES

No provision has been made for U.S. income taxes on approximately \$4.3 billion of undistributed earnings of non-U.S. subsidiaries as of September 30, 2009. These earnings are considered permanently invested or otherwise indefinitely retained for continuing international operations. Determination of the amount of taxes that might be paid on these undistributed earnings if eventually remitted is not practicable.

## 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, consists of foreign currency translation credits of \$594 and \$698, pension and postretirement charges of \$1,096 and \$528 and cash flow hedges and other credits of \$6 and charges of \$29, respectively, at September 30, 2009 and 2008.

## RETIREMENT PLANS

Effective September 30, 2009, the Company adopted the measurement provision of FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (now part of ASC 715, Compensation – Retirement Benefits). This provision requires employers to measure defined benefit plan assets and obligations as of the Company's fiscal year end. The majority of the Company's pension and postretirement plans previously used a June 30 measurement date. To transition to the fiscal year-end measurement date pursuant to ASC 715, the Company measured its defined benefit plan assets and obligations as of September 30, 2009 and recorded a \$14 after-tax adjustment to ending retained earnings. Previously, as of September 30, 2007, the Company adopted the recognition and disclosure provisions of ASC 715, which required employers to recognize the full funded status of defined benefit pension and other postretirement plans in the balance sheet and to recognize changes in the funded status in comprehensive income in the year they occur. The incremental effect of adopting the recognition and disclosure provisions was a reduction in other assets of \$425, an increase in other liabilities of \$97 and an after-tax charge to stockholders' equity of \$329.

## (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 7.6 million, 3.6 million and 1.1 million shares of common stock were excluded from the computation of diluted earnings per share in 2009, 2008 and 2007, respectively, because their effect would have been antidilutive. Reconciliations of weighted average shares for basic and diluted earnings per common share follow:

(SHARES IN MILLIONS)	2007	2008	2009
Basic shares outstanding	793.8	780.3	753.7
Dilutive shares	10.1	9.1	5.0
Diluted shares outstanding	803.9	789.4	758.7

### (3) Acquisitions and Divestitures

The Company acquired 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 leading 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, Appliance and Tools and Process Management segments. Total cash paid for all businesses was approximately \$776 (net of cash acquired of approximately \$31 and debt assumed of approximately \$230) and their annualized sales were approximately \$530. Goodwill of \$541 (\$34 of which is expected to be deductible for tax purposes) and identifiable intangible assets (primarily customer relationships and patents and technology) of \$365, which have a weighted-average life of 12 years, were recognized from these transactions in 2009. Because valuations of acquired assets and liabilities are in-process, purchase price allocations for fiscal year 2009 acquisitions are subject to refinement.

During the first quarter of fiscal 2010, the Company entered into a definitive agreement and commenced a tender offer to acquire Avocent Corporation for approximately \$1.2 billion in cash. Avocent is a leader in delivering information technology operations management solutions that reduce operating costs, simplify management and increase availability of critical information technology environments via integrated, centralized software. Avocent products complement the Network Power segment's power systems, energy management and precision cooling solutions. The transaction is expected to be completed in December 2009 and is subject to acceptance of the tender offer by a majority of Avocent shareholders, customary closing conditions and regulatory approvals.

The Company acquired Motorola Inc.'s Embedded Computing business during the first quarter of 2008. Embedded Computing provides communication platforms and enabling software used by manufacturers of equipment for telecommunications, medical imaging, defense and aerospace, and industrial automation markets and is included in the Network Power segment. In addition to Embedded Computing, the Company acquired several smaller businesses during 2008, mainly in the Process Management and Network Power segments. Total cash paid for these businesses was approximately \$561 (net of cash acquired of approximately \$2) and their annualized sales were approximately \$665. Goodwill of \$273 (\$214 of which is expected to be deductible for tax purposes) and identifiable intangible assets (primarily technology and customer relationships) of \$191, which have a weighted-average life of eight years, were recognized from these transactions.

In the first quarter of 2008, the Company divested the Brooks Instrument flow meters and flow controls unit, which had sales for the first quarter of 2008 of \$21 and net earnings of \$1. Proceeds from the sale of Brooks were \$100, resulting in a pretax gain of \$63 (\$42 after-tax). The net gain on divestiture and Brooks' results of operations for fiscal 2008 are classified as discontinued operations; prior year results of operations were inconsequential. This business was previously included in the Process Management segment. Also in fiscal 2008, the Company received approximately \$101 from the divestiture of the European appliance motor and pump business, resulting in a loss of \$92, which included goodwill impairment of \$83 and an additional loss of \$9. The European appliance motor and pump business had total annual sales of \$453 and \$441 and net earnings, excluding the divestiture loss, of \$7 and \$7 in 2008 and 2007, respectively. The divestiture loss and results of operations are classified as discontinued operations. This business was previously included in the Appliance and Tools segment.

In fiscal 2007, the Company acquired Damcos Holding AS during the second quarter and Stratos International, Inc. during the fourth quarter. Damcos supplies valve remote control systems and tank monitoring equipment to the marine and shipbuilding industries and is included in the Process Management segment. Stratos is a designer and manufacturer of radio-frequency and microwave interconnect products and is included in the Network Power segment. In addition to Damcos and Stratos, the Company acquired several smaller businesses during 2007, mainly in the Process Management and Appliance and Tools segments. Total cash paid for these businesses was approximately \$295 (net of cash acquired of approximately \$40 and debt assumed of approximately \$56) and their annualized sales were \$240. Goodwill of \$189 (none of which is expected to be deductible for tax purposes) and identifiable intangible assets (primarily technology and customer relationships) of \$106, which have a weighted-average life of nine years, were recognized from these transactions.

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 or until the respective dates of divestiture.

## (4) Other Deductions, Net

Other deductions, net are summarized as follows:

	2007	2008	2009
Rationalization of operations	\$ 75	92	<b>295</b>
Amortization of intangibles (intellectual property and customer relationships)	63	81	<b>108</b>
Other	111	194	<b>166</b>
Gains, net	(74)	(64)	<b>(39)</b>
Total	\$175	303	<b>530</b>

Other is composed of several items that are individually immaterial, including minority interest expense, 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, insurance recoveries and interest refunds. Other decreased in 2009 primarily because of a \$31 impairment charge in 2008 and \$27 of lower minority interest expense, partially offset by \$30 of incremental losses on foreign currency exchange transactions.

Other increased from 2007 to 2008 primarily because of an incremental \$12 loss on foreign currency exchange transactions, an approximate \$12 charge to write off in-process research and development in connection with the Embedded Computing acquisition and a \$31 goodwill impairment charge related to the North American appliance control business due to a slow economic environment for consumer appliance and residential end-markets and a major customer's strategy to diversify suppliers and internalize the production of electronic controls. Subsequent to the impairment, these operations were restructured and integrated with the North American appliance motors business.

Gains, net for 2009 includes the sale of an asset in which the Company received \$41 and recognized a gain of \$25 (\$17 after-tax). In fiscal 2008, the Company received \$54 and recognized a gain of \$39 (\$20 after-tax) on the sale of an equity investment in Industrial Motion Control Holdings, a manufacturer of motion control components for automation equipment, and also recorded a pretax gain of \$18 related to the sale of a facility. Gains, net for 2007 includes a pretax gain of approximately \$32 related to the sale of the Company's remaining 4.5 million shares of MKS Instruments and a pretax gain of approximately \$24 for payments received under the U.S. Continued Dumping and Subsidy Offset Act.

## (5) Rationalization of Operations

Rationalization of operations expense reflects costs associated with the Company's efforts to continuously improve operational efficiency and expand globally, in order to remain competitive on a worldwide basis. Given the difficult economic environment, the Company incurred costs of \$295 in 2009 for actions to rationalize its businesses to the level appropriate for current economic conditions and to improve its cost structure in preparation for the ultimate recovery. 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. The change in the liability for the rationalization of operations during the years ended September 30 follows. 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.

	2008	EXPENSE	PAID / UTILIZED	2009
Severance and benefits	\$33	234	155	<b>112</b>
Lease/contract terminations	5	9	7	<b>7</b>
Fixed asset write-downs	–	14	14	<b>–</b>
Vacant facility and other shutdown costs	1	13	12	<b>2</b>
Start-up and moving costs	1	25	25	<b>1</b>
	\$40	295	213	<b>122</b>

	2007	EXPENSE	PAID / UTILIZED	2008
Severance and benefits	\$28	49	44	33
Lease/contract terminations	8	3	6	5
Fixed asset write-downs	–	4	4	–
Vacant facility and other shutdown costs	1	8	8	1
Start-up and moving costs	–	34	33	1
	\$37	98	95	40

Expense includes \$6 and \$8 in 2008 and 2007, respectively, related to the European appliance motor and pump business classified as discontinued operations.

Rationalization of operations by segment is summarized as follows:

	2007	2008	2009
Process Management	\$15	12	55
Industrial Automation	14	19	47
Network Power	23	28	118
Climate Technologies	9	22	48
Appliance and Tools	14	11	27
Total	\$75	92	295

Given ongoing economic conditions, the Company currently expects rationalization expense for 2010 in the range of \$125 to \$175, including the costs to complete actions initiated before the end of 2009 and actions anticipated to be approved and initiated during 2010.

Costs incurred during 2009 included action to exit approximately 25 production, distribution or office facilities and eliminate 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, and Network Power accounted for most of the asset write-downs. Vacant facilities and other costs were immaterial for any segment. Actions during 2009 included Process Management reducing worldwide headcount; Industrial Automation consolidating production facilities and reducing North American headcount; Network Power primarily incurring integration costs for the Embedded Computing acquisition, but also consolidating power systems production areas in North America and Europe and shifting some production and engineering capabilities from Europe to Asia; Climate Technologies consolidating or downsizing production facilities in North America, Europe and Asia; and Appliance and Tools reducing salaried workforce and consolidating or downsizing production facilities in North America.

During 2008, rationalization of operations expense primarily related to exiting approximately 10 production, distribution or office facilities, and included the elimination of approximately 2,300 positions as well as ongoing costs related to facilities exited in previous periods. Noteworthy actions in 2008 included Process Management expanding capacity in China and consolidating European production facilities; Industrial Automation consolidating power transmission and valve facilities in North America; Network Power consolidating production in North America and transferring other production in Asia; Climate Technologies shifting certain production to Mexico and consolidating production facilities in Europe; and Appliance and Tools shifting production from Canada to the U.S. and closing motor production facilities in Europe.

Costs for 2007 related primarily to exiting approximately 25 production, distribution or office facilities, and included the elimination of approximately 2,200 positions plus costs related to facilities exited in previous periods. Process Management expanded capacity in China and moved certain operations from Western Europe to Eastern Europe and Asia; Industrial Automation consolidated certain power transmission facilities in Asia and North America; Network Power closed certain power conversion facilities and also shifted power systems production from the U.S. and Europe to Mexico; Climate Technologies expanded capacity in Mexico and Eastern Europe and consolidated production facilities in the U.S.; and Appliance and Tools consolidated certain North American production and closed production facilities in Europe.

## (6) Goodwill and Other Intangibles

Acquisitions are accounted for under the purchase method, with substantially all goodwill assigned to the reporting unit that acquires the business. Under the annual impairment test, if a reporting unit's carrying amount exceeds its estimated fair value, a goodwill impairment is recognized to the extent that the reporting unit's carrying amount of goodwill exceeds the implied fair value of the goodwill. Fair values of reporting units are estimated using discounted cash flows and market multiples. The change in 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	APPLIANCE AND TOOLS	TOTAL
Balance, September 30, 2007	\$1,985	1,070	2,259	420	678	6,412
Acquisitions	87	24	162			273
Divestitures					(83)	(83)
Impairment					(31)	(31)
Foreign currency translation and other	(29)	13	11	(8)	4	(9)
Balance, September 30, 2008	2,043	1,107	2,432	412	568	6,562
Acquisitions	242	204		60	35	541
Divestitures			(2)			(2)
Impairment						
Foreign currency translation and other	(6)	(7)	(13)	1	2	(23)
<b>Balance, September 30, 2009</b>	<b>\$2,279</b>	<b>1,304</b>	<b>2,417</b>	<b>473</b>	<b>605</b>	<b>7,078</b>

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

	GROSS CARRYING AMOUNT		ACCUMULATED AMORTIZATION		NET CARRYING AMOUNT	
	2008	2009	2008	2009	2008	2009
Intellectual property and customer relationships	\$ 985	1,392	358	462	627	930
Capitalized software	805	883	613	669	192	214
	\$1,790	2,275	971	1,131	819	1,144

Total intangible asset amortization expense for 2009, 2008 and 2007 was \$184, \$150 and \$131, respectively. Based on intangible asset balances as of September 30, 2009, amortization expense is expected to approximate \$196 in 2010, \$182 in 2011, \$150 in 2012, \$108 in 2013 and \$85 in 2014.

## (7) Financial Instruments

### HEDGING ACTIVITIES

The notional value of foreign currency hedge positions totaled approximately \$2.3 billion as of September 30, 2009. Commodity hedges outstanding at year end included a total of approximately 52 million pounds of copper and aluminum. Shown below for the fiscal year ended September 30, 2009 are amounts reclassified from accumulated other comprehensive income into earnings, amounts recognized in other comprehensive income and amounts recognized in earnings for derivatives not receiving deferral accounting. Hedging gains or losses are largely offset by losses or gains on the related underlying exposures.

	GAIN (LOSS) RECLASSIFIED INTO EARNINGS	LOCATION	GAIN (LOSS) RECOGNIZED IN OTHER COMPREHENSIVE INCOME
<b>Derivatives Receiving Deferral Accounting</b>			
<b>Cash Flow Hedges</b>			
Foreign currency	\$ (24)	Sales	\$(18)
Foreign currency	(32)	Cost of sales	(40)
Commodity	(96)	Cost of sales	(40)
	\$ (152)		\$(98)
<b>Derivatives Not Receiving Deferral Accounting</b>			
Foreign currency	\$ (67)	Other income (deductions)	
Commodity	(11)	Cost of sales	
	\$ (78)		

### FAIR VALUE MEASUREMENTS

Fair values of derivative contracts outstanding as of September 30, 2009 follow:

	ASSETS	LIABILITIES
<b>Derivatives Receiving Deferral Accounting</b>		
Foreign currency	\$15	(33)
Commodity	\$30	(4)
<b>Derivatives Not Receiving Deferral Accounting</b>		
Foreign currency	\$ 6	(7)
Commodity	\$ 2	(2)

The Company held \$4 of collateral posted by counterparties in the normal course of business as of September 30, 2009. The maximum incremental collateral the Company could have been required to post as of September 30, 2009 was \$27. As of September 30, 2009 and 2008, the fair value of long-term debt was \$4,915 and \$3,752, respectively, which was in excess of (less than) the carrying value by \$351 and \$(12).

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

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

	2008	2009
Current maturities of long-term debt	\$ 467	566
Commercial paper	665	–
Payable to banks	17	11
Other	72	–
Total	\$1,221	577
Weighted-average short-term borrowing interest rate at year end	2.6%	1.1%

In 2000, the Company issued 13 billion Japanese yen of commercial paper and simultaneously entered into a 10-year interest rate swap, which fixed the rate at 2.2 percent. This swap was terminated in December 2008.

To support short-term borrowings, the Company maintains, but has not drawn on, a \$2.8 billion, five-year, revolving credit facility that expires in April 2011. The credit facility has no financial covenants and is not subject to termination based on a change in credit ratings or a material adverse change. There were no borrowings against U.S. lines of credit in the last three years. The Company expects to renew the backup credit facility in 2010.

## (9) Long-Term Debt

Long-term debt is summarized as follows:

	2008	2009
5% notes due October 2008	\$ 175	–
5.85% notes due March 2009	250	–
7.125% notes due August 2010	500	500
5.75% notes due November 2011	250	250
4.625% notes due October 2012	250	250
4.50% notes due May 2013	250	250
5.625% notes due November 2013	250	250
5% notes due December 2014	250	250
4.125% notes due April 2015	–	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
5.250% notes due October 2018	400	400
5.00% notes due April 2019	–	250
4.875% notes due October 2019	–	500
6% notes due August 2032	250	250
6.125% notes due April 2039	–	250
Other	189	164
	3,764	4,564
Less current maturities	467	566
Total	\$3,297	3,998

Long-term debt maturing during each of the four years after 2010 is \$66, \$277, \$500 and \$250, respectively. Total interest paid related to short-term borrowings and long-term debt was approximately \$230, \$235 and \$242 in 2009, 2008 and 2007, respectively.

The Company has 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 plan expense includes the following components:

	U.S. PLANS			NON-U.S. PLANS		
	2007	2008	2009	2007	2008	2009
Defined benefit plans:						
Service cost (benefits earned during the period)	\$ 43	48	<b>46</b>	21	23	<b>22</b>
Interest cost	159	167	<b>174</b>	38	45	<b>45</b>
Expected return on plan assets	(211)	(230)	<b>(243)</b>	(38)	(45)	<b>(37)</b>
Net amortization	87	86	<b>70</b>	11	11	<b>17</b>
Net periodic pension expense	78	71	<b>47</b>	32	34	<b>47</b>
Defined contribution and multiemployer plans	94	104	<b>80</b>	27	34	<b>37</b>
Total retirement plan expense	\$ 172	175	<b>127</b>	59	68	<b>84</b>

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	
	2008	2009	2008	2009
Projected benefit obligation, beginning	\$2,678	<b>2,699</b>	837	<b>843</b>
Service cost	48	<b>46</b>	23	<b>22</b>
Interest cost	167	<b>174</b>	45	<b>45</b>
Actuarial loss (gain)	(64)	<b>408</b>	21	<b>15</b>
Benefits paid	(136)	<b>(154)</b>	(35)	<b>(37)</b>
Acquisitions/divestitures, net	-	-	21	<b>3</b>
Effect of FAS 158 measurement date adjustment	-	<b>21</b>	-	<b>8</b>
Foreign currency translation and other	6	<b>8</b>	(69)	<b>(35)</b>
Projected benefit obligation, ending	\$2,699	<b>3,202</b>	843	<b>864</b>
Fair value of plan assets, beginning	\$3,204	<b>3,030</b>	690	<b>619</b>
Actual return on plan assets	(102)	<b>(311)</b>	(42)	<b>3</b>
Employer contributions	63	<b>228</b>	73	<b>75</b>
Benefits paid	(136)	<b>(154)</b>	(35)	<b>(37)</b>
Acquisitions/divestitures, net	-	-	4	-
Effect of FAS 158 measurement date adjustment	-	<b>28</b>	-	<b>6</b>
Foreign currency translation and other	1	<b>1</b>	(71)	<b>(32)</b>
Fair value of plan assets, ending	\$3,030	<b>2,822</b>	619	<b>634</b>
Plan assets in excess of (less than) benefit obligation as of June 30, 2008 and September 30, 2009	\$ 331	<b>(380)</b>	(224)	<b>(230)</b>
Adjustment for fourth quarter contributions	-	-	4	-
Net amount recognized in the balance sheet	\$ 331	<b>(380)</b>	(220)	<b>(230)</b>
Amounts recognized in the balance sheet as of September 30:				
Noncurrent asset	\$ 431	-	5	<b>3</b>
Noncurrent liability	\$ (100)	<b>(380)</b>	(225)	<b>(233)</b>
Accumulated other comprehensive loss	\$ (551)	<b>(1,432)</b>	(253)	<b>(260)</b>

Approximately \$138 of the \$1,692 of losses deferred in accumulated other comprehensive income at September 30, 2009, will be amortized into earnings in 2010. Retirement plans in total were underfunded by \$610 as of September 30, 2009.

As of the plans' September 30, 2009 and June 30, 2008 measurement dates, the total accumulated benefit obligation was \$3,811 and \$3,308, respectively. Also, as of the plans' respective measurement dates, the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the retirement plans with accumulated benefit obligations in excess of plan assets were \$3,575, \$3,383 and \$2,974, respectively, for September 30, 2009, and \$1,127, \$1,025 and \$796, respectively, for June 30, 2008.

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

	U.S. PLANS			NON-U.S. PLANS		
	2007	2008	2009	2007	2008	2009
Assumptions used to determine net pension expense:						
Discount rate	6.50%	6.25%	<b>6.50%</b>	4.9%	5.3%	<b>5.9%</b>
Expected return on plan assets	8.00%	8.00%	<b>8.00%</b>	7.2%	7.3%	<b>6.0%</b>
Rate of compensation increase	3.25%	3.25%	<b>3.25%</b>	3.1%	3.5%	<b>3.5%</b>
Assumptions used to determine benefit obligations:						
Discount rate	6.25%	6.50%	<b>5.50%</b>	5.3%	5.9%	<b>5.3%</b>
Rate of compensation increase	3.25%	3.25%	<b>3.00%</b>	3.5%	3.5%	<b>3.9%</b>

The discount rate for the U.S. retirement plans was 5.50 percent as of September 30, 2009. Defined benefit pension plan expense for fiscal 2010 is expected to be approximately \$130, versus \$94 in 2009.

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 expected return on plan assets assumption is determined by reviewing the investment returns of the plans for the past 10 years and the historical return (since 1926) of an asset mix approximating Emerson's asset allocation targets and evaluating these returns in relation to expectations of various investment organizations to determine whether long-term future returns are expected to differ significantly from the past. The Company's asset allocations at September 30, 2009 and June 30, 2008, and weighted-average target allocations are as follows:

Asset category	U.S. PLANS			NON-U.S. PLANS		
	2008	2009	TARGET	2008	2009	TARGET
Equity securities	65%	<b>64%</b>	60-70%	54%	<b>53%</b>	50-60%
Debt securities	29%	<b>32%</b>	25-35%	35%	<b>31%</b>	25-35%
Other	6%	<b>4%</b>	3-7%	11%	<b>16%</b>	15-20%
	100%	<b>100%</b>	100%	100%	<b>100%</b>	100%

The Company estimates that future benefit payments for the U.S. plans will be as follows: \$147 in 2010, \$155 in 2011, \$163 in 2012, \$171 in 2013, \$180 in 2014 and \$1,041 in total over the five years 2015 through 2019. Using foreign currency exchange rates as of September 30, 2009, the Company estimates that future benefit payments for the non-U.S. plans will be as follows: \$41 in 2010, \$36 in 2011, \$35 in 2012, \$40 in 2013, \$41 in 2014 and \$246 in total over the five years 2015 through 2019. In 2010, the Company expects to contribute approximately \$250 to its retirement plans.

## (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 plan expense for the years ended September 30 follow:

	2007	2008	2009
Service cost	\$ 6	5	4
Interest cost	29	29	30
Net amortization	26	27	15
Net postretirement expense	\$61	61	49

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

	2008	2009
Benefit obligation, beginning	\$501	465
Service cost	5	4
Interest cost	29	30
Actuarial loss (gain)	(24)	24
Benefits paid	(39)	(34)
Acquisitions/divestitures and other	(7)	10
Benefit obligation, ending, recognized in balance sheet	\$465	499

Approximately \$1 of the \$13 of losses deferred in accumulated other comprehensive income at September 30, 2009 will be amortized into earnings in 2010. The assumed discount rates used in measuring the obligations as of September 30, 2009, 2008 and 2007, were 5.00 percent, 6.50 percent and 6.00 percent, respectively. The assumed health care cost trend rate for 2010 is 8.5 percent, declining to 5.0 percent in the year 2017. The assumed health care cost trend rate for 2009 was 9.0 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 the obligation as of September 30, 2009 and the 2009 postretirement plan expense by less than 5 percent. The Company estimates that future health care benefit payments will be as follows: \$43 in 2010, \$47 in 2011, \$48 in 2012, \$47 in 2013, \$46 in 2014 and \$208 in total over the five years 2015 through 2019.

## (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. Such 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 the matters discussed above, 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 liabilities and 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, 2009, 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:

	2007	2008	2009
United States	\$1,550	1,691	<b>1,134</b>
Non-U.S.	1,543	1,900	<b>1,283</b>
Total pretax earnings from continuing operations	\$3,093	3,591	<b>2,417</b>

The principal components of income tax expense follow:

	2007	2008	2009
Current:			
Federal	\$606	539	<b>231</b>
State and local	58	50	<b>25</b>
Non-U.S.	364	496	<b>315</b>
Deferred:			
Federal	(4)	65	<b>150</b>
State and local	(14)	(5)	<b>9</b>
Non-U.S.	(46)	(8)	<b>(37)</b>
Income tax expense	\$964	1,137	<b>693</b>

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

	2007	2008	2009
Federal rate	35.0%	35.0%	<b>35.0%</b>
State and local taxes, net of federal tax benefit	0.9	0.8	<b>0.9</b>
Non-U.S. rate differential	(4.1)	(4.2)	<b>(5.1)</b>
Non-U.S. tax holidays	(1.3)	(0.9)	<b>(2.0)</b>
U.S. manufacturing deduction	(0.4)	(0.8)	<b>(0.9)</b>
Export benefit	(0.2)	-	-
Other	1.3	1.8	<b>0.8</b>
Effective income tax rate	31.2%	31.7%	<b>28.7%</b>

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

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

	2008	2009
Deferred tax assets:		
Net operating losses and tax credits	\$ 249	279
Accrued liabilities	189	186
Postretirement and postemployment benefits	170	181
Employee compensation and benefits	146	160
Pensions	-	118
Capital loss carryforwards	18	19
Other	152	131
<b>Total</b>	<b>924</b>	<b>1,074</b>
Valuation allowances	(146)	(103)
Deferred tax liabilities:		
Intangibles	(437)	(587)
Property, plant and equipment	(221)	(233)
Leveraged leases	(79)	(59)
Pensions	(94)	-
Other	(53)	(75)
<b>Total</b>	<b>(884)</b>	<b>(954)</b>
Net deferred income tax asset (liability)	\$(106)	17

At September 30, 2009 and 2008, respectively, net current deferred tax assets were \$290 and \$328, and net noncurrent deferred tax liabilities were \$273 and \$434. Total income taxes paid were approximately \$780, \$1,110 and \$960 in 2009, 2008 and 2007, respectively. The capital loss carryforwards of \$19 expire in 2012. The majority of the \$279 net operating losses and tax credits can be carried forward indefinitely, while the remainders expire over varying periods. Valuation allowances decreased \$43 due primarily to recognition of a net operating loss carryforward resulting from the restructuring of a foreign subsidiary.

Effective October 1, 2007, the Company adopted the recognition and disclosure provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (now part of ASC 740, Income Taxes), which addresses the accounting for uncertain tax positions a company has taken or expects to take when filing a tax return. As a result of adoption, the Company recorded a charge of \$6 to beginning retained earnings. 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.

	2008	2009
Beginning balance, at October 1	\$149	168
Additions for current year tax positions	33	17
Additions for prior years tax positions	27	14
Reductions for prior years tax positions	(26)	(24)
Reductions for settlements with tax authorities	(9)	(10)
Reductions for expirations of statute of limitations	(6)	(6)
<b>Ending balance, at September 30</b>	<b>\$168</b>	<b>159</b>

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 \$110. The Company accrues interest and penalties related to income taxes in income tax expense. Total interest and penalties recognized were \$6 and \$7 in 2009 and 2008, respectively. As of September 30, 2009 and 2008, total accrued interest and penalties were \$33 and \$27, 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 substantially 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.

## (14) Stock-Based Compensation

The Company's stock-based compensation plans include stock options, performance shares and restricted stock.

### STOCK OPTIONS

The Company's stock option plans permit key officers and employees to purchase common stock at specified prices. Options are granted at 100 percent of the average of the high and low 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. At September 30, 2009, approximately 7.9 million options remained available for grant under these plans.

Changes in shares subject to option during the year ended September 30, 2009, follow:

(SHARES IN THOUSANDS)	AVERAGE EXERCISE PRICE PER SHARE	SHARES	TOTAL INTRINSIC VALUE OF AWARDS	AVERAGE REMAINING LIFE (YEARS)
Beginning of year	\$36.31	14,351		
Options granted	\$31.51	3,636		
Options exercised	\$26.32	(1,516)		
Options canceled	\$41.98	(226)		
End of year	\$36.09	16,245	\$ 117	6.1
Exercisable at year end	\$33.13	9,845	\$ 86	4.3

The weighted-average grant date fair value per share of options granted was \$4.45, \$10.59 and \$9.31 for 2009, 2008 and 2007, respectively. The total intrinsic value of options exercised was \$10, \$75 and \$53 in 2009, 2008 and 2007, respectively. Cash received for option exercises under share option plans was \$33, \$73 and \$60, and the actual tax benefit realized from tax deductions related to option exercises was \$7, \$19 and \$14 for 2009, 2008 and 2007, respectively.

The grant date fair value of each award is estimated using the Black-Scholes option-pricing model. Weighted-average assumptions used in the Black-Scholes valuations for 2009, 2008 and 2007 are as follows: risk-free interest rate based on the U.S. Treasury yield of 2.4 percent, 4.1 percent and 4.6 percent; dividend yield of 4.2 percent, 2.0 percent and 2.4 percent; and expected volatility based on historical volatility of 22 percent, 17 percent and 20 percent. The expected life of an option is seven years based on historical experience and expected future exercise patterns.

### PERFORMANCE SHARES AND RESTRICTED STOCK

The Company's incentive shares plans include performance share awards which distribute common stock to key management personnel subject to certain conditions and restrictions. Distributions are made 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 FAS No. 123 (R), "Share-Based Payment" (now part of ASC 718, Compensation – Stock Compensation), with compensation expense adjusted at the end of each period to reflect the change in the fair value of the awards.

In 2008, as a result of the Company achieving its performance objective at the end of 2007 and participants meeting service requirements, 4,647,888 rights to receive common shares vested and were distributed as follows: 2,693,922 issued in shares, 1,562,045 withheld for income taxes, 313,222 paid in cash and 78,699 deferred by participants for future distribution. As of September 30, 2009 and 2008, 5,055,800 and 5,008,800 rights to receive common shares (awarded primarily in 2007) were outstanding, respectively, contingent on the Company achieving its performance objective through 2010 and continued service by participants.

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 these awards is determined based on the average of the high and low price of the Company's common stock on the date of grant, with compensation expense recognized ratably over the applicable service period. In 2009, 74,000 shares of restricted stock vested as a result of participants fulfilling the applicable service requirements and were distributed as follows: 58,576 issued in shares and 15,424 withheld for income taxes. As of September 30, 2009, there were 1,913,000 shares of restricted stock awards outstanding.

Changes in awards outstanding but not yet earned under the incentive shares plans during the year ended September 30, 2009 follow:

(SHARES IN THOUSANDS)	SHARES	AVERAGE GRANT DATE FAIR VALUE PER SHARE
Beginning of year	6,633	\$40.79
Granted	465	\$36.90
Earned/vested	(74)	\$34.46
Canceled	(55)	\$41.10
End of year	6,969	\$40.59

The total fair value of shares earned/vested was \$3, \$253 and \$5, respectively, under the incentive shares plans, of which \$1, \$104 and \$2 was paid in cash, primarily for tax withholding, in 2009, 2008 and 2007, respectively. As of September 30, 2009, approximately 15.5 million shares remained available for award under the incentive shares plans.

Combined compensation expense for the stock option and incentive shares plans was \$54, \$82 and \$185, for 2009, 2008 and 2007, respectively. Expense in 2007 includes the full overlap of two performance share programs during the year (2004 awards for performance through 2007 and 2007 awards for performance through 2010). The decrease in expense in 2008 reflects a partial overlap of performance share programs, as a portion of the 2004 awards remained outstanding during the year, and a decline in the Company's stock price. The decrease from 2008 to 2009 reflects no performance share program overlap in 2009 and expense accrual at a lower overall performance percentage. Total income tax benefits recognized in the income statement for these compensation arrangements during 2009, 2008 and 2007 were \$13, \$21 and \$55, respectively. As of September 30, 2009, there was \$101 of total unrecognized compensation cost related to nonvested awards granted under these plans, which is expected to be recognized over a weighted-average period of 1.8 years.

In addition to the stock option and incentive shares plans, the Company issued 41,400 shares of restricted stock in 2009 under the restricted stock plan for non-management directors and 368,854 million shares remained available for issuance as of September 30, 2009.

## (15) Common Stock

At September 30, 2009, approximately 45 million shares of common stock were reserved for issuance under the Company's stock-based compensation plans. During 2009, 21.0 million common shares were repurchased and 1.7 million treasury shares were issued.

## (16) Business Segment Information

The Company designs and supplies product technology and delivers engineering services in a wide range of industrial, commercial and consumer markets around the world. The segments of the Company are organized primarily by the nature of the products and services provided. The Process Management segment includes 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 that process fluids, such as petroleum, chemicals, food and beverages, pulp and paper, and pharmaceuticals. The Industrial Automation segment includes industrial motors and drives, power transmission and materials handling equipment, alternators, materials joining and precision cleaning, fluid power and control, and electrical distribution equipment, which are used in a wide variety of manufacturing operations to provide integrated manufacturing solutions to our customers. The Network Power segment designs, manufactures, installs and maintains power systems, including power conditioning and uninterruptible power supplies, embedded power supplies, precision cooling systems, electrical switching equipment, and site monitoring systems for telecommunications networks, data centers and other critical applications. The Climate Technologies segment consists of compressors, temperature sensors and controls, thermostats, flow controls, and remote monitoring services provided to all areas of the climate control industry. The Appliance and Tools segment includes general and special purpose motors and controls, appliances and appliance components, plumbing tools, and storage products used in a wide variety of commercial and residential applications. The principal distribution method for each segment is a direct sales force, although the Company also uses independent sales representatives and distributors.

The primary income measure used for assessing segment performance and making operating decisions is earnings before interest and income taxes. Intersegment sales approximate market prices. Accounting method differences between segment reporting and the consolidated financial statements include primarily management fees allocated to segments based on a percentage of sales and the accounting for pension and other retirement plans. Gains and losses from divestitures of businesses are included in Corporate and other. Corporate assets include primarily cash and equivalents, pensions, investments and certain fixed assets.

Summarized information about the Company's operations by business segment and by geographic region follows:

## BUSINESS SEGMENTS

(See Notes 3, 4, 5 and 6)

	SALES			EARNINGS			TOTAL ASSETS		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Process Management	\$ 5,699	6,652	<b>6,233</b>	1,066	1,306	<b>1,068</b>	4,902	5,152	<b>5,340</b>
Industrial Automation	4,269	4,852	<b>3,698</b>	665	727	<b>354</b>	3,141	3,357	<b>3,252</b>
Network Power	5,150	6,312	<b>5,359</b>	645	794	<b>567</b>	4,758	5,433	<b>4,915</b>
Climate Technologies	3,614	3,822	<b>3,197</b>	538	551	<b>397</b>	2,156	2,201	<b>2,131</b>
Appliance and Tools	4,006	3,861	<b>3,029</b>	564	527	<b>365</b>	2,630	2,153	<b>1,973</b>
	22,738	25,499	<b>21,516</b>	3,478	3,905	<b>2,751</b>	17,587	18,296	<b>17,611</b>
Differences in accounting methods				210	232	<b>186</b>			
Corporate and other (a)				(367)	(358)	<b>(300)</b>	2,093	2,744	<b>2,152</b>
Sales eliminations / Interest	(607)	(692)	<b>(601)</b>	(228)	(188)	<b>(220)</b>			
Total	\$22,131	24,807	<b>20,915</b>	3,093	3,591	<b>2,417</b>	19,680	21,040	<b>19,763</b>

(a) Corporate and other decreased from 2008 to 2009 primarily because of lower incentive stock compensation expense (see Note 14) and lower commodity mark-to-market, partially offset by lower nonrecurring gains. The decrease from 2007 to 2008 was primarily due to lower incentive stock compensation expense, substantially offset by a number of items including an increase in spending on corporate initiatives, higher commodity hedging mark-to-market and a charge for in-process research and development.

	INTERSEGMENT SALES			DEPRECIATION AND AMORTIZATION EXPENSE			CAPITAL EXPENDITURES		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
Process Management	\$ 4	5	<b>4</b>	148	148	<b>166</b>	125	144	<b>100</b>
Industrial Automation	28	34	<b>25</b>	104	112	<b>120</b>	107	129	<b>91</b>
Network Power	10	15	<b>16</b>	115	149	<b>155</b>	111	127	<b>100</b>
Climate Technologies	48	53	<b>43</b>	132	139	<b>138</b>	160	128	<b>83</b>
Appliance and Tools	517	585	<b>513</b>	140	138	<b>119</b>	131	107	<b>72</b>
Corporate and other				17	21	<b>29</b>	47	79	<b>85</b>
Total	\$607	692	<b>601</b>	656	707	<b>727</b>	681	714	<b>531</b>

## GEOGRAPHIC

	SALES BY DESTINATION			PROPERTY, PLANT AND EQUIPMENT		
	2007	2008	2009	2007	2008	2009
United States	\$10,912	11,329	<b>9,359</b>	1,998	2,032	<b>2,010</b>
Europe	4,844	5,663	<b>4,346</b>	680	670	<b>717</b>
Asia (including China)	3,617	4,480	<b>4,352</b>	484	516	<b>525</b>
Latin America	1,009	1,262	<b>1,065</b>	197	229	<b>227</b>
Other regions	1,749	2,073	<b>1,793</b>	72	60	<b>21</b>
Total	\$22,131	24,807	<b>20,915</b>	3,431	3,507	<b>3,500</b>

Sales in China were \$2,335, \$2,252 and \$1,703 for 2009, 2008 and 2007, respectively.

## (17) Other Financial Data

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

	2007	2008	2009
Depreciation	\$525	557	<b>543</b>
Research and development expense	\$397	458	<b>460</b>
Rent expense	\$300	337	<b>363</b>

The Company leases facilities, transportation and office equipment and various other items under operating lease agreements. The minimum annual rentals under noncancelable long-term leases, exclusive of maintenance, taxes, insurance and other operating costs, will approximate \$227 in 2010, \$166 in 2011, \$109 in 2012, \$69 in 2013 and \$47 in 2014.

Other assets, other are summarized as follows:

	2008	2009
Intellectual property and customer relationships	\$ 627	<b>930</b>
Capitalized software	192	<b>214</b>
Pension plans	436	<b>3</b>
Other	385	<b>385</b>
Total	\$1,640	<b>1,532</b>

The pension asset decreased and the pension liability increased due to the decrease in funded status (see Note 10).

Items reported in accrued expenses include the following:

	2008	2009
Employee compensation	\$609	<b>536</b>
Customer advanced payments	\$314	<b>315</b>
Product warranty	\$204	<b>199</b>

Other liabilities are summarized as follows:

	2008	2009
Pension plans	\$ 325	<b>613</b>
Postretirement plans, excluding current portion	417	<b>460</b>
Deferred income taxes	533	<b>406</b>
Minority interest	188	<b>151</b>
Other	594	<b>624</b>
Total	\$2,057	<b>2,254</b>

## (18) Quarterly Financial Information (Unaudited)

	FIRST QUARTER		SECOND QUARTER		THIRD QUARTER		FOURTH QUARTER		FISCAL YEAR	
	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009
Net sales	\$5,520	<b>5,415</b>	6,023	<b>5,087</b>	6,568	<b>5,091</b>	6,696	<b>5,322</b>	24,807	<b>20,915</b>
Gross profit	\$2,010	<b>1,996</b>	2,242	<b>1,837</b>	2,413	<b>1,838</b>	2,474	<b>2,028</b>	9,139	<b>7,699</b>
Earnings from continuing operations	\$ 519	<b>458</b>	598	<b>373</b>	647	<b>387</b>	690	<b>506</b>	2,454	<b>1,724</b>
Net earnings	\$ 565	<b>458</b>	547	<b>373</b>	612	<b>387</b>	688	<b>506</b>	2,412	<b>1,724</b>
Earnings from continuing operations per common share:										
Basic	\$ 0.66	<b>0.60</b>	0.76	<b>0.50</b>	0.83	<b>0.52</b>	0.89	<b>0.67</b>	3.14	<b>2.29</b>
Diluted	\$ 0.65	<b>0.60</b>	0.75	<b>0.49</b>	0.82	<b>0.51</b>	0.88	<b>0.67</b>	3.11	<b>2.27</b>
Net earnings per common share:										
Basic	\$ 0.72	<b>0.60</b>	0.70	<b>0.50</b>	0.79	<b>0.52</b>	0.89	<b>0.67</b>	3.09	<b>2.29</b>
Diluted	\$ 0.71	<b>0.60</b>	0.69	<b>0.49</b>	0.78	<b>0.51</b>	0.88	<b>0.67</b>	3.06	<b>2.27</b>
Dividends per common share	\$ 0.30	<b>0.33</b>	0.30	<b>0.33</b>	0.30	<b>0.33</b>	0.30	<b>0.33</b>	1.20	<b>1.32</b>
Common stock prices:										
High	\$58.32	<b>39.19</b>	55.83	<b>39.10</b>	58.20	<b>37.35</b>	50.94	<b>41.24</b>	58.32	<b>41.24</b>
Low	\$50.50	<b>29.98</b>	47.88	<b>24.87</b>	48.17	<b>29.53</b>	38.46	<b>30.63</b>	38.46	<b>24.87</b>

Earnings per share are computed independently each period; as a result, the quarterly amounts may not sum to the calculated annual figure.

The operating results of the European appliance motor and pump business for 2008 and Brooks for first quarter 2008 are classified as discontinued operations. See Notes 3 and 4 for information regarding the Company's acquisition and divestiture activities and non-recurring items.

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, 2009 and 2008, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2009. We also have audited Emerson Electric Co.'s internal control over financial reporting as of September 30, 2009, based on the 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, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2009, 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, 2009, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 1 to the consolidated financial statements, effective September 30, 2007, the Company changed its method of accounting for defined benefit pension and other postretirement plans due to the adoption of the recognition and disclosure provisions FAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" (now part of ASC 715, Compensation – Retirement Benefits). Also as discussed in Note 1 to the consolidated financial statements, effective September 30, 2009, the Company adopted the measurement date provision of ASC 715.

**KPMG LLP**

St. Louis, Missouri  
November 23, 2009