

INGERSOLL RAND CO LTD
Form 10-K
March 01, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2006

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 1-985

INGERSOLL-RAND COMPANY LIMITED

(Exact name of registrant as specified in its charter)

Bermuda

*(State or other jurisdiction of
incorporation or organization)*

75-2993910

*(I.R.S. Employer
Identification No.)*

Clarendon House

2 Church Street

Hamilton HM 11, Bermuda

(Address of principal executive offices)

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

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

Title of each class

Class A Common Shares,

Par Value \$1.00 per Share

& amp;# 160;

Name of each exchange on which registered

New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES NO

The aggregate market value of common stock held by nonaffiliates on June 30, 2006 was approximately \$13,896,126,182 based on the closing price of such stock on the New York Stock Exchange.

The number of Class A Common Shares outstanding as of February 21, 2007 was 307,801,047.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement to be filed within 120 days of the close of the registrant's fiscal year in connection with the registrant's Annual General Meeting of Shareholders to be held June 6, 2007 are incorporated by reference into Part III of this Form 10-K.

INGERSOLL-RAND COMPANY LIMITED
Form 10-K
For the Fiscal Year Ended December 31, 2006

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PART I

Item 1. BUSINESS

Overview

Ingersoll-Rand Company Limited, a Bermuda company (we, our, IR-Limited or the Company), is a leading provider of climate control, compact vehicle, construction, industrial and security products. In each of these markets, we offer a diverse product portfolio that includes well-recognized industrial and commercial brands.

Through our business segments, we design, manufacture, sell and service:

- climate control technologies, including transport temperature control units and refrigerated display merchandisers;
 - compact vehicle technologies, including skid-steer loaders, golf vehicles and utility vehicles;
 - construction technologies, including road construction and repair equipment;
 - industrial technologies, including compressed air systems and tools; and
 - security technologies, including mechanical and electronic security products.

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

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

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

To consummate the reorganization, IR Merger Corporation, a New Jersey corporation, merged into IR-New Jersey, with IR-New Jersey as the surviving company. Upon the merger, IR-New Jersey became a wholly owned, indirect subsidiary of IR-Limited, and the outstanding shares of IR-New Jersey common stock were automatically cancelled in exchange for the issue of our Class A common shares. The number of Class B common shares issued had an aggregate value equal to the fair market value of the shares of the subsidiaries transferred (the transferred shares) and the amount of debt issued to us based on the market value of IR-New Jersey common stock at the effective time of the merger. Prior to the reorganization, neither IR-Limited nor IR-Merger Corporation had any significant assets or capitalization or engaged in any business or other activities other than in connection with formation and the merger and related reorganization transactions. IR-Limited and its subsidiaries continue to conduct the businesses previously conducted by IR-New Jersey and its subsidiaries. The reorganization has been accounted for as a reorganization of entities under common control and accordingly did not result in any changes to the consolidated amounts of assets, liabilities and shareholders' equity.

Business Segments

Climate Control Technologies

Climate Control Technologies provides solutions for customers to transport, preserve, store and display temperature-sensitive products by engaging in the design, manufacture, sale and service of transport temperature control units, HVAC systems, refrigerated display merchandisers, beverage coolers, auxiliary power units and walk-in storage coolers and freezers. This segment includes the Thermo King and Hussmann brands.

Compact Vehicle Technologies

Compact Vehicle Technologies is engaged in the design, manufacture, sale and service of skid-steer loaders, all-wheel steer loaders, compact track loaders, compact excavators, attachments, golf vehicles and utility vehicles. This segment includes the Bobcat and Club Car brands.

Construction Technologies

Construction Technologies is engaged in the design, manufacture, sale and service of road construction and repair equipment, portable power products, general-purpose construction equipment, attachments and portable light towers and compressors. This segment is comprised of the Utility Equipment, Road Development and Attachments businesses.

Industrial Technologies

Industrial Technologies is focused on providing solutions to enhance customers' industrial and energy efficiency, mainly by engaging in the design, manufacture, sale and service of compressed air systems, tools, fluid and material handling and energy generation systems. This segment includes the Air Solutions and Productivity Solutions businesses.

Security Technologies

Security Technologies is engaged in the design, manufacture, sale and service of mechanical and electronic security products, biometric access control systems, and security and scheduling software. Security Technologies includes the Schlage, LCN, Von Duprin and CISA brands.

Competitive Conditions

The Company's products are sold in highly competitive markets throughout the world and compete against products produced by both U.S. and non-U.S. corporations. The principal methods of competition in these markets relate to price, quality, service and technology. The Company believes that it is one of the leading manufacturers in the world of air compression systems, construction equipment, transport temperature control products, refrigerated display merchandisers, refrigeration systems and controls, air tools, golf vehicles and utility vehicles. In addition, the Company believes it is a leading supplier in U.S. markets for architectural hardware products, mechanical locks, and electronic and biometric access-control technologies.

Distribution

The Company's products are distributed by a number of methods, which the Company believes are appropriate to the type of product. Sales are made in the U.S. through branch sales offices and through distributors and dealers across the United States. Non-U.S. sales are made through numerous subsidiary sales and service companies with a supporting chain of distributors in over 100 countries.

Products

Principal products of the Company include the following:

Air balancers	Golf vehicles
Air compressors & accessories	Hoists
Air dryers	Hydraulic breakers
Air logic controls	Lubrication equipment
Air motors	Microturbines
Air and electric tools	Material handling equipment
Asphalt compactors	Paving equipment
Asphalt pavers	Piston pumps
Automated dispensing systems	Pneumatic breakers
Automatic doors	Pneumatic cylinders
Auxiliary power unit	Pneumatic valves
Biometric access control systems	Portable compressors
Compact excavators	Portable generators
Compact track loaders	Portable light towers
Compact track-loader-backhoes	Portable security products
Diaphragm pumps	Refrigerated display cases
Door closers and controls	Refrigeration systems
Door locks, latches and locksets	Road-building machinery
Doors and door frames (steel)	Rough-terrain material handlers
Electrical security products	Skid-steer loaders
Electronic access-control systems	Soil compactors
Engine-starting systems	Spray-coating systems
Exit devices	Telescopic material handlers
Extrusion pump systems	Transport temperature control systems
Fastener-tightening systems	Utility vehicles
Fluid-handling equipment	Winches

These products are sold primarily under the Company's name and also under other names including ABG®, Blaw-Knox®, Bobcat®, Bricard®, CISA®, Club Car®, Hussmann®, Koxka®, LCN®, Montabert®, Schlage®, Thermo King®, and Von Duprin®.

Working Capital

The products manufactured by the Company must usually be readily available to meet rapid delivery requirements. Such working capital requirements are not, however, in the opinion of management, materially different from those experienced by the Company's major competitors.

Customers

No material part of the Company's business is dependent upon a single customer or a small group of customers. Therefore, the loss of any one customer would not have a material adverse effect on the Company's operations.

Operations by Geographic Area

More than 40% of our 2006 net revenues were derived outside the United States. Sales outside of the United States are made in more than 100 countries. Therefore, the attendant risks of manufacturing or selling in a particular country, such as nationalization and establishment of common markets, would not be expected to have a significant effect on the Company's non-U.S. operations. Additional information concerning the Company's operating segments is contained in Note 16, Business Segment Information, to the consolidated financial statements contained in this Annual Report on Form 10-K.

Raw Materials

The Company manufactures many of the components included in its products. The principal raw materials required for the manufacture of the Company's products are purchased from numerous suppliers. Although higher prices for some raw materials important to some of the Company's businesses, particularly steel and non-ferrous metals, have caused pricing pressures, the Company believes that available sources of supply will generally be sufficient for its needs for the foreseeable future.

Backlog

The Company's approximate backlog of orders, believed to be firm, at December 31, 2006 and 2005, were as follows:

<i>Dollar amounts in millions</i>	2006		2005	
Climate Control Technologies	\$	435.8	\$	331.0
Compact Vehicle Technologies		234.3		162.6
Construction Technologies		175.6		129.7
Industrial Technologies		244.0		178.6
Security Technologies		182.8		140.0
Total	\$	1,272.5	\$	941.9

These backlog figures are based on orders received. While the major portion of the Company's products are built in advance of order and either shipped or assembled from stock, orders for specialized machinery or specific customer application are submitted with extensive lead times and are often subject to revision, deferral, cancellation or termination. The Company expects to ship substantially all of the backlog during 2007.

Research and Development

The Company maintains extensive research and development facilities for experimenting, testing and developing high quality products. The Company spent \$175.5 million in 2006, \$162.4 million in 2005 and \$149.2 million in 2004 on research and development expenditures, including qualifying engineering costs. The Company also incurs engineering costs, which are not considered research and development expenditures.

Patents and Licenses

The Company owns numerous patents and patent applications and is licensed under others. While it considers that in the aggregate its patents and licenses are valuable, it does not believe that its business is materially dependent on its patents or licenses or any group of them. In the Company's opinion, engineering and production skills, and experience are more responsible for its market position than patents or licenses.

Environmental and Asbestos Matters

The Company continues to be dedicated to an environmental program to reduce the utilization and generation of hazardous materials during the manufacturing process and to remediate identified environmental concerns. As to the latter, the Company currently is engaged in site investigations and remediation activities to address environmental cleanup from past operations at current and former manufacturing facilities.

During 2006, the Company spent approximately \$5 million on capital projects for pollution abatement and control, and an additional \$9.4 million for environmental remediation expenditures at sites presently or formerly owned or leased by the Company. The Company believes that these expenditure levels will continue and may increase over time. Given the evolving nature of environmental laws, regulations and technology, the ultimate cost of future compliance is uncertain.

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

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

Although uncertainties regarding environmental technology, U.S. federal and state laws and regulations and individual site information make estimating the liability difficult, management believes that the total liability for the cost of remediation and environmental lawsuits and claims will not have a material effect on the financial condition, results of operations, liquidity or cash flows of the Company for any year. It should be noted that when the Company estimates its liability for environmental matters, such estimates are based on current technologies, and the Company does not discount its liability or assume any insurance recoveries.

Certain wholly owned subsidiaries of the Company are named as defendants in asbestos-related lawsuits in state and federal courts. In virtually all of the suits, a large number of other companies have also been named as defendants. The vast majority of those claims have been filed against IR-New Jersey and generally allege injury caused by exposure to asbestos contained in certain of IR-New Jersey's products. Although IR-New Jersey was neither a producer nor a manufacturer of asbestos, some of its formerly manufactured products utilized asbestos-containing components, such as gaskets purchased from third-party suppliers.

All asbestos-related claims resolved to date have been dismissed or settled. For the years ended December 31, 2006, 2005 and 2004, total costs for settlement and defense of asbestos claims after insurance recoveries and net of tax were approximately \$31.6 million, \$16.8 million and \$16.5 million, respectively. The increase in asbestos-related costs in 2006 compared with 2005 and 2004 is primarily attributable to revised estimates for future recoveries to be received from the Company's insurance carriers, as well as declining levels of insurance coverage available for cost recoveries. With the assistance of independent advisors, the Company performs a thorough analysis, updated periodically, of its actual and anticipated future asbestos liabilities projected seven years in the future. Based upon such analysis, the Company believes that its reserves and insurance are adequate to cover its asbestos liabilities, and that these asbestos liabilities are not likely to have a material adverse effect on its financial position, results of operations, liquidity or cash flows.

Legislation recently under consideration in Congress concerns pending and future asbestos-related personal injury claims. Whether and when such legislation will become law, and the final provisions of such legislation, are unknown. Consequently, the Company cannot predict with any reasonable degree of certainty what effect, if any, such legislation would have upon the Company's financial position, results of operations or cash flows. See also the discussion under Note 15, Commitments and Contingencies, to the consolidated financial statements contained in this Annual Report on Form 10-K.

Employees

There are approximately 43,000 employees of the Company throughout the world, of whom approximately 48% work in the United States. The Company believes relations with its employees are good.

Available Information

The Company files annual, quarterly, and current reports, proxy statements, and other documents with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934. The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 405 Fifth Street, N.W., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The public can obtain any documents that are filed by the Company at <http://www.sec.gov>.

In addition, this Annual Report on Form 10-K, as well as the Company's quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to all of the foregoing reports, are made available free of charge on the Company's Internet website (<http://www.ingersollrand.com>) as soon as