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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

- ☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2008**
- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 001-16445

**Rockwell Collins, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**52-2314475**

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

**400 Collins Road NE**

**Cedar Rapids, Iowa**

(Address of principal executive offices)

**52498**

(Zip Code)

Registrant's telephone number, including area code: **(319) 295-1000**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

**Title of each class**

**Name of each exchange on which registered**

Common Stock, par value \$.01 per share  
(including the associated Preferred Share  
Purchase Rights)

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 the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller  
reporting company)

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

No ☒

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant on March 28, 2008 was approximately \$9.2 billion. For purposes of this calculation, the registrant has assumed that its directors and executive officers are affiliates.

158,308,602 shares of the registrant's Common Stock were outstanding on October 31, 2008.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain information contained in the Proxy Statement for the Annual Meeting of Shareowners of the registrant to be held on February 10, 2009 is incorporated by reference into Part III.

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**Rockwell Collins, Inc.**  
**Annual Report on Form 10-K**  
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## PART I

### Item 1. *Business.*

#### General

Our company, Rockwell Collins, Inc., is a leader in providing design, production and support of communications and aviation electronics for commercial and military customers worldwide. While our products and systems are primarily focused on aviation applications, our Government Systems business also offers products and systems for ground and shipboard applications. We also provide a wide range of services and support to our customers through our network of service centers worldwide, including equipment repair and overhaul, service parts, field service engineering, training, technical information services and aftermarket used equipment sales. We operate in multiple countries and are headquartered in Cedar Rapids, Iowa.

Our company's heritage is rooted in the Collins Radio Company formed in 1933. Rockwell Collins, Inc., the parent company, is incorporated in Delaware. As used herein, the terms "we", "us", "our", "Rockwell Collins" or the "Company" include subsidiaries and predecessors unless the context indicates otherwise.

Whenever reference is made in any Item of this Annual Report on Form 10-K to information under specific captions of our 2008 Annual Report to Shareowners (the "2008 Annual Report") or to information in our Proxy Statement for the Annual Meeting of Shareowners to be held on February 10, 2009 (the "2009 Proxy Statement"), such information shall be deemed to be incorporated herein by such reference.

All date references contained herein relate to our fiscal year ending on the Friday closest to September 30 unless otherwise stated. For ease of presentation, September 30 is utilized consistently throughout this report to represent the fiscal year end date. 2008 was a 53-week fiscal year, while 2007 and 2006 were 52-week fiscal years.

#### Financial Information About Our Business Segments

Financial information with respect to our business segments, including product line disclosures, revenues, operating earnings and total assets, is contained under the caption *Segment Financial Results* in *Management's Discussion and Analysis of Financial Condition and Results of Operations* in Item 7 below, and in Note 22 of the *Notes to Consolidated Financial Statements* in Item 8 below.

#### Access to the Company's Reports and Governance Information

We maintain an Internet website at [www.rockwellcollins.com](http://www.rockwellcollins.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on this site as soon as reasonably practicable after the reports are filed with or furnished to the Securities and Exchange Commission (SEC). All reports we file with the SEC are also available free of charge via EDGAR through the SEC's website at [www.sec.gov](http://www.sec.gov). We also post corporate governance information (including our corporate governance guidelines and Board committee charters) and other information related to our company on our Internet website and this information is available free of charge on this site. We will provide, without charge, upon written request, copies of our SEC reports and corporate governance information. Our Internet website and the information contained therein or connected thereto are not incorporated into this Annual Report on Form 10-K.

#### Description of Business by Segment

We serve our worldwide customer base through our Commercial Systems and Government Systems business segments. These two segments are described in detail below.

## ***Commercial Systems***

Our Commercial Systems business supplies aviation electronics systems, products, and services to customers located throughout the world. The customer base is comprised of original equipment manufacturers (OEMs) of commercial air transport, business and regional aircraft, commercial airlines and fractional and other business aircraft operators. These systems and products include flight deck electronic systems and products, including communications, navigation, surveillance, displays and automatic flight control and flight management systems, as well as in-flight entertainment, cabin electronics, information management, electro mechanical pilot controls and actuation and simulation and training.

Our aviation electronics systems, products and services include:

- Integrated avionics systems and products, such as the Pro Line 21 system, which provide advanced avionics such as liquid crystal flight displays, flight management, integrated flight control, automatic flight controls, engine indication and crew alerts.
- Cabin electronics systems and products, including passenger connectivity and entertainment, business support systems, network capabilities, passenger flight information systems and lighting and other environmental controls.
- Communications systems and products, such as data link, High Frequency (HF), Very High Frequency (VHF) and satellite communications systems.
- Navigation systems and products, including multi-mode receivers, radio and geophysical navigation sensors, as well as flight management systems.
- Situational awareness and surveillance systems and products, such as Head-Up Guidance Systems, weather radar and collision avoidance systems.
- Flight deck systems and products, which include a broad offering of multi-function cockpit liquid crystal display (LCD) units, cathode ray tube (CRT) display units and head-up displays (HUDs).
- Integrated information systems to provide information management solutions that help improve flight operations, maintenance and cabin services, as well as provide worldwide satellite TV reception.
- Electro mechanical pilot controls and actuation systems, including horizontal stabilizer and trim actuation systems, throttle quadrants, cockpit pedals and other pilot controls.
- Simulation and training systems, including visual system products, training systems and engineering services.
- Maintenance, repair, parts and after-sales support services.

### ***Highlights for the Commercial Systems segment in 2008 included:***

- Airbus selected us to provide information management, navigation, communications, avionics data network, landing guidance systems, and trimmable horizontal stabilizer actuator capabilities for all new A350 XWB (Xtra Wide-Body) aircraft. We expect the potential revenues on this program to be more than \$2.5 billion over the life of the program. In addition, the award defines our company as a major systems integrator for Airbus, and means that the A350 XWB will have more Rockwell Collins content than any Airbus platform in history.
- Mitsubishi Heavy Industries, Ltd. (MHI) selected us to provide Pro Line Fusion™ avionics for the Mitsubishi Regional Jet (MRJ). We will also provide primary flight control computers, pilot controls and horizontal stabilizer trim systems for the MRJ. Pro Line Fusion features an open architecture, while providing an intuitive graphical human-machine interface, extensive situational awareness capabilities and comprehensive integration with aircraft systems. Furthermore, the Pro Line Fusion system offers information management capabilities for database management, aircraft maintenance

and airline operations planning to enhance operational efficiency. The primary flight control computers will be a key component of the MRJ fly-by-wire system. The pilot controls system will include the control wheels, columns, pedals, associated feel systems and pedestal controls. MHI expects global demand for around 5,000 regional jets in the MRJ size class over the next 20 years.

- Our Pro Line Fusion integrated avionics was selected for Bombardier's CSeries family of new generation commercial aircraft. Entry into service is scheduled for 2013.
- Cessna Aircraft selected our Pro Line Fusion and Head-up Guidance System for its Citation Columbus Business Jet. Standard features on the Columbus flight deck include: four high resolution 15-inch diagonal Liquid Crystal Displays with Synthetic Vision depiction of terrain and obstacles; MultiScan™ Weather Radar; Integrated Flight Information Systems (IFIS) with electronic charts, enhanced maps and graphical weather overlays; dual Advanced Flight Management Systems (FMS) with Wide Area Augmentation System that supports Localizer Precision with Vertical guidance approaches and Required Navigation Performance capabilities. The HGS-6000 series, featuring advanced active-matrix liquid crystal display technology, presents critical flight information in the pilot's forward field of view. The Citation Columbus business jet is expected to debut in 2014.
- Our Pro Line Fusion integrated avionics was selected for Embraer's new Legacy 450 and 500 aircraft. The Legacy will mark the debut of our integrated avionics into the Embraer executive jet family.
- Bombardier selected our Pro Line Fusion for the all-composite Learjet 85. In addition to features available at entry into service, we have jointly planned with Bombardier a series of technology updates as the Air Traffic Control infrastructure evolves.
- Gulfstream selected us to provide the pilot controls, Horizontal Stabilizer Trim System (HSTS) and Head-up Guidance System for its new G650 business jet. The G650 flight deck will feature our latest generation of modular designed pilot controls including the flap and speed brake control modules, the pitch, roll and yaw pilot controls, as well as their interfaces to the aircraft's fly-by-wire system. The HSTS is a major flight control system component that optimizes aerodynamics by responding to complex computations to trim the pitch of the aircraft during flight. The G650 features our HGS-6250 advanced active-matrix liquid crystal display technology and presents critical flight information in the pilot's forward field of view. Aircraft flight path and attitude symbols appear overlaying the outside scene enhancing situational awareness, improving energy management and increasing touchdown precision.
- We completed the purchase of the SKYLink™ broadband terminal product line from ARINC. Ideal for installation on larger business jets such as Gulfstream's G550, Dassault's F7X and Bombardier's Global Express, we sell and support the product line under the eXchange™ brand. eXchange is a real time two-way connectivity system providing true broadband speeds of up to 3.5Mbps to the aircraft. It enables customers to access email, corporate intranets and the Internet, with options for global Voice over IP telephone service and videoconferencing. In addition, eXchange supports data connectivity for select Wi-Fi enabled smartphones, such as certain of RIM's Blackberry models, allowing users to access email and other data services. The eXchange offering also includes airborne broadband terminals and satellite services supplied by ViaSat, Inc. Coverage for eXchange using the SKYLink service is available in North America, most of Europe, the North Atlantic and substantial parts of the Caribbean, Central America and parts of South America.

## ***Government Systems***

Our Government Systems business provides communication and electronic systems, products and services for airborne and surface applications to the U.S. Department of Defense, other government agencies, civil agencies, defense contractors and foreign ministries of defense. These systems, products and services support airborne (fixed wing and rotary), ground and shipboard applications.

Our defense communications and defense electronics systems and products include:

- Communications systems and products designed to help customers transfer information across the communications spectrum, ranging from Very Low and Low Frequency to High, Very High and Ultra High Frequency to satellite communications.
- Military data link systems and products.
- Navigation systems and products, including radio navigation systems, global positioning systems (GPS), handheld navigation systems and multi-mode receivers.
- Subsystems for the flight deck that combine flight operations with navigation and guidance functions and that can include flight controls and displays, information/data processing and communications, navigation and/or safety and surveillance systems.
- Cockpit display systems, including flat panel, multipurpose, wide fields of view, head up, head down and helmet mounted displays for tactical fighter and attack aircraft.
- Integrated computer systems for future combat systems.
- Simulation and training systems, including visual system products, training systems and engineering services.
- Maintenance, repair, parts and after-sales support services.

### ***Highlights for the Government Systems segment in 2008 included:***

- We were awarded a contract for the first phase of the Common Range Integrated Instrumentation System (CRIIS) program by the U.S. Air Force. We are the prime contractor with team members from Cubic Defense Applications, Honeywell, NavCom Technology and Argon ST. CRIIS will replace the aging Advanced Range Data System currently in use at major U.S. Air Force, Army and Navy test ranges. CRIIS will improve time, space and position information accuracy, security, and datalink features. The Phase I award is the first of two phases leading to the upgrade of test and evaluation ranges in support of testing modern platforms. In two years, a single prime contractor will be selected out of the two Phase I competitors to enter the system design and development phase. The contract is valued at \$42 million.
- As a member of the Raytheon, Northrop Grumman and SAIC team, we were selected by the U.S. Navy to execute the Joint Precision Approach and Landing System (JPALS) Increment 1 program. The program value for Rockwell Collins is \$94 million. We will provide Global Positioning System (GPS) and communications subsystems, systems engineering, test and logistics support. JPALS Increment 1 provides the Navy a secure, all-weather shipboard landing system. It will use GPS technology and provide a survivable, day-night precision approach and landing capability for vessels afloat. Increment 1 will provide joint operational capability for U.S. forces to perform missions from shipboard environments under a wide range of meteorological and terrain conditions.
- The U.S. Air Force exercised a \$51 million contract option with us to complete the next phase of the Modernized User Equipment (MUE) program. Work will consist of receiver card development for ground and airborne applications including test and security certification for the next-generation Global Positioning System (GPS) technology. The U.S. Air Force is in the process of modernizing all



three components of the GPS system: the satellite, control and user equipment segments. The MUE Receiver Card Development program, awarded by the U.S. Air Force Space and Missile Systems Center (SMC), represents the military user equipment portion of the next-generation GPS system that adds a new military signal and security architecture. The new technology offers enhanced integrity, exclusivity and improved anti-jam capabilities designed to more effectively support the warfighter and future military GPS requirements.

- We acquired Athena Technologies, a privately held company that develops and provides flight control and navigation solutions primarily to the Unmanned Aerial Vehicle (UAV) market segment. Athena, which produces the GuideStar® family of versatile, compact and cost-effective flight control systems, provides us with new growth opportunities on both manned and unmanned platforms across both military and commercial market areas.
- We were selected by the U.S. Navy to provide the E-2D Advanced Hawkeye Integrated Training System for Aircrew. The initial contract award is \$68 million, with a total target price of \$164 million. The E-2D Advanced Hawkeye will feature a state-of-the art radar with a two-generation leap in capability, as well as upgraded aircraft systems and avionics that will improve supportability and increase readiness. Using this capability, the E-2D will provide area surveillance, communications relay, search and rescue coordination and air traffic control, and will provide advance warning of approaching enemy surface units, smaller targets and aircraft vectoring interceptors, and strike aircraft in an attack.
- Our Common Avionics Architecture System (CAAS) cockpit in the Boeing CH-47F Chinook helicopter was declared operationally ready for deployment by the U.S. Army. The first CAAS-equipped platform, the MH-47G, operated by the U.S. Army's 160th Special Operations Aviation Regiment, completed final qualification testing and was deployed in early 2007. The recent completion of development and testing in the CH-47F paves the way for the fielding of potentially more than 500 CAAS cockpits in Chinook aircraft. The CAAS solution utilizes common, reusable processing elements in each piece of hardware and incorporates an open systems architecture based on commercial standards initially developed for the Special Operations Forces' MH-47 and MH-60 helicopter fleets, our CAAS solution has also been selected for the UH-60M, ARH-70A, MH-60T, VH-60N, CH-53E and CH-53K.
- The U.S. Air Force awarded us a \$65 million modification to the C/KC-135 Global Air Traffic Management (GATM) Lot VI contract. This is in addition to previously ordered hardware kits and installations, making Lot VI the largest production option exercised to date under this contract. Given this latest modification, the GATM contract value now exceeds \$555 million. We have delivered 229 C/KC-135 production aircraft equipped with GATM technology to the U.S. Air Force. This program is touted by the U.S. Air Force as a model program that continues to exceed requirements for on-time delivery.
- BAE SYSTEMS selected us to provide advanced displays to the U.S. Army Future Combat Systems (FCS) Manned Ground Vehicle Program. The Common Crew Station Display will serve as the primary information display for the new family of combat vehicles fielded as part of FCS. The initial contract is valued at \$8 million. FCS is a joint networked family of manned and unmanned ground and air platforms and sensors that enables ground combat forces to conduct their missions safely and more effectively. Boeing and partner Science Applications International function as the Lead Systems Integrator for the program, managing a best-of-industry team of more than 500 partners and suppliers.
- Our visual systems were selected to upgrade United Kingdom and Italian simulator systems. Boeing selected us to upgrade three AH-Mk1 Apache Field Deployable Simulators and one AH-Mk1 Apache Full Mission Simulator for the Aviation Training International Limited AH-Mk1 Apache training system in the United Kingdom. This upgrade includes four of our EPXTM-5000 image

generators, eight 9-channel large field of view display systems and enhancements of the existing training databases. Galileo Avionica, a Finmeccanica Company, selected us to provide the EPX-5000 image generator and Environment Creation Tool database to upgrade the Italian Air Force's Tornado simulators. Designed for the most demanding training requirements, the EPX-5000 Image Generator balances commercial-off-the-shelf technology with our Pixel Engine-1 rendering hardware to deliver high-performance, high-fidelity visual training environments.

### **Customers, Sales and Marketing**

We serve a broad range of customers worldwide, including the U.S. Department of Defense, U.S. Coast Guard, civil agencies, defense contractors, foreign ministries of defense, manufacturers of commercial air transport, business and regional aircraft, commercial airlines, and fractional and other business jet operators. We market our systems, products and services directly to Commercial Systems and Government Systems customers through an internal marketing and sales force. In addition, we utilize a worldwide dealer network to distribute our products and international sales representatives to assist with international sales and marketing. In 2008, various branches of the U.S. Government accounted for 38 percent of our total sales.

Our largest customers have substantial bargaining power with respect to price and other commercial terms. Although we believe that we generally enjoy good relations with our customers, the loss of all or a substantial portion of our sales to any of our large volume customers for any reason, including the loss of contracts, bankruptcy, reduced or delayed customer requirements or strikes or other work stoppages affecting production by these customers, could have a material adverse effect on our business, financial condition, results of operations and cash flows.

### **Competition**

We operate in a highly competitive environment. Principal competitive factors include total cost of ownership, product and system performance, quality, service, warranty and indemnification terms, technology, design engineering capabilities, new product innovation and timely delivery. We compete worldwide with a number of United States and international companies, including approximately ten principal competitors in each of our Commercial Systems and Government Systems businesses. Many of these competitors are also our suppliers or customers on some of our programs. Some of our principal competitors include Honeywell International, Inc., Thales S.A., Panasonic, Raytheon Co., Harris Corp., BAE Systems Aerospace, Inc., General Dynamics Corporation, L3 Communications, Inc., The Boeing Company, Northrop Grumman Corp. and CAE. Several of our competitors are significantly larger than us in terms of resources and market share, and can offer a broader range of products. Some of our competitors have more extensive or more specialized engineering, manufacturing and marketing capabilities than we do in some areas. In addition, some of our competitors offer avionics and communications solutions with fewer features and lower prices that may compete with our solutions. As a result, these competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or may be able to devote greater resources to the development, promotion and sale of their products. Furthermore, competitors who have greater financial resources may be better able to provide a broader range of financing alternatives to their customers in connection with sales of their products.

Industry consolidation has had a major impact on the competitive environment in which we operate. Over the past several years, our competitors have undertaken a number of mergers, alliances and realignments that have contributed to a very dynamic competitive landscape. During the past three years, we have completed five acquisitions and entered into several strategic alliances to improve our competitive position and expand our market reach.



## Raw Materials, Supplies and Working Capital

We believe we have adequate sources for the supply of raw materials and components for our manufacturing and service needs with suppliers located around the world. Electronic components and other raw materials used in the manufacture of our products are generally available from several suppliers. We continue to work with our supply base for raw materials and components to ensure an adequate source of supply, utilizing strategic alliances, dual sourcing, identification of substitute or alternate parts that meet performance requirements and life-time buys. These life-time buys involve purchases of multiple years of supply in order to meet production and service requirements over the life span of a product. Although historically we have not experienced any significant difficulties in obtaining an adequate supply of raw materials and components necessary for our manufacturing operations or service needs, the loss of a significant supplier or the inability of a supplier to meet performance and quality specifications or delivery schedules could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our investment in inventory is a significant part of our working capital and historically we have maintained sufficient inventory to meet our customers' requirements on a timely basis. This investment includes production stock, work-in-process inventory, finished goods, spare parts and goods on consignment with airlines. Our accounts receivable also constitute a significant part of our working capital. Accounts receivable includes unbilled receivables related to sales recorded under the percentage-of-completion method of accounting that have not been billed to customers in accordance with applicable contract terms. The critical accounting policies involving inventory valuation reserves and long-term contracts are discussed under the caption **Management's Discussion and Analysis of Financial Condition and Results of Operations** in Item 7 below.

## Backlog

The following table summarizes our backlog (in billions):

	September 30	
	2008	2007
Commercial Systems . . . . .	\$1.3	\$1.1
Government Systems:		
Funded Orders . . . . .	2.9	2.5
Unfunded Orders . . . . .	0.3	0.3
Total Backlog . . . . .	<u>\$4.5</u>	<u>\$3.9</u>

Our backlog represents the aggregate of the sales price of orders received from customers, but not recognized as revenue, and excludes unexercised options. Although we believe that the orders included in backlog are firm, most of our backlog involves orders that can be modified or terminated by the customer. Our backlog at September 30, 2008 includes approximately \$1.9 billion of orders not expected to be filled by us in 2009.

## Joint Ventures

Joint ventures, strategic investments and other cooperative arrangements are part of our business strategies to broaden the market for our products and develop new technologies. We currently have interests in several non-majority owned joint ventures.

We have a 50 percent ownership interest in each of the following:

- Data Link Solutions LLC (DLS), a joint venture with BAE Systems, plc, for joint pursuit of the worldwide military data link market;

- Vision Systems International, LLC (VSI), a joint venture with Elbit Systems, Ltd., for joint pursuit of helmet mounted cueing systems for the worldwide military fixed wing marketplace;
- Integrated Guidance Systems LLC (IGS), a joint venture with Honeywell International, Inc., for joint pursuit of the development of weapons guidance and navigation solutions; and
- Quest Flight Training Limited, a joint venture with Quadrant Group plc, which provides aircrew training services primarily for the United Kingdom Ministry of Defence.

***Highlights for our Joint Ventures in 2008 included:***

- IGS was awarded a subcontract to provide the deeply integrated navigator for the U.S. Army Non-Line of Sight-Launch System (NLOS-LS) program. The initial contract calls for IGS to develop guidance systems for the NLOS-LS Precision Attack Missile (PAM) and Container Launch Unit (CLU). Deliveries are expected to begin in 2009, with potential quantities of up to 30,700 PAM and 900 CLU systems being delivered over the next 15 years.
- VSI was awarded contracts for the Joint Helmet Mounted Cueing System (JHMCS) valued at more than \$600 million in revenues. The contracts include the eighth production award from The Boeing Company, this one calling for the delivery of more than 500 JHMCS. Additional contracts satisfy U.S. government and various domestic and international armed services requirements for numerous F-15, F-16 and F/A-18 aircraft. The JHMCS provides the pilot with exceptional “first look, first shot” off-boresight weapons engagement capabilities. The system enables the pilot to accurately cue onboard weapons and sensors against enemy aircraft and ground targets without the need to turn the aircraft or place the target in the Head-Up Display for designation. Critical information and symbology, such as targeting cues and aircraft performance parameters, are graphically displayed directly on the pilot’s visor. This information, combined with the display of data link cues and other navigational and aircraft performance parameters, provide the pilot with a substantial increase in situational awareness.
- The U.K. Ministry of Defence selected DLS to provide post-design engineering and logistics support services for Link 16 communications terminals. Under a \$12 million contract, DLS will provide support services for Link 16 products installed on several platforms, including the Royal Air Force E-3, Tornado, and Typhoon; Royal Navy Sea King helicopter and Type 42 destroyers; and the U.K. Air Defence Ground Environment.
- DLS will provide Multifunctional Information Distribution System (MIDS) on-ship systems to the U.S. Navy and international naval forces under a \$32 million Navy contract. The systems will equip command-and-control platforms with time-critical targeting and Blue Force Tracking—a system of software and computers that links satellites, sensors, communications devices, vehicles, aircraft, and weapons in a digital network. MIDS-on-ship, or MOS, increases situational awareness by providing secure, high-capacity, jam-resistant digital Link 16 data and voice communications capabilities. Work is expected to be completed by August 2013.

**Acquisitions and Dispositions**

We continually consider various business opportunities, including strategic acquisitions and alliances, licenses and marketing arrangements, and we review the prospects of our existing businesses to determine whether any of them should be modified, sold or otherwise discontinued.

We completed five acquisitions in the past three years to augment our internal growth plans. These acquisitions were:

- flight control and navigation solutions primarily to the Unmanned Aerial Vehicle (UAV) market segment: the April 2008 acquisition of Athena Technologies, Inc.,

- satellite intelligence products and software applications: the August 2007 acquisition of Information Technology & Applications Corporation;
- software applications: the September 2006 acquisition of Anzus, Inc.;
- digital communications and networking technology: the September 2006 acquisition of IP Unwired Inc.; and
- visual systems for military and commercial simulation: the May 2006 acquisition of certain assets of Evans & Sutherland Computer Corporation.

In September 2006, we completed the disposition of our 50 percent interest in Rockwell Scientific Company LLC to Teledyne Brown Engineering, Inc.

Additional information relating to our acquisitions and disposition is contained in Notes 3, 7 and 8 of the *Notes to Consolidated Financial Statements* in Item 8 below.

### Research and Development

We have significant research, development, engineering and product design capabilities. At September 30, we employed approximately 6,300 engineers.

Amounts attributed to our research and development activities are as follows:

(in millions)	<u>2008</u>	<u>2007</u>	<u>2006</u>
Customer-funded(1) . . . . .	\$501	\$480	\$443
Company-funded . . . . .	395	347	279
Total research and development . . . . .	<u>\$896</u>	<u>\$827</u>	<u>\$722</u>

(1) Customer-funded research and development includes activities relating to the development of new products and the improvement of existing products for which we are reimbursed by our customers.

### Intellectual Property

We own numerous United States and foreign patents and have numerous pending patent applications, including patents and patent applications purchased in our acquisitions. We also license certain patents relating to our manufacturing and other activities. While in the aggregate we consider our patents and licenses important to the operation of our business, we do not consider any individual patent or license to be of such importance that the loss or termination of any one patent or license would materially affect us.

Rockwell Automation, Inc. (Rockwell) continues to own the “Rockwell” name. In connection with our spin-off from Rockwell in 2001, we were granted the exclusive right to continue to use the Rockwell Collins name for use in our business other than in connection with the Rockwell Automation business or industrial automation products. This exclusive right would terminate following certain change of control events applicable to us as described in our distribution agreement with Rockwell.

### Employees

As of September 30, 2008, we had approximately 20,300 employees. Approximately 2,400 of our employees in the United States are covered by collective bargaining agreements. The collective bargaining agreements are generally set to expire between September 2010 and May 2013.

### **Cyclical and Seasonality**

The avionics and communications markets in which we sell our products are, to varying degrees, cyclical and have experienced periodic downturns. For example, markets for our commercial aviation electronic products have experienced downturns during periods of slowdowns in the commercial airline industry and during periods of weak conditions in the economy in general, as demand for new aircraft generally declines during these periods. Although we believe that our Government Systems business reduces our exposure to these business downturns, we may experience downturns in the future. Our Government Systems business is also subject to some cyclicality primarily as a result of U.S. Government defense budget cycles.

Our business tends to be seasonal with our fourth quarter usually producing relatively higher sales and cash flow and our first quarter usually producing relatively lower sales and cash flow. A large part of this seasonality variance is attributable to our Government Systems business and relates to the U.S. Government procurement cycle.

### **Regulatory Matters**

As a defense contractor, our contract costs are audited and reviewed on a continual basis by the Defense Contract Audit Agency. Audits and investigations are conducted from time to time to determine if our performance and administering of our U.S. Government contracts are compliant with applicable contractual requirements and procurement regulations and other applicable Federal statutes and regulations. Under present U.S. Government procurement regulations, if indicted or adjudged in violation of procurement or other Federal civil laws, a contractor, such as us, could be subject to fines, penalties, repayments or other damages. U.S. Government regulations also provide that certain findings against a contractor may lead to suspension or debarment from eligibility for awards of new U.S. Government contracts for up to three years.

The sale, installation and operation of our products in commercial aviation applications is subject to continued compliance with applicable regulatory requirements and future changes to those requirements. In the U.S., our commercial aviation products are required to comply with Federal Aviation Administration regulations governing production and quality systems, airworthiness and installation approvals, repair procedures and continuing operational safety. Some of our products, such as radio frequency transmitters and receivers, must also comply with Federal Communications Commission regulations governing authorization and operational approval of telecommunications equipment.

Internationally, similar requirements exist for airworthiness, installation and operational approvals. These requirements are administered by the national aviation authorities of each country and, in the case of Europe, coordinated by the European Joint Aviation Authorities. Many countries also impose specific telecommunications equipment requirements, administered through their national aviation authorities or telecommunications authorities. In Europe, approval to import products also requires compliance with European Commission directives, such as those associated with electrical safety, electro-magnetic compatibility, the use of metric units of measurement and restrictions on the use of lead.

Products already in service may also become subject to mandatory changes for continued regulatory compliance as a result of any identified safety issue, which can arise from an aircraft accident, incident or service difficulty report.

Our products and technical data are controlled for export and import under various regulatory agencies. Audits and investigations by these agencies are a regular occurrence to ensure compliance with applicable Federal statutes and regulations. Violations, including as a successor to an acquired business, can result in fines and penalties assessed against the corporation as well as individuals, and the most egregious acts may result in a complete loss of export privileges.

Although we do not have any significant regulatory action pending against us, any such action could have a material adverse impact on our business, financial condition, results of operations and cash flows.

### **Environmental Matters**

Federal, state and local requirements relating to the discharge of substances into the environment, the disposal of hazardous wastes, and other activities affecting the environment have had and will continue to have an impact on our manufacturing operations. To date, compliance with environmental requirements and resolution of environmental claims have been accomplished without material effect on our liquidity and capital resources, competitive position or financial condition. We believe that our expenditures for environmental capital investment and remediation necessary to comply with present regulations governing environmental protection and other expenditures for the resolution of environmental claims will not have a material adverse effect on our business or financial condition, but could possibly be material to the results of operations or cash flows of any one period. Additional information on environmental matters is contained in Note 20 of the *Notes to Consolidated Financial Statements* in Item 8 below.

### **Geographic Information**

Our principal markets outside the United States are in France, Canada, the United Kingdom, Germany, China, Japan, Singapore, Israel, Australia and Brazil. In addition to normal business risks, operations outside the United States are subject to other risks, including political, economic and social environments, governmental laws and regulations, and currency revaluations and fluctuations.

Selected financial information by major geographic area for each of the three years in the period ended September 30, 2008 is contained in Note 22 of the *Notes to Consolidated Financial Statements* in Item 8 below.

### **Item 1A. Risk Factors.**

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, many of which are beyond our control, including but not limited to those set forth below and elsewhere in this Annual Report on Form 10-K, any one or more of which could cause our results to vary materially from recent results or from our anticipated future results.

#### ***A global recession and continued credit tightening could adversely affect us.***

Concerns about a potential global recession and continued credit tightening, including failures of financial institutions, has initiated unprecedented government intervention in the U.S., Europe and other regions of the world. If these concerns continue or worsen, risks to us include:

- declines in revenues and profitability from reduced orders, payment delays or other factors caused by the economic problems of customers;
- reprioritization of government spending away from defense programs in which we participate;
- adverse impacts on our access to short-term commercial paper borrowings or other credit sources; and
- supply problems associated with any financial constraints faced by our suppliers.

#### ***International conflicts and terrorism may adversely affect our business.***

International conflicts such as the war in Iraq and Afghanistan, political turmoil in the Middle and Far East and the possibility of future terrorist attacks cause significant uncertainty with respect to U.S. and

other business and financial markets and may adversely affect our business. These international conflicts also affect the price of oil, which has a significant impact on the financial health of our commercial customers. Although our Government Systems business may experience greater demand for its products as a result of increased government defense spending, factors arising (directly or indirectly) from international conflicts or terrorism which may adversely affect our business include reduced aircraft build rates, upgrades, maintenance and spending on discretionary products such as in-flight entertainment, as well as increases in the cost of property and aviation products insurance and increased restrictions placed on our insurance policies. The war in Iraq creates the risk that our Government Systems' customers may need to redirect funding from our existing business to pay for war-related activities. Furthermore, we currently hold only nominal insurance related to the effects of terrorist acts on our assets and our aircraft products.

***We depend to a significant degree on U.S. government contracts, which are subject to unique risks.***

In 2008, 38 percent of our sales were derived from United States government contracts. In addition to normal business risks, our supply of systems and products to the United States government is subject to unique risks which are largely beyond our control. These risks include:

- dependence on Congressional appropriations and administrative allotment of funds;
- the ability of the U.S. government to terminate, without prior notice, partially completed government programs and contracts that were previously authorized;
- changes in governmental procurement legislation and regulations and other policies which may reflect military and political developments;
- significant changes in contract scheduling or program structure, which generally result in delays or reductions in deliveries;
- intense competition for available United States government business necessitating increases in time and investment for design and development;
- difficulty of forecasting costs and schedules when bidding on developmental and highly sophisticated technical work;
- changes over the life of United States government contracts, particularly development contracts, which generally result in adjustments of contract prices; and
- claims based on United States government work, which may result in fines, the cancellation or suspension of payments or suspension or debarment proceedings affecting potential further business with the United States government.

***Our business is heavily concentrated in the aviation industry.***

As a provider of products and services to the aviation industry, we are significantly affected by the overall economic condition of that industry. The aviation industry is historically cyclical.

Our business, financial condition and results of operations may be adversely impacted, among other things, by the following:

- reductions in demand for aircraft and delayed aircraft delivery schedules;
- deterioration in the financial condition of some of our existing and potential customers;
- reductions in the need for, or the deferral of, aircraft maintenance and repair services and spare parts support;



- retirement of older generation aircraft, resulting in fewer retrofits and less demand for services for those aircraft; and
- high fuel costs.

***New airspace management technologies may impact future sales.***

The aerospace industry is experiencing a global transition from traditional communications, navigation, surveillance and air traffic control systems to air traffic management systems utilizing satellite-based technologies that will allow pilots to fly at desired paths and speeds selected in real time, while still complying with instrument flight regulations. The transition to these technologies will require the use of digital communications systems, global positioning system navigation, satellite surveillance techniques and ground surveillance systems. These technologies are expected to result in more direct and efficient flight routes, fewer flight delays and reduced airport congestion. Although we believe that we are well positioned to participate in this market evolution, our ability to capitalize on the transition to these airspace management technologies is subject to various risks, including:

- delays in the development of the necessary satellite and ground infrastructure by U.S. and other governments;
- delays in adopting national and international regulatory standards;
- competitors developing better products;
- failure of our product development investments in communications, navigation and surveillance products that enable airspace management technologies to coincide with market evolution to, and demand for, these products; and
- the ability and desire of customers to invest in products enabling airspace management technologies.

***We derive a significant portion of our revenues from international sales and are subject to the risks of doing business outside the United States.***

In 2008, revenues from products and services exported from the U.S. or manufactured and serviced abroad were 34 percent of our total sales. We expect that international sales will continue to account for a significant portion of our total sales. As a result, we are subject to risks of doing business internationally, including:

- laws, regulations and policies of non-U.S. governments relating to investments and operations, as well as U.S. laws affecting the activities of U.S. companies abroad;
- changes in regulatory requirements, including imposition of tariffs or embargoes, export controls and other trade restrictions and antitrust and data privacy requirements;
- uncertainties and restrictions concerning the availability of funding, credit or guarantees;
- requirements of certain customers to have us agree to specified levels of in-country purchases or investments, known as offsets, and penalties if we fail to meet these offset requirements;
- import and export licensing requirements and regulations;
- uncertainties as to local laws and enforcement of contract and intellectual property rights; and
- rapid changes in government, economic and political policies, political or civil unrest or the threat of international boycotts or U.S. anti-boycott legislation.

***We have made, and expect to continue to make, strategic acquisitions that involve significant risks and uncertainties.***

We completed five acquisitions in the last three years and we intend to enter into acquisitions in the future in an effort to enhance shareowner value. Acquisitions involve a certain amount of risks and uncertainties such as:

- the difficulty in integrating newly-acquired businesses and operations in an efficient and cost-effective manner and the risk that we encounter significant unanticipated costs or other problems associated with integration;
- the challenges in achieving strategic objectives, cost savings and other benefits expected from acquisitions;
- the risk that our markets do not evolve as anticipated and that the technologies acquired do not prove to be those needed to be successful in those markets;
- the risk that we assume significant liabilities that exceed the limitations of any applicable indemnification provisions or the financial resources of any indemnifying parties;
- the potential loss of key employees of the acquired businesses; and
- the risk of diverting the attention of senior management from our existing operations.

***We enter into fixed-price contracts that could subject us to losses in the event that we have cost overruns.***

During 2008, approximately 89 percent of our total sales were from, and a significant portion of our anticipated future sales will be from, firm, fixed-price contracts. This allows us to benefit from cost savings, but it carries the burden of potential cost overruns since we assume all of the cost risk. If our initial cost estimates are incorrect, we can incur losses on these contracts. These fixed-price contracts can expose us to potentially large losses because the customer may compel us to complete a project or, in the event of a termination for default, pay the entire incremental cost of its replacement by another provider regardless of the size of any cost overruns that occur over the life of the contract. Because many of these projects involve new technologies and applications and can last for years, unforeseen events, such as technological difficulties, fluctuations in the price of raw materials, problems with subcontractors and cost overruns, can result in the contractual price becoming less favorable or even unprofitable to us over time. Furthermore, if we do not meet project deadlines or specifications, we may need to renegotiate contracts on less favorable terms, be forced to pay penalties or liquidated damages or suffer major losses if the customer exercises its right to terminate. In addition, some of our contracts have provisions relating to cost controls and audit rights, and if we fail to meet the terms specified in those contracts we may not realize their full benefits. Our results of operations are dependent on our ability to maximize our earnings from our contracts. Lower earnings caused by cost overruns could have an adverse impact on our financial condition, operating results and cash flows.

***Costs of certain employee and retiree benefits may continue to rise.***

Although we have taken action seeking to contain volatility in the costs related to medical and pension benefits, there are risks that our costs for these benefits will increase as a result of:

- continued increases in medical costs related to current employees due to increased usage of medical benefits and medical inflation in the United States;
- the effect declines in the stock and bond markets have on the performance of our pension plan assets; and
- potential reductions in the discount rate used to determine the present value of our retirement benefit obligations.

***Tax law changes expected to impact our effective tax rate.***

Our effective tax rate has been lower than the statutory tax rate primarily as a result of the tax benefits derived from the Research and Development Tax Credit (“R&D Tax Credit”), which provides a tax benefit on certain incremental R&D expenditures, the Extraterritorial Income Exclusion (“ETI”), which provided through December 31, 2006, a tax benefit on export sales, and the Domestic Manufacturing Deduction under Section 199 (“Domestic Manufacturing Deduction”), which provides a tax benefit on U.S. based manufacturing.

The American Jobs Creation Act of 2004 (the “Act”) repealed and replaced the ETI with a new deduction for income generated from qualified production activities by U.S. manufacturers. The ETI export tax benefit completely phased out on December 31, 2006 and the Domestic Manufacturing Deduction benefit is being phased in through fiscal 2010. In comparison to the benefit received under the ETI, the Act is expected to have an adverse impact on our effective tax rate for fiscal years 2009 and 2010.

The R&D Tax Credit expired on December 31, 2007. On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was enacted, which retroactively reinstated and extended the R&D Tax Credit from January 1, 2008 to December 31, 2009. Assuming the R&D Tax Credit or a tax benefit equivalent to the R&D Tax Credit is not extended beyond December 31, 2009, a loss of the R&D Tax Credit would have an adverse impact on our effective tax rate beginning in 2010.

**Cautionary Statement**

This Annual Report on Form 10-K, and documents that are incorporated by reference in this Annual Report on Form 10-K, contain statements, including certain projections and business trends, that are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those projected as a result of certain risks and uncertainties, including but not limited to the financial condition of our customers (including major U.S. airlines); the health of the global economy, including further or continued deterioration in the currently volatile economic and financial market conditions; delays related to the award of domestic and international contracts; the continued support for military transformation and modernization programs; additional adverse impact of oil prices on the commercial aerospace industry; the impact of the global war on terrorism on U.S. government military procurement expenditures and budgets; changes in domestic and foreign government spending, budgetary and trade policies adverse to our businesses; market acceptance of our new and existing technologies, products and services; reliability of and customer satisfaction with our products and services; favorable outcomes on or potential cancellation or restructuring of contracts, orders or program priorities by our customers; customer bankruptcies and profitability; recruitment and retention of qualified personnel; regulatory restrictions on air travel due to environmental concerns; effective negotiation of collective bargaining agreements by us and our customers; performance of our suppliers and subcontractors; risks inherent in development and fixed price contracts, particularly the risk of cost overruns; risk of significant reduction to air travel or aircraft capacity beyond our forecasts; our ability to execute to our internal performance plans such as our productivity improvement and cost reduction initiatives; achievement of our acquisition and related integration plans; continuing to maintain our planned effective tax rates; our ability to develop contract compliant systems and products on schedule and within anticipated cost estimates; risk of fines and penalties related to noncompliance with export control regulations; risk of asset impairments and government claims related to our pension plan freeze; our ability to win new business and convert those orders to sales within the fiscal year in accordance with our annual operating plan; and the uncertainties of the outcome of litigation, as well as other risks and uncertainties, including but not limited to those detailed herein and from time to time in our Securities and Exchange Commission filings. These forward-looking statements are made only as of the date hereof.

**Item 1B. Unresolved Staff Comments.**

None

**Item 2. Properties.**

As of September 30, 2008, we operated 17 manufacturing facilities throughout the United States and one manufacturing facility each in Mexico, France and Germany. The Company also had engineering facilities, sales offices, warehouses and service locations in approximately 20 countries around the world. These facilities have aggregate floor space of approximately 6.3 million square feet, substantially all of which is in use. Of this floor space, approximately 62 percent is owned and approximately 38 percent is leased. There are no major encumbrances on any of our plants or equipment, other than financing arrangements which in the aggregate are not significant. In the opinion of management, our properties have been well maintained, are in sound operating condition and contain all equipment and facilities necessary to operate at present levels. A summary of floor space of these facilities at September 30, 2008 is as follows:

<b>Location</b>	<b><u>Owned Facilities</u></b>	<b><u>Leased Facilities</u></b>	<b><u>Total</u></b>
	<b>(in thousands of square feet)</b>		
United States . . . . .	3,564	1,999	5,563
Europe . . . . .	329	201	530
Canada and Mexico . . . . .	—	121	121
Asia Pacific . . . . .	—	87	87
South America . . . . .	—	7	7
Total . . . . .	<u>3,893</u>	<u>2,415</u>	<u>6,308</u>

  

<b>Type of Facility</b>	<b><u>Owned Facilities</u></b>	<b><u>Leased Facilities</u></b>	<b><u>Total</u></b>
	<b>(in thousands of square feet)</b>		
Manufacturing . . . . .	1,944	621	2,565
Sales, engineering, service and general office space . . . . .	1,949	1,794	3,743
Total . . . . .	<u>3,893</u>	<u>2,415</u>	<u>6,308</u>

We have facilities with a total of at least 100,000 square feet in the following cities: Cedar Rapids, Iowa (2,820,000 square feet), Richardson, Texas (390,000 square feet), Melbourne, Florida (335,000 square feet), Heidelberg, Germany (240,000 square feet), San Jose, California (225,000 square feet), Irvine, California (220,000 square feet), Tustin, California (216,000 square feet), Coralville, Iowa (180,000 square feet), Toulouse, France (130,000 square feet), Salt Lake City, Utah (120,000 square feet), Sterling, Virginia (120,000 square feet), and Mexicali, Mexico (105,000 square feet). Most of our facilities are generally shared for the benefit of our Commercial Systems and Government Systems businesses.

Certain of our facilities, including those located in California and Mexicali, Mexico, are located near major earthquake fault lines. We maintain earthquake insurance with a deductible of five percent of the insured values with respect to these facilities. We also maintain property insurance for wind damage, including hurricanes and tornados, for our facilities. This insurance covers physical damage to property and any resulting business interruption. All losses are subject to a \$5 million deductible with certain exceptions that could affect the deductible.

**Item 3. Legal Proceedings.**

Various lawsuits, claims and proceedings have been or may be instituted or asserted against us relating to the conduct of our business, including those pertaining to product liability, intellectual property, environmental, safety and health, exporting or importing, contract, employment and regulatory matters. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to us, management believes the disposition of matters that are pending or asserted will not have a material adverse effect on our business or financial condition, but could possibly be material to the results of operations or cash flows of any one quarter.

**Item 4. Submission of Matters to a Vote of Security Holders.**

No matters were submitted to a vote of security holders during the fourth quarter of our 2008 fiscal year.

**Item 4A. Executive Officers of the Company.**

The name, age, office and position held with us, and principal occupations and employment during the past five years of each of our executive officers as of November 21, 2008 are as follows:

<u>Name, Office and Position, and Principal Occupations and Employment</u>	<u>Age</u>
<b>Clayton M. Jones</b> —Chairman of the Board of Rockwell Collins since June 2002; President and Chief Executive Officer of Rockwell Collins since June 2001 . . . . .	59
<b>Barry M. Abzug</b> —Senior Vice President, Corporate Development of Rockwell Collins since October 2001 . . . . .	56
<b>Patrick E. Allen</b> —Senior Vice President and Chief Financial Officer of Rockwell Collins since January 2005; Vice President and Controller of Rockwell Collins' Commercial Systems business from January 2004 to December 2004; Vice President, Finance and Treasurer of Rockwell Collins prior thereto . . . . .	44
<b>John-Paul E. Besong</b> —Senior Vice-President, e-Business of Rockwell Collins since April 2007; Senior Vice President of e-Business & Lean Electronics of Rockwell Collins prior thereto . . . . .	55
<b>Gary R. Chadick</b> —Senior Vice President, General Counsel and Secretary of Rockwell Collins since July 2001 . . . . .	47
<b>Gregory S. Churchill</b> —Executive Vice President and Chief Operating Officer, Government Systems of Rockwell Collins since May 2002 . . . . .	51
<b>Walter S. Hogle, Jr.</b> —Senior Vice President of Rockwell Collins' International Business and Washington Operations since January 2008; Vice President of Rockwell Collins' Government Operations from March 2007 to January 2008; Vice President and General Manager of Rockwell Collins' Integrated Systems prior thereto . . . . .	64
<b>Ronald W. Kirchenbauer</b> —Senior Vice President, Human Resources of Rockwell Collins since April 2003 . . . . .	61
<b>Nan Mattai</b> —Senior Vice President, Engineering and Technology of Rockwell Collins since November 2004; Vice President, Government Systems Engineering of Rockwell Collins prior thereto . . . . .	56
<b>Jeffrey A. Moore</b> —Senior Vice President of Operations of Rockwell Collins since April 2006; Acting Senior Vice President of Operations of Rockwell Collins from October 2005 to April 2006; Vice President of Manufacturing Operations of Rockwell Collins prior thereto . . . . .	55

<u>Name, Office and Position, and Principal Occupations and Employment</u>	<u>Age</u>
<b>Robert K. Ortberg</b> —Executive Vice President and Chief Operating Officer, Commercial Systems of Rockwell Collins since October 2006; Vice President and General Manager, Air Transport Systems of Rockwell Collins prior thereto. . . . .	48
<b>David S. Rokos</b> —Vice President and Treasurer of Rockwell Collins since May 2008; Controller of Rockwell Collins Government Systems’ Surface Solutions from January 2008 to May 2008; Controller of Rockwell Collins Government Systems’ Sensor Systems from February 2006 to January 2008; Assistant Controller of Rockwell Collins Government Systems’ Sensor Systems from January 2005 to February 2006; Assistant Controller, External Financial Reporting of Rockwell Collins prior thereto . . . . .	39
<b>Marsha A. Schulte</b> —Vice President, Finance & Controller of Rockwell Collins since May 2006; Vice President & Controller, Operations of Rockwell Collins from January 2004 to May 2006; Vice President, Strategic & Financial Planning of Rockwell Collins prior thereto . . . . .	51
<b>Kent L. Statler</b> —Executive Vice President, Rockwell Collins Services since October 2006; Senior Vice President and General Manager of Rockwell Collins Services from October 2005 to October 2006; Senior Vice President of Operations of Rockwell Collins prior thereto . . . . .	43

There are no family relationships, as defined, between any of the above executive officers and any other executive officer or any director. No officer was selected pursuant to any arrangement or understanding between the officer and any person other than us. All executive officers are elected annually.

## PART II

### **Item 5. *Market for the Company’s Common Equity, Related Stockholder Matters and Company Purchases of Equity Securities.***

#### **Market Information**

Our common stock, par value \$.01 per share, is listed on the New York Stock Exchange and trades under the symbol “COL”. On October 31, 2008, there were 29,287 shareowners of record of our common stock.

The following table sets forth the high and low sales price of our common stock on the New York Stock Exchange—Composite Transactions reporting system during each quarter of our years ended September 30, 2008 and 2007:

<u>Fiscal Quarters</u>	<u>2008</u>		<u>2007</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First . . . . .	\$76.00	\$69.99	\$64.31	\$54.38
Second . . . . .	72.54	53.24	69.91	62.45
Third . . . . .	66.56	47.26	72.28	64.79
Fourth . . . . .	54.83	43.26	74.69	61.25



## Dividends

The following table sets forth the cash dividends per share paid by us during each quarter of our years ended September 30, 2008 and 2007:

<u>Fiscal Quarters</u>	<u>2008</u>	<u>2007</u>
First . . . . .	\$0.16	\$0.16
Second . . . . .	0.16	0.16
Third . . . . .	0.24	0.16
Fourth . . . . .	0.24	0.16

Based on our current dividend policy, we will pay quarterly cash dividends which, on an annual basis, will equal \$0.96 per share. The declaration and payment of dividends by us, however, will be at the sole discretion of our Board of Directors.

## Repurchases

Our Board of Directors has authorized certain repurchases of our common stock. During 2008, we repurchased approximately 9.0 million shares of our common stock at a total cost of \$576 million, which resulted in a weighted average cost of \$63.76 per share. During 2007, we repurchased approximately 4.6 million shares at a total cost of \$314 million, which resulted in a weighted average cost of \$68.31 per share. In addition, we paid \$19 million in 2007 related to the settlement of an accelerated share repurchase agreement executed in 2006.

The following table provides information with respect to purchases made by or on behalf of us or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of shares of our common stock during the three months ended September 30, 2008:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(1)</u>
July 1, 2008 through July 31, 2008 . . . . .	720,000	\$48.34	720,000	\$210 million
August 1, 2008 through August 31, 2008 . . . . .	600,000	\$51.97	600,000	\$179 million
September 1, 2008 through September 30, 2008 . . . . .	270,000	\$52.05	270,000	\$165 million
Total . . . . .	1,590,000	\$50.34	1,590,000	\$165 million

- (1) On November 14, 2007, we announced that our Board authorized the repurchase of \$500 million of our common stock. This authorization has no stated expiration.

**Item 6. Selected Financial Data.**

The following selected financial data should be read in conjunction with the consolidated financial statements and notes thereto included in Item 8 below. The Statement of Operations, Statement of Financial Position and other data has been derived from our audited financial statements.

	Years Ended September 30				
	2008(a)	2007(b)	2006(c)	2005(d)	2004(e)
	(dollars in millions, except per share amounts)				
<b>Statement of Operations Data:</b>					
Sales	\$4,769	\$4,415	\$3,863	\$3,445	\$2,930
Cost of sales	3,334	3,092	2,752	2,502	2,144
Selling, general and administrative expenses	485	482	441	402	356
Income before income taxes	953	843	689	547	430
Net income	678	585	477	396	301
Net income as a percent of sales	14.2%	13.3%	12.3%	11.5%	10.3%
Diluted earnings per share	4.16	3.45	2.73	2.20	1.67
<b>Statement of Financial Position Data:</b>					
Working capital(f)	\$ 598	\$ 710	\$ 603	\$ 596	\$ 699
Property	680	607	552	473	418
Goodwill and intangible assets	807	691	654	571	550
Total assets	4,144	3,750	3,278	3,148	2,874
Short-term debt	287	—	—	—	—
Long-term debt	228	223	245	200	201
Shareowners' equity	1,408	1,573	1,206	939	1,133
<b>Other Data:</b>					
Capital expenditures	\$ 171	\$ 125	\$ 144	\$ 111	\$ 92
Depreciation and amortization	129	118	106	104	109
Dividends per share	0.80	0.64	0.56	0.48	0.39
<b>Stock Price:</b>					
High	\$76.00	\$74.69	\$60.41	\$49.80	\$38.08
Low	43.26	54.38	43.25	34.40	25.18

- (a) Includes (i) \$19 million of stock-based compensation expense (\$13 million after taxes) and (ii) a \$22 million income tax benefit related to the favorable resolution of certain tax matters in 2008.
- (b) Includes (i) \$17 million of stock-based compensation expense (\$11 million after taxes), (ii) a \$13 million reduction in income tax expense related to the retroactive reinstatement of the previously expired Federal R&D Tax Credit, and (iii) a \$5 million favorable adjustment to the 2006 restructuring charge discussed in item (c)(iii) below. The \$5 million adjustment in 2007 is primarily due to lower than expected employee separation costs (\$3 million gain after taxes).
- (c) Includes (i) \$18 million of stock-based compensation expense (\$12 million after taxes), (ii) \$20 million gain on the sale of Rockwell Scientific Company, LLC, an equity affiliate that was jointly owned with Rockwell Automation, Inc. (\$13 million after taxes) and (iii) \$14 million restructuring charge related to decisions to implement certain business realignment and facility rationalization actions (\$9 million after taxes).
- (d) Includes (i) \$10 million reduction in income tax expense related to the resolution of certain deferred tax matters that existed prior to our spin-off in 2001 and (ii) \$15 million write-off of certain indefinite-lived Kaiser tradenames (\$10 million after taxes). The tradename write-off was recorded in Cost of sales.

- (e) Includes (i) \$5 million gain (\$3 million after taxes) related to favorable insurance settlements, (ii) \$7 million gain (\$4 million after taxes) related to the resolution of a legal matter brought by us, and (iii) \$7 million impairment loss (\$4 million after taxes) related to our investment in Tenzing Communications, Inc.
- (f) Working capital consists of all current assets and liabilities, including cash and short-term debt.

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto. The following discussion and analysis contains forward-looking statements and estimates that involve risks and uncertainties. Actual results could differ materially from these estimates. Factors that could cause or contribute to differences from estimates include those discussed under "Cautionary Statement" and "Risk Factors" contained in Item 1 above.

We operate on a 52/53 week fiscal year ending on the Friday closest to September 30. For ease of presentation, September 30 is utilized consistently throughout Management's Discussion and Analysis of Financial Condition and Results of Operations to represent the fiscal year end date. 2008 was a 53 week fiscal year, while 2007 and 2006 were 52 week fiscal years. All date references contained herein relate to our fiscal year unless otherwise stated.

**OVERVIEW AND OUTLOOK**

In 2008 we generated financial results that once again reflect the continuing strength and balance of our Commercial Systems and Government Systems businesses as we continued to improve enterprise-wide operating performance, highlighted by:

- An 8 percent increase in total revenues to \$4.77 billion
- A 21 percent increase in diluted earnings per share to \$4.16
- A 16 percent increase in net income to \$678 million

These results were generated while our businesses invested a total of almost \$900 million, or 19 percent of sales, in research and development (R&D) programs for new product development that are expected to benefit our company over the next several years. The increase in our net income significantly outpaced our increase in revenues and speaks to the ability of our management team to effectively manage costs and deploy resources to create shareowner value.

The strength of our management team and business is evidenced by four key aspects of our company: our focus on R&D efforts, our ability to grow in excess of our end markets, our unique shared service business model, and the focus from all of our employees on delivering to stakeholder expectations.

*Research and Development Efforts:* With R&D focused on both key product introductions to be realized in the near term, as well as key technology opportunities to be realized in the distant future, we seek to bring a continuing stream of unique, customer-focused solutions to the marketplace. Much of our company-funded R&D is related to new avionics and new cabin systems for aircraft introductions, the schedule for which is dependent upon the plans of our OEM customers. We are also focused on developing future technologies to solve our customers' needs and provide continuing growth opportunities for our business.

*Sales Growth In Excess of Our End Markets:* Through organic sales and acquisition related sales, we are focused on expanding our portfolio of products and systems that translates into profitable growth and delivers positive long-term shareowner investment returns. We have captured key market share wins in our addressed markets. Through our positions on existing platforms and platforms expected to be introduced, we believe we are well positioned to grow sales in excess of both the overall commercial