Ingersoll-Rand plc
Form 10-Q
July 26, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012
or

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

For the transition period from to
Commission File Number 001-34400

INGERSOLL-RAND PUBLIC LIMITED COMPANY
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Ireland<br>(State or other jurisdiction of incorporation or organization) | 98-0626632<br>(I.R.S. Employer Identification No.) |

170/175 Lakeview Dr.
Airside Business Park
Swords, Co. Dublin
Ireland
(Address of principal executive offices, including zip code)
+(353) (0) 18707400
(Registrant’s telephone number, including area code)

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 x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

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 definitions of “large accelerated filer,” "accelerated filer," and "smaller reporting company," in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ | 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 x

The number of ordinary shares outstanding of Ingersoll-Rand plc as of July 13, 2012 was 308,252,270.

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

INGERSOLL-RAND PLC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

| In millions, except per share amounts | Three months ended June 30, 2012 | Three months ended June 30, 2011 | Six months ended June 30, 2012 | Six months ended June 30, 2011 |
|---|---|---|---|---|
| Net revenues | $3,821.3 | $4,091.4 | $6,972.0 | $7,365.2 |
| Cost of goods sold | (2,644.0) | (2,863.0) | (4,893.4) | (5,231.6) |
| Selling and administrative expenses | (703.6) | (729.2) | (1,393.2) | (1,406.3) |
| Gain (loss) on sale/asset impairment | 4.2 | (200.5) | 4.5 | (386.8) |
| Operating income | 477.9 | 298.7 | 689.9 | 340.5 |
| Interest expense | (62.1) | (71.7) | (131.5) | (140.0) |
| Other, net | 4.1 | 2.4 | 3.9 | 7.3 |
| Earnings before income taxes | 419.9 | 229.4 | 562.3 | 207.8 |
| Provision for income taxes | (54.8) | (99.8) | (92.8) | (140.6) |
| Earnings from continuing operations | 365.1 | 129.6 | 469.5 | 67.2 |
| Discontinued operations, net of tax | 7.8 | (30.3) | 5.6 | (39.4) |
| Net earnings | 372.9 | 99.3 | 475.1 | 27.8 |
| Less: Net earnings attributable to noncontrolling interests | (7.1) | (7.0) | (13.7) | (13.1) |
| Net earnings attributable to Ingersoll-Rand plc | $365.8 | $92.3 | $461.4 | $14.7 |
| Amounts attributable to Ingersoll-Rand plc ordinary shareholders: | | | | |
| Continuing operations | $358.0 | $122.6 | $455.8 | $54.1 |
| Discontinued operations | 7.8 | (30.3) | 5.6 | (39.4) |
| Net earnings | $365.8 | $92.3 | $461.4 | $14.7 |
| Earnings (loss) per share attributable to Ingersoll-Rand plc ordinary shareholders: | | | | |
| Basic: | | | | |
| Continuing operations | $1.16 | $0.37 | $1.50 | $0.16 |
| Discontinued operations | 0.02 | (0.09) | 0.02 | (0.12) |
| Net earnings | $1.18 | $0.28 | $1.52 | $0.04 |
| Diluted: | | | | |
| Continuing operations | $1.14 | $0.35 | $1.45 | $0.15 |
| Discontinued operations | 0.02 | (0.09) | 0.02 | (0.11) |
| Net earnings | $1.16 | $0.26 | $1.47 | $0.04 |
| Weighted-average shares outstanding | | | | |
| Basic | 309.2 | 333.8 | 304.2 | 332.6 |
| Diluted | 314.4 | 350.9 | 313.5 | 349.9 |
| Dividends declared per ordinary share | $0.16 | $0.12 | $0.16 | $0.19 |
| | | | | |
| Total comprehensive income | 159.6 | 193.1 | 426.8 | 312.7 |
| Less: Total comprehensive income attributable to noncontrolling interests | (7.1) | (6.4) | (13.7) | (12.5) |
| Total comprehensive income attributable to Ingersoll-Rand plc | $152.5 | $186.7 | $413.1 | $300.2 |

See accompanying notes to condensed consolidated financial statements.

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INGERSOLL-RAND PLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| In millions | June 30, 2012 | December 31, 2011 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $903.4 | $1,160.7 |
| Accounts and notes receivable, net | 2,427.9 | 2,145.8 |
| Inventories | 1,475.0 | 1,282.0 |
| Other current assets | 564.8 | 594.1 |
| Total current assets | 5,371.1 | 5,182.6 |
| Property, plant and equipment, net | 1,609.1 | 1,640.6 |
| Goodwill | 6,051.1 | 6,105.1 |
| Intangible assets, net | 4,258.7 | 4,337.1 |
| Other noncurrent assets | 1,448.7 | 1,488.8 |
| Total assets | $18,738.7 | $18,754.2 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $1,489.8 | $1,225.2 |
| Accrued compensation and benefits | 488.6 | 528.2 |
| Accrued expenses and other current liabilities | 1,508.8 | 1,607.8 |
| Short-term borrowings and current maturities of long-term debt | 422.0 | 763.3 |
| Total current liabilities | 3,909.2 | 4,124.5 |
| Long-term debt | 2,871.5 | 2,879.3 |
| Postemployment and other benefit liabilities | 1,641.2 | 1,709.9 |
| Deferred and noncurrent income taxes | 1,483.1 | 1,530.3 |
| Other noncurrent liabilities | 1,447.0 | 1,494.5 |
| Total liabilities | 11,352.0 | 11,738.5 |
| Temporary equity | — | 3.3 |
| Equity: | | |
| Ingersoll-Rand plc shareholders’ equity: | | |
| Ordinary shares | 309.1 | 297.1 |
| Capital in excess of par value | 1,629.0 | 1,633.0 |
| Retained earnings | 5,959.4 | 5,547.8 |
| Accumulated other comprehensive income (loss) | (601.9) | (553.6) |
| Total Ingersoll-Rand plc shareholders’ equity | 7,295.6 | 6,924.3 |
| Noncontrolling interest | 91.1 | 88.1 |
| Total equity | 7,386.7 | 7,012.4 |
| Total liabilities and equity | $18,738.7 | $18,754.2 |

See accompanying notes to condensed consolidated financial statements.

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INGERSOLL-RAND PLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| In millions | Six months ended June 30, 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net earnings | $475.1 | $27.8 |
| (Income) loss from discontinued operations, net of tax | (5.6) | 39.4 |
| Adjustments to arrive at net cash provided by (used in) operating activities: | | |
| (Gain) loss on sale/asset impairment | (4.5) | 386.8 |
| Depreciation and amortization | 193.1 | 205.0 |
| Stock settled share-based compensation | 19.3 | 26.0 |
| (Gain) loss on sale of property, plant and equipment | 0.3 | (22.5) |
| Changes in other assets and liabilities, net | (305.6) | (424.8) |
| Other, net | 7.4 | 115.0 |
| Net cash provided by (used in) continuing operating activities | 379.5 | 352.7 |
| Net cash provided by (used in) discontinued operating activities | (73.9) | (20.2) |
| Net cash provided by (used in) operating activities | 305.6 | 332.5 |
| Cash flows from investing activities: | | |
| Capital expenditures | (113.8) | (80.2) |
| Acquisition of businesses, net of cash acquired | — | (2.0) |
| Proceeds from sale of property, plant and equipment | 12.0 | 34.7 |
| Net cash provided by (used in) continuing investing activities | (101.8) | (47.5) |
| Net cash provided by (used in) discontinued investing activities | 36.0 | 44.4 |
| Net cash provided by (used in) investing activities | (65.8) | (3.1) |
| Cash flows from financing activities: | | |
| Short-term borrowings, net | 1.5 | 18.9 |
| Proceeds from long-term debt | — | 1.6 |
| Payments of long-term debt | (354.4) | (76.9) |
| Net proceeds (repayments) in debt | (352.9) | (56.4) |
| Debt issuance costs | (2.5) | (2.4) |
| Dividends paid to ordinary shareholders | (96.4) | (63.1) |
| Dividends paid to noncontrolling interests | (13.5) | (18.3) |
| Acquisition/divestiture of noncontrolling interests | (0.4) | — |
| Proceeds from shares issued under incentive plans | 24.9 | 101.9 |
| Repurchase of ordinary shares | (35.0) | (56.0) |
| Other, net | (4.5) | (1.5) |
| Net cash provided by (used in) continuing financing activities | (480.3) | (95.8) |
| Effect of exchange rate changes on cash and cash equivalents | (16.8) | 11.9 |
| Net increase (decrease) in cash and cash equivalents | (257.3) | 245.5 |
| Cash and cash equivalents - beginning of period | 1,160.7 | 1,014.3 |
| Cash and cash equivalents - end of period | $903.4 | $1,259.8 |

See accompanying notes to condensed consolidated financial statements.

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INGERSOLL-RAND PLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Basis of Presentation

The accompanying condensed consolidated financial statements of Ingersoll-Rand plc (IR-Ireland), an Irish public limited company, and its consolidated subsidiaries (collectively, the Company), reflect the consolidated operations of the Company and have been prepared in accordance with United States Securities and Exchange Commission (SEC) interim reporting requirements. Accordingly, the accompanying condensed consolidated financial statements do not include all disclosures required by accounting principles generally accepted in the United States of America (GAAP) for full financial statements and should be read in conjunction with the consolidated financial statements included in the IR-Ireland Annual Report on Form 10-K for the year ended December 31, 2011. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, which include normal recurring adjustments, necessary to present fairly the consolidated unaudited results for the interim periods presented. Certain reclassifications of amounts reported in prior years have been made to conform to the 2012 classification.

On December 30, 2011, the Company completed the divestiture of its security installation and service business, which was sold under the Integrated Systems and Services brand in the United States and Canada, to Kratos Public Safety & Security Solutions, Inc. As a result of the sale, the Company has reported this business as a discontinued operation for all periods presented. See Note 15 for a discussion of our discontinued operations.

On September 30, 2011 and November 30, 2011, the Company completed transactions to sell its Hussmann refrigerated display case business to a newly-formed affiliate (Hussmann Parent) of private equity firm Clayton Dubilier & Rice, LLC (CD&R). The Hussmann divestiture, which was originally announced on April 21, 2011 and anticipated to be a sale of 100% of the Company's interest in Hussmann, with no retained ongoing interest, met the criteria for classification as held for sale and for reporting as discontinued operations in accordance with GAAP in the first and second quarter of 2011 Form 10-Q filings. During the third quarter of 2011, the Company negotiated the final terms of the transaction to include the Company's ownership of common stock of Hussmann Parent, which represents significant continuing involvement. Therefore, Hussmann no longer qualified for reporting treatment as a discontinued operation. The results of Hussmann are now included in continuing operations for all periods presented, with the Company's ownership interest reported using the equity method of accounting subsequent to September 30, 2011. See Note 15 for a discussion of our divested operations.

Note 2 – Recently Adopted Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)." ASU 2011-04 represents converged guidance between GAAP and IFRS resulting in common requirements for measuring fair value and for disclosing information about fair value measurements. This new guidance is effective for fiscal years beginning after December 15, 2011 and subsequent interim periods. The requirements of ASU 2011-04 did not have a material impact on the Company's condensed consolidated financial statements. The revised disclosure requirements are reflected in Note 9.

In June 2011, the FASB issued ASU 2011-05, "Presentation of Comprehensive Income." ASU 2011-05 requires the Company to present components of other comprehensive income and of net income in one continuous statement of comprehensive income, or in two separate, but consecutive statements. The option to report other comprehensive income within the statement of equity has been removed. This new presentation of comprehensive income is effective for fiscal years beginning after December 15, 2011 and subsequent interim periods. The revised presentation requirements are reflected in the Condensed Consolidated Statements of Comprehensive Income.

In December 2011, the FASB issued ASU 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." The revised amendments defer the presentation in the financial statements of reclassifications out of accumulated other comprehensive income for annual and interim financial statements. The deferral is effective for fiscal years beginning after December 15, 2011 and subsequent interim periods. The revised presentation

requirements are reflected in the Condensed Consolidated Statements of Comprehensive Income.
In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment." This revised standard provides entities with the option to first use an assessment of qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If a conclusion is reached that reporting unit fair value is not more likely than not below carrying value, no further impairment testing is necessary. This revised guidance applies to fiscal years beginning after December 15, 2011, and the related interim and annual goodwill impairment tests. The requirements of ASU 2011-08 did not have a material impact on the Company's condensed consolidated

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INGERSOLL-RAND PLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
(Unaudited)

financial statements.

Note 3 – Inventories

Depending on the business, U.S. inventories are stated at the lower of cost or market using the last-in, first-out (LIFO) method or the lower of cost or market using the first-in, first-out (FIFO) method. Non-U.S. inventories are primarily stated at the lower of cost or market using the FIFO method.

The major classes of inventory were as follows:

| In millions | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Raw materials | $588.9 | $479.2 |
| Work-in-process | 130.0 | 114.4 |
| Finished goods | 855.6 | 791.1 |
| | 1,574.5 | 1,384.7 |
| LIFO reserve | (99.5) | (102.7) |
| Total | $1,475.0 | $1,282.0 |

Note 4 – Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2012 were as follows:

| In millions | Climate Solutions | Residential Solutions | Industrial Technologies | Security Technologies | Total |
|---|---|---|---|---|---|
| December 31, 2011 (gross) | $5,343.9 | $2,328.0 | $366.8 | $906.4 | $8,945.1 |
| Acquisitions and adjustments | 0.3 | — | — | — | 0.3 |
| Currency translation | (45.5) | — | (2.4) | (6.4) | (54.3) |
| June 30, 2012 (gross) | 5,298.7 | 2,328.0 | 364.4 | 900.0 | 8,891.1 |
| Accumulated impairment * | (839.8) | (1,656.2) | — | (344.0) | (2,840.0) |
| Goodwill (net) | $4,458.9 | $671.8 | $364.4 | $556.0 | $6,051.1 |

* No impairment charges were recorded by the Company in 2012.

Note 5 – Intangible Assets

The following table sets forth the gross amount of the Company's intangible assets and related accumulated amortization:

| | June 30, 2012 | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| In millions | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Completed technologies/patents | $206.3 | $(123.1) | $83.2 | $207.1 | $(112.6) | $94.5 |
| Customer relationships | 1,951.4 | (463.1) | 1,488.3 | 1,962.0 | (412.7) | 1,549.3 |
| Trademarks (finite-lived) | 92.4 | (28.4) | 64.0 | 96.1 | (27.6) | 68.5 |
| Other | 69.1 | (56.9) | 12.2 | 70.0 | (56.2) | 13.8 |
| Total finite-lived intangible assets | 2,319.2 | $(671.5) | 1,647.7 | 2,335.2 | $(609.1) | 1,726.1 |
| Trademarks (indefinite-lived) | 2,611.0 | | 2,611.0 | 2,611.0 | | 2,611.0 |
| Total | $4,930.2 | | $4,258.7 | $4,946.2 | | $4,337.1 |

Intangible asset amortization expense was $35.1 million and $35.7 million for the three months ended June 30, 2012 and 2011, respectively. For the six months ended June 30, 2012 and 2011, intangible asset amortization expense was $70.2 million and $73.7

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million, respectively. Future estimated amortization expense on existing intangible assets in each of the next five years amounts to approximately $145 million for 2012, $142 million for 2013, $138 million for 2014, $112 million for 2015, and $66 million for 2016.

Note 6 – Debt and Credit Facilities

Short-term borrowings and current maturities of long-term debt consisted of the following:

| In millions | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Debentures with put feature | $343.6 | $343.6 |
| Exchangeable Senior Notes | — | 341.2 |
| Current maturities of long-term debt | 11.2 | 12.5 |
| Other short-term borrowings | 67.2 | 66.0 |
| Total | $422.0 | $763.3 |

Commercial Paper Program

The Company uses borrowings under its commercial paper program for general corporate purposes. The Company had no amounts outstanding as of June 30, 2012 and December 31, 2011.

Debentures with Put Feature

At June 30, 2012 and December 31, 2011, the Company had outstanding $343.6 million of fixed rate debentures which only require early repayment at the option of the holder. These debentures contain a put feature that the holders may exercise on each anniversary of the issuance date. If exercised, the Company is obligated to repay in whole or in part, at the holder's option, the outstanding principal amount (plus accrued and unpaid interest) of the debentures held by the holder. If these options are not exercised, the final maturity dates would range between 2027 and 2028.

On February 15, 2012, holders of these debentures had the option to exercise the put feature on $37.2 million of the outstanding debentures. No holder chose to exercise the put feature at that date.

Exchangeable Senior Notes Due 2012

In April 2009, the Company issued $345.0 million of 4.5% Exchangeable Senior Notes (the Notes) through its wholly-owned subsidiary, Ingersoll-Rand Global Holding Company Limited (IR-Global). The Notes were fully and unconditionally guaranteed by each of IR-Ireland, Ingersoll-Rand Company Limited (IR-Limited) and Ingersoll-Rand International Holding Limited (IR-International). Holders had the option to exchange their Notes for the Company's ordinary shares through April 12, 2012. The Notes were subject to certain customary covenants, however, none of these covenants were considered restrictive to the Company's operations.

The Company accounted for the Notes in accordance with GAAP, which required the Company to allocate the proceeds between debt and equity at the issuance date, in a manner that reflected the Company's nonconvertible debt borrowing rate. At issuance, the Company allocated approximately $305 million of the gross proceeds to debt, with the remaining discount of approximately $40 million (approximately $39 million after allocated fees) recorded within Equity. The Company amortized the discount into Interest expense over the three-year term. The Notes were exchangeable at the holders' option through April 12, 2012. Therefore, the remaining equity portion of the Notes at December 31, 2011 was classified as Temporary equity to reflect the amount that could result in cash settlement at the balance sheet date.

The Company settled all remaining outstanding Notes during the second quarter of 2012. As a result, the Company paid $357.0 million in cash and issued 10.8 million ordinary shares to settle the principal, interest and equity portion of the Notes.

Long-term debt excluding current maturities consisted of the following:

| In millions | June 30, 2012 | December 31, 2011 |
|---|---|---|
| 6.000% Senior notes due 2013 | $599.9 | $599.9 |
| 9.500% Senior notes due 2014 | 655.0 | 655.0 |
| 5.50% Senior notes due 2015 | 199.8 | 199.8 |
| 4.75% Senior notes due 2015 | 299.6 | 299.6 |
| 6.875% Senior notes due 2018 | 749.3 | 749.3 |
| 9.00% Debentures due 2021 | 125.0 | 125.0 |
| 7.20% Debentures due 2013-2025 | 90.0 | 97.5 |
| 6.48% Debentures due 2025 | 149.7 | 149.7 |
| Other loans and notes | 3.2 | 3.5 |
| Total | $2,871.5 | $2,879.3 |

Credit Facilities

On May 26, 2010, the Company entered into a 3-year, $1.0 billion revolving credit facility through its wholly-owned subsidiary, IR-Global. On March 15, 2012, this credit facility was refinanced with a 5-year, $1.0 billion revolving credit facility maturing on March 15, 2017. The Company also has a 4-year, $1.0 billion revolving credit facility maturing on May 20, 2015, through its wholly-owned subsidiary, IR-Global.

Each of IR-Ireland, IR-Limited and IR-International has provided an irrevocable and unconditional guarantee for these credit facilities. The total committed revolving credit facilities of $2.0 billion are unused and provide support for the Company's commercial paper program as well as for other general corporate purposes.

Note 7 – Financial Instruments

In the normal course of business, the Company may use various financial instruments, including derivative instruments, to manage the risks associated with interest rate and currency rate exposures. These financial instruments are not used for trading or speculative purposes.

On the date a derivative contract is entered into, the Company designates the derivative instrument as a cash flow hedge of a forecasted transaction, a cash flow hedge of a recognized asset or liability, or as an undesignated derivative. The Company formally documents its hedge relationships, including identification of the derivative instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. This process includes linking derivative instruments that are designated as hedges to specific assets, liabilities or forecasted transactions.

The fair market value of derivative instruments is determined through market-based valuations and may not be representative of the actual gains or losses that will be recorded when these instruments mature due to future fluctuations in the markets in which they are traded.

The Company assesses at inception and at least quarterly thereafter, whether the derivatives used in cash flow hedging transactions are highly effective in offsetting the changes in the cash flows of the hedged item. To the extent the derivative is deemed to be a highly effective hedge, the fair market value changes of the instrument are recorded to Accumulated other comprehensive income (AOCI).

Any ineffective portion of a derivative instrument’s change in fair value is recorded in Net earnings in the period of change. If the hedging relationship ceases to be highly effective, or it becomes probable that a forecasted transaction is no longer expected to occur, the hedging relationship will be undesignated and any future gains and losses on the derivative instrument will be recorded in Net earnings.

Currency Hedging Instruments

The notional amount of the Company's currency derivatives was $1,616.9 million and $1,818.5 million at June 30, 2012 and December 31, 2011, respectively. At June 30, 2012 and December 31, 2011, a gain of $1.6 million and $2.3 million, net of tax, respectively, was included in AOCI related to the fair value of the Company's currency derivatives designated as accounting hedges. The amount expected to be reclassified into Net earnings over the next twelve months is a gain of $1.6 million. The actual amounts that will be reclassified to Net earnings may vary from this amount as a result of changes in market conditions. Gains and losses associated with the Company's currency derivatives not designated as hedges are recorded in Net earnings as changes in fair value occur. At June 30, 2012, the maximum term of the Company's currency derivatives was approximately 12 months.

Other Derivative Instruments

During the third quarter of 2008, the Company entered into interest rate locks for the forecasted issuance of approximately $1.4 billion of Senior Notes due in 2013 and 2018. These interest rate locks met the criteria to be accounted for as cash flow hedges of a forecasted transaction. Consequently, the changes in fair value of the interest rate locks were recognized in AOCI. No further gain or loss will be recognized in AOCI related to these interest rate locks as the contracts were effectively terminated upon issuance of the underlying debt. However, the amount of AOCI associated with these interest rate locks at the time of termination will be recognized into Interest expense over the term of the notes. At June 30, 2012 and December 31, 2011, $8.1 million and $9.0 million, respectively, of losses remained in AOCI related to these interest rate locks. The amount expected to be reclassified into Interest expense over the next twelve months is $1.8 million.

In March 2005, the Company entered into interest rate locks for the forecasted issuance of $300 million of Senior Notes due 2015. These interest rate locks met the criteria to be accounted for as cash flow hedges of a forecasted transaction. Consequently, the changes in fair value of the interest rate locks were recognized in AOCI. No further gain or loss will be recognized in AOCI related to these interest rate locks as the contracts were effectively terminated upon issuance of the underlying debt. However, the amount of AOCI associated with these interest rate locks at the time of termination will be recognized into Interest expense over the term of the notes. At June 30, 2012 and December 31, 2011, $3.7 million and $4.3 million, respectively, of losses remained in AOCI related to these interest rate locks. The amount expected to be reclassified into Interest expense over the next twelve months is $1.2 million.

The following table represents the fair values of derivative instruments included within the Condensed Consolidated Balance Sheets as of June 30, 2012 and December 31, 2011:

| | Asset derivatives | | Liability derivatives | |
|---|---|---|---|---|
| In millions | June 30, 2012 | December 31, 2011 | June 30, 2012 | December 31, 2011 |
| Derivatives designated as hedges: | | | | |
| Currency derivatives | $2.3 | $ 3.1 | $0.7 | $ 0.3 |
| Derivatives not designated as hedges: | | | | |
| Currency derivatives | 5.4 | 6.2 | 21.4 | 21.9 |
| Total derivatives | $7.7 | $ 9.3 | $22.1 | $ 22.2 |

Asset and liability derivatives included in the table above are recorded within Other current assets and Accrued expenses and other current liabilities, respectively, on the Condensed Consolidated Balance Sheet.

The following table represents the amounts associated with derivatives designated as hedges affecting Net earnings and AOCI for the three months ended June 30:

| | Amount of gain (loss) recognized in AOCI | | Location of gain (loss) reclassified from AOCI and recognized into Net earnings | Amount of gain (loss) reclassified from AOCI and recognized into Net earnings | |
|---|---|---|---|---|---|
| In millions | 2012 | 2011 | | 2012 | 2011 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Currency derivatives | $4.7 | $0.4 | Other, net | $0.5 | | $(1.2 | ) |
| Interest rate locks | — | — | Interest expense | (0.7 | ) | (0.7 | ) |
| Total | $4.7 | $0.4 | | $(0.2 | ) | $(1.9 | ) |

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The following table represents the amounts associated with derivatives not designated as hedges affecting Net earnings for the three months ended June 30:

| In millions | Location of gain (loss) recognized in Net earnings | Amount of gain (loss) recognized in Net earnings 2012 | 2011 |
|---|---|---|---|
| Currency derivatives | Other, net | $(14.5) | $4.8 |
| Total | | $(14.5) | $4.8 |

The gains and losses associated with the Company's undesignated currency derivatives are materially offset in Net earnings by changes in the fair value of the underlying transactions.

The following table represents the amounts associated with derivatives designated as hedges affecting Net earnings and AOCI for the six months ended June 30:

| | Amount of gain (loss) recognized in AOCI | | Location of gain (loss) reclassified from AOCI and recognized into Net earnings | Amount of gain (loss) reclassified from AOCI and recognized into Net earnings | |
|---|---|---|---|---|---|
| In millions | 2012 | 2011 | | 2012 | 2011 |
| Currency derivatives | $(0.2) | $(2.8) | Other, net | $0.9 | $(1.3) |
| Interest rate locks | — | — | Interest expense | (1.5) | (1.4) |
| Total | $(0.2) | $(2.8) | | $(0.6) | $(2.7) |

The following table represents the amounts associated with derivatives not designated as hedges affecting Net earnings for the six months ended June 30:

| In millions | Location of gain (loss) recognized in Net earnings | Amount of gain (loss) recognized in Net earnings 2012 | 2011 |
|---|---|---|---|
| Currency derivatives | Other, net | $8.1 | $20.4 |
| Total | | $8.1 | $20.4 |

The gains and losses associated with the Company's undesignated currency derivatives are materially offset in Net earnings by changes in the fair value of the underlying transactions.

Concentration of Credit Risk

The counterparties to the Company's forward contracts consist of a number of investment grade major international financial institutions. The Company could be exposed to losses in the event of nonperformance by the counterparties. However, the credit ratings and the concentration of risk in these financial institutions are monitored on a continuous basis and present no significant credit risk to the Company.

Note 8 – Pensions and Postretirement Benefits Other than Pensions

The Company sponsors several U.S. defined benefit and defined contribution pension plans covering substantially all of our U.S. employees. Additionally, the Company has many non-U.S. defined benefit and defined contribution pension plans covering non-U.S. eligible employees. Postretirement benefits, other than pensions, provide healthcare benefits, and in some instances, life insurance benefits for certain eligible employees.

Pension Plans

The Company has noncontributory defined benefit pension plans covering substantially all U.S. employees. Most of the plans for non-collectively bargained U.S. employees provide benefits on an average pay formula while most plans for collectively bargained U.S. employees provide benefits on a flat dollar benefit formula. In addition, the Company maintains non-U.S. pension plans for certain eligible non-U.S. employees. These plans generally provide benefits based on earnings and years of service. The Company also maintains additional other supplemental plans for officers and other key employees.

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On June 8, 2012, the Board of Directors approved amendments to the Company's retirement pension plans for certain U.S. and Puerto Rico non-bargained employees. All eligible non-bargained employees hired prior to July 1, 2012 will be given a choice of remaining in the applicable defined benefit plan until the plans freeze on December 31, 2022 or freezing their accrued benefits in their respective defined benefit plans as of December 31, 2012 and receiving an additional 2% non-matching company contribution into the Company's applicable defined contribution plan. Eligible employees who elect to remain in a defined benefit plan until the plan freezes on December 31, 2022 will receive the 2% non-matching contribution into the defined contribution savings plan beginning January 1, 2023. All employees hired or rehired on or after July 1, 2012 will automatically receive the 2% non-matching contribution into the applicable defined contribution savings plan. As a result of these changes, the Company's projected benefit obligations for the amended plans were remeasured as of June 8, 2012, which included updating the discount rate assumption to 4.00% from the 4.25% assumed at December 31, 2011. The amendments resulted in a curtailment loss of $4.0 million. The amendment and remeasurement resulted in an increase of $1.0 million to the projected benefit obligation, an increase of $29.4 million to the plan assets, an actuarial gain of $28.4 million and a credit of $4.0 million to prior service cost. Pension expense for 2012 is projected to be $154.9 million as compared to $158.6 million projected at December 31, 2011.
In connection with the Hussmann divestiture, the Company transferred its obligations for pension benefits for all current and former employees related to the divestiture.
The components of the Company’s net periodic pension benefit costs for the three and six months ended June 30 were as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| In millions | 2012 | 2011 | 2012 | 2011 |
| Service cost | $24.2 | $24.2 | $49.5 | $48.3 |
| Interest cost | 40.1 | 47.9 | 81.4 | 95.5 |
| Expected return on plan assets | (42.3) | (56.1) | (85.6) | (112.0) |
| Net amortization of: | | | | |
| Prior service costs | 1.3 | 1.4 | 2.7 | 2.8 |
| Plan net actuarial losses | 14.4 | 13.7 | 29.3 | 27.4 |
| Net periodic pension benefit cost | 37.7 | 31.1 | 77.3 | 62.0 |
| Net curtailment and settlement losses | 4.0 | — | 4.1 | 5.8 |
| Net periodic pension benefit cost after net curtailment and settlement losses | $41.7 | $31.1 | $81.4 | $67.8 |
| Amounts recorded in continuing operations | $38.8 | $30.9 | $75.6 | $67.4 |
| Amounts recorded in discontinued operations | 2.9 | 0.2 | 5.8 | 0.4 |
| Total | $41.7 | $31.1 | $81.4 | $67.8 |

The Company made required and discretionary employer contributions of $21.7 million and $36.8 million to its defined benefit pension plans during the six months ended June 30, 2012 and 2011, respectively.
The curtailment and settlement losses in 2012 are associated with the recent amendments to the pension plans and lump sum distributions under the supplemental benefit plans for officers and key employees. The curtailment and settlement losses in 2011 are only associated with lump sum distributions under supplemental benefit plans.
Postretirement Benefits Other Than Pensions
The Company sponsors several postretirement plans that provide for healthcare benefits, and in some instances, life insurance benefits that cover certain eligible employees. These plans are unfunded and have no plan assets, but are instead funded by the Company on a pay-as-you-go basis in the form of direct benefit payments. Generally, postretirement health benefits are contributory with contributions adjusted annually. Life insurance plans for retirees are primarily noncontributory.

The Board of Directors approved healthcare benefit amendments on February 1, 2012 to its postretirement plans for post-65 retiree medical coverage. Effective January 1, 2013, the Company will discontinue offering company-sponsored retiree medical coverage for certain individuals 65 and older. The Company will transition such individuals to coverage through the individual Medicare market and will provide a tax-advantaged subsidy to those retirees currently eligible for subsidized company coverage that can be used toward reimbursing premiums for individual Medicare supplemental coverage purchased through the Company's third-party Medicare coordinator and other qualified medical expenses. As a result of these changes, the Company's projected benefit obligations were remeasured as of February 1, 2012, which included updating the discount rate assumption to 3.75% from the 4.00% assumed at December 31, 2011. The remeasurement resulted in a decrease of $40.5 million to the projected benefit obligation, an actuarial loss of $21.3 million and a credit of $61.8 million to prior service cost. Postretirement benefit cost for 2012 is projected to be $39.7 million as compared to $51.8 million projected at December 31, 2011.

The Company will continue to monitor healthcare reform legislation to review provisions which could impact its accounting for retiree medical benefits in future periods. The Company may consider future plan amendments, which may have accounting implications as further regulations are promulgated and interpretations of the legislation become available.

In connection with the Hussmann divestiture, the Company transferred its obligations for postretirement benefits other than pensions for all current and former employees related to the divestiture.

The components of net periodic postretirement benefit cost for the three and six months ended June 30 were as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| In millions | 2012 | 2011 | 2012 | 2011 |
| Service cost | $1.9 | $2.1 | $3.9 | $4.2 |
| Interest cost | 8.1 | 10.8 | 16.2 | 21.2 |
| Net amortization of: | | | | |
| Prior service gains | (2.9) | (0.8) | (4.9) | (1.7) |
| Net actuarial losses | 2.8 | 0.8 | 5.3 | 1.5 |
| Net periodic postretirement benefit cost | $9.9 | $12.9 | $20.5 | $25.2 |
| Amounts recorded in continuing operations | $6.4 | $8.7 | $13.1 | $16.8 |
| Amounts recorded in discontinued operations | 3.5 | 4.2 | 7.4 | 8.4 |
| Total | $9.9 | $12.9 | $20.5 | $25.2 |

Note 9 – Fair Value Measurement

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurements are based on a framework that utilizes the inputs market participants use to determine the fair value of an asset or liability and establishes a fair value hierarchy to prioritize those inputs. The fair value hierarchy is comprised of three levels that are described below:

- Level 1 – Inputs based on quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3 – Unobservable inputs based on little or no market activity and that are significant to the fair value of the assets and liabilities.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are obtained from independent sources and can be validated by a third party, whereas unobservable inputs reflect assumptions regarding what a third party would use in pricing an asset or liability based on the best information available under the circumstances. A financial instrument’s categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Assets and liabilities measured at fair value at June 30, 2012 were as follows:

| In millions | Fair value measurements<br>Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total fair value |
|---|---|---|---|---|
| Recurring fair value measurements | | | | |
| Assets: | | | | |
| Marketable securities | $12.9 | $— | $ — | $12.9 |
| Derivative instruments | — | 7.7 | — | 7.7 |
| Total asset recurring fair value measurements | $12.9 | $7.7 | $ — | $20.6 |
| Liabilities: | | | | |
| Derivative instruments | $— | $22.1 | $ — | $22.1 |
| Total liability recurring fair value measurements | $— | $22.1 | $ — | $22.1 |
| Nonrecurring fair value measurements | | | | |
| Assets: | | | | |
| Cash and cash equivalents | $903.4 | $— | $ — | $903.4 |
| Total asset nonrecurring fair value measurements | $903.4 | $— | $ — | $903.4 |
| Financial instruments not carried at fair value: | | | | |
| Total debt | $— | $3,749.2 | $ — | $3,749.2 |
| Total financial instruments not carried at fair value | $— | $3,749.2 | $ — | $3,749.2 |

Assets and liabilities measured at fair value at December 31, 2011 were as follows:

| In millions | Fair value measurements<br>Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Total fair value |
|---|---|---|---|---|
| Recurring fair value measurements | | | | |
| Assets: | | | | |
| Marketable securities | $10.4 | $— | $ — | $10.4 |
| Derivative instruments | — | 9.3 | — | 9.3 |
| Total asset recurring fair value measurements | $10.4 | $9.3 | $ — | $19.7 |
| Liabilities: | | | | |
| Derivative instruments | $— | $22.2 | $ — | $22.2 |
| Total liability recurring fair value measurements | $— | $22.2 | $ — | $22.2 |
| Nonrecurring fair value measurements | | | | |
| Assets: | | | | |
| Cash and cash equivalents | $1,160.7 | $— | $ — | $1,160.7 |
| Total asset nonrecurring fair value measurements | $1,160.7 | $— | $ — | $1,160.7 |
| Financial instruments not carried at fair value: | | | | |

| | | | | |
|---|---|---|---|---|
| Total debt | $— | $4,359.2 | $ — | $4,359.2 |
| Total financial instruments not carried at fair value | $— | $4,359.2 | $ — | $4,359.2 |

In prior years, the Company included benefit trust assets and liabilities within its fair value disclosures. Benefit trust assets consist primarily of insurance contracts and are recorded at cash surrender value. Benefit trust liabilities include deferred compensation and executive death benefits, and are recorded based on the underlying investment portfolio of the deferred compensation plan and the specific benefits guaranteed in the death benefit contract with each executive. Benefit trust assets and liabilities of $169.5 million and $178.3 million, respectively, have been removed from the December 31, 2011 table above.

The Company determines the fair value of its financial assets and liabilities using the following methodologies:

- Cash and cash equivalents – These amounts include cash on hand, demand deposits and all highly liquid investments with original maturities at the time of purchase of three months or less and are held in U.S and non-U.S. currencies.
- Marketable securities – These securities include investments in publicly traded stock of non-U.S. companies held by non-U.S. subsidiaries of the Company. The fair value is obtained for the securities based on observable market prices quoted on public stock exchanges.
- Derivative instruments – These instruments include forward contracts related to non-U.S. currencies. The fair value of the derivative instruments are determined based on a pricing model that uses inputs from actively quoted currency markets that are readily accessible and observable.
- Debt - These securities are recorded at cost and include fixed-rate debentures maturing in 2027 and 2028, which only require early prepayment at the option of the holder; exchangeable senior notes; other senior notes maturing through 2025, and other short term borrowings. The fair value of the long-term debt instruments is obtained based on observable market prices quoted on public exchanges for similar assets.

The carrying value of cash and cash equivalents, accounts receivable, short-term borrowings and accounts payable are a reasonable estimate of their fair value due to the short-term nature of these instruments.

These methodologies used by the Company to determine the fair value of its financial assets and liabilities at June 30, 2012 are the same as those used at December 31, 2011. There have been no transfers between Level 1 and Level 2 categories.

Note 10 – Equity

The reconciliation of Ordinary shares is as follows:

| In millions | Total |
|---|---|
| December 31, 2011 | 297.1 |
| Shares issued under incentive plans, net | 2.1 |
| Shares issued for settlement of Exchangeable Senior Notes | 10.8 |
| Repurchase of ordinary shares | (0.9) |
| June 30, 2012 | 309.1 |

During the six months ended June 30, 2012, the Company repurchased 0.9 million shares for approximately $35.0 million as a part of its $2.0 billion share repurchase program. These repurchases were accounted for as a reduction of Ordinary shares and Capital in excess of par value as they were canceled upon repurchase.

The components of Equity for the six months ended June 30, 2012 were as follows:

| In millions | IR-Ireland shareholders' equity | Noncontrolling interests | Total equity |
|---|---|---|---|
| Balance at December 31, 2011 | $6,924.3 | $88.1 | $7,012.4 |
| Net earnings | 461.4 | 13.7 | 475.1 |
| Currency translation | (116.0) | — | (116.0) |
| Change in value of marketable securities and derivatives qualifying as cash flow hedges, net of tax | 2.9 | — | 2.9 |
| Pension and OPEB adjustments, net of tax | 64.8 | — | 64.8 |
| Total comprehensive income | 413.1 | 13.7 | 426.8 |
| Share-based compensation | 19.3 | — | 19.3 |
| Settlement of Exchangeable Senior Notes | (4.5) | — | (4.5) |
| Acquisition/divestiture of noncontrolling interests | — | (0.4) | (0.4) |
| Dividends to noncontrolling interests | — | (10.3) | (10.3) |
| Dividends to ordinary shareholders | (49.8) | — | (49.8) |
| Accretion of Exchangeable Senior Notes from Temporary equity | 3.3 | — | 3.3 |
| Shares issued under incentive plans, net | 24.9 | — | 24.9 |
| Repurchase of ordinary shares | (35.0) | — | (35.0) |
| Balance at June 30, 2012 | $7,295.6 | $91.1 | $7,386.7 |

The components of Equity for the six months ended June 30, 2011 were as follows:

| In millions | IR-Ireland shareholders' equity | Noncontrolling interests | Total equity |
|---|---|---|---|
| Balance at December 31, 2010 | $7,964.3 | $94.8 | $8,059.1 |
| Net earnings | 14.7 | 13.1 | 27.8 |
| Currency translation | 271.9 | — | 271.9 |
| Change in value of marketable securities and derivatives qualifying as cash flow hedges, net of tax | (1.9) | — | (1.9) |
| Pension and OPEB adjustments, net of tax | 15.5 | (0.6) | 14.9 |
| Total comprehensive income | 300.2 | 12.5 | 312.7 |
| Share-based compensation | 26.0 | — | 26.0 |
| Acquisition/divestiture of noncontrolling interests | (1.3) | (1.2) | (2.5) |
| Dividends to noncontrolling interests | — | (18.3) | (18.3) |
| Dividends to ordinary shareholders | (63.1) | — | (63.1) |
| Accretion of Exchangeable Senior Notes from Temporary equity | 6.7 | — | 6.7 |
| Shares issued under incentive plans, net | 101.9 | — | 101.9 |
| Repurchase of ordinary shares | (56.0) | — | (56.0) |
| Other | (0.5) | (1.0) | (1.5) |
| Balance at June 30, 2011 | $8,278.2 | $86.8 | $8,365.0 |

Note 11 – Share-Based Compensation

The Company records share-based compensation awards using a fair value method and recognizes compensation expense for an amount equal to the fair value of the share-based payment issued in its financial statements. The Company's share-based compensation plans include programs for stock options, restricted stock units (RSUs), performance share units (PSUs) and deferred compensation.

Compensation Expense

Share-based compensation expense relates to continuing operations and is included in Selling and administrative expenses. The following table summarizes the expenses recognized for the three and six months ended June 30:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| In millions | 2012 | 2011 | 2012 | 2011 |
| Stock options | $4.2 | $4.9 | $(2.5) | $13.2 |
| RSUs | 4.0 | 9.6 | 12.0 | 12.5 |
| PSUs | 4.3 | (3.1) | 9.9 | 1.1 |
| Deferred compensation | (0.5) | 0.4 | (0.1) | 0.4 |
| Other | 0.2 | (0.1) | 1.5 | 0.5 |
| Pre-tax expense | 12.2 | 11.7 | 20.8 | 27.7 |
| Tax benefit | (4.7) | (4.5) | (8.0) | (10.6) |
| After-tax expense | $7.5 | $7.2 | $12.8 | $17.1 |

During the first quarter of 2012, the Company recorded a correcting adjustment resulting in the reversal of $13.5 million ($8.3 million after tax) of previously charged compensation expense related to the accounting for stock option forfeitures. The Company does not believe the correcting adjustment is material to 2012 or to any of its previously issued annual or interim financial statements. As a result, the Company did not adjust any prior period amounts.

Stock Options/RSUs

Eligible participants may receive (i) stock options, (ii) RSUs or (iii) a combination of both stock options and RSUs. The following table illustrates those granted during the six months ended June 30:

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Number granted | Weighted-average fair value per award | Number granted | Weighted-average fair value per award |
| Stock options | 1,462,052 | $13.67 | 1,573,986 | $14.64 |
| RSUs | 623,422 | $40.67 | 530,486 | $47.37 |

The fair value of each of the Company’s stock option and RSU awards is expensed on a straight-line basis over the required service period, which is generally the 3-year vesting period. However, for stock options and RSUs granted to retirement eligible employees, the Company recognizes expense for the fair value at the grant date.

The average fair value of the stock options granted is determined using the Black-Scholes option-pricing model. The following assumptions were used during the six months ended June 30:

| | 2012 | 2011 |
|---|---|---|
| Dividend yield | 1.33 % | 1.33 % |
| Volatility | 43.60 % | 34.81 % |
| Risk-free rate of return | 0.92 % | 2.45 % |
| Expected life | 5.1 years | 5.3 years |

Expected volatility is based on the historical volatility from traded options on the Company's stock. The risk-free rate of return is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected term of the award. Historical data is used to estimate forfeitures within the Company's valuation model. The expected life of the Company's stock option awards is derived from historical experience and represents the period of time that awards are expected to be outstanding.

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PSUs
The Company has a Performance Share Program for key employees. The program provides awards in the form of PSUs based on performance against pre-established objectives. The annual target award level is expressed as a number of the Company's ordinary shares. All PSUs are settled in the form of ordinary shares unless deferred. During the six months ended June 30, 2012, the Company granted PSUs with a maximum award level of approximately 0.6 million shares.
Awards granted in 2011 and 2010 are based upon the Company's relative earnings-per-share (EPS) growth as compared to the industrial group of companies in the S&P 500 Index over the three-year performance period.
During the fourth quarter of 2011, the Compensation Committee approved certain changes to the Company's Performance Share Program to be implemented beginning with the 2012 grant year. Under these changes, PSU awards are based 50% upon relative EPS growth and 50% upon the Company's relative total shareholder return (TSR) as compared to the TSR of the industrial group of companies in the S&P 500 Index over the three-year performance period.
Additionally, during the first quarter of 2012, the Compensation Committee approved a change to fix the measurement of EPS for all outstanding 2010 and 2011 PSU awards, effective January 31, 2012. This change results in fixed accounting being applied as of the date of change. The fair value of the Company's stock price used to fix the remaining amount of expense to be recorded over the life of the awards was $34.94.
Deferred Compensation
The Company allows key employees to defer a portion of their eligible compensation into a number of investment choices, including its ordinary share equivalents. Any amounts invested in ordinary share equivalents will be settled in ordinary shares of the Company at the time of distribution.
Other Plans
The Company has not granted any stock appreciation rights (SARs) since 2006 and does not anticipate additional grants in the future. SARs outstanding as of June 30, 2012 of 417,864 are vested and expire 10 years from the date of grant. All SARs exercised are settled with the Company’s ordinary shares.
The Company has issued stock grants as an incentive plan to certain key employees, with varying vesting periods. All stock grants are settled with the Company’s ordinary shares.

Note 12 – Restructuring Activities
Restructuring charges recorded during the three and six months ended June 30, were as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| In millions | 2012 | 2011 | 2012 | 2011 |
| Climate Solutions | $2.3 | $5.4 | $9.8 | $5.6 |
| Residential Solutions | (0.3) | — | 0.2 | 0.2 |
| Industrial Technologies | 1.7 | 2.3 | 7.5 | 1.2 * |
| Security Technologies | 4.1 | (1.9)** | 7.9 | (1.1)** |
| Corporate and Other | 1.0 | (0.1) | 2.1 | — |
| Total | $8.8 | $5.7 | $27.5 | $5.9 |
| Cost of goods sold | $3.0 | $(0.2) | $11.4 | $(1.3) |
| Selling and administrative expenses | 5.8 | 5.9 | 16.1 | 7.2 |
| Total | $8.8 | $5.7 | $27.5 | $5.9 |

* Amount includes the reversal of $6.7 million of previously accrued restructuring charges, as the Company made a decision in the first quarter of 2011 to continue operating a facility.
** Amount includes the reversal of $2.2 million of previously accrued restructuring charges, as the Company made a decision in the second quarter of 2011 to discontinue a portion of the Company's restructuring plans.

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The changes in the restructuring reserve during the six months ended June 30, 2012 were as follows:

| In millions | Climate Solutions | Residential Solutions | Industrial Technologies | Security Technologies | Corporate and Other | Total |
|---|---|---|---|---|---|---|
| December 31, 2011 | $3.9 | $1.6 | $4.2 | $1.7 | $1.7 | $13.1 |
| Additions, net of reversals | 9.8 | 0.2 | 7.5 | 7.9 | 2.1 | 27.5 |
| Cash and non-cash uses | (8.2) | (1.7) | (7.2) | (4.2) | (0.9) | (22.2) |
| Currency translation | (0.2) | — | — | — | — | (0.2) |
| June 30, 2012 | $5.3 | $0.1 | $4.5 | $5.4 | $2.9 | $18.2 |

During the six months ended June 30, 2012 and 2011, the Company incurred costs of $27.5 million and $5.9 million, respectively, associated with restructuring actions. These actions included workforce reductions as well as the consolidation of manufacturing facilities in an effort to increase efficiencies across multiple lines of business. As of June 30, 2012, the Company had $18.2 million accrued for costs associated with its ongoing restructuring actions, of which a majority will be paid within one year.

Note 13 – Other, Net

The components of Other, net for the three and six months ended June 30 were as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| In millions | 2012 | 2011 | 2012 | 2011 |
| Interest income | $3.9 | $6.7 | $8.6 | $11.8 |
| Exchange gain (loss) | (1.0) | (7.7) | (2.8) | (7.6) |
| Earnings (loss) from equity investments | (0.8) | — | (6.0) | — |
| Other | 2.0 | 3.4 | 4.1 | 3.1 |
| Other, net | $4.1 | $2.4 | $3.9 | $7.3 |

Included within Earnings (loss) from equity investments for the three and six months ended June 30, 2012 is a $0.8 million and $6.0 million equity loss on the Hussmann equity investment, respectively.

Note 14 – Income Taxes

The provision for income taxes involves a significant amount of management judgment regarding interpretation of relevant facts and laws in the jurisdictions in which the Company operates. Future changes in applicable laws, projected levels of taxable income and tax planning could change the effective tax rate and tax balances recorded by the Company. In addition, tax authorities periodically review income tax returns filed by the Company and can raise issues regarding its filing positions, timing and amount of income or deductions, and the allocation of income among the jurisdictions in which the Company operates. A significant period of time may elapse between the filing of an income tax return and the ultimate resolution of an issue raised by a revenue authority with respect to that return. In the normal course of business the Company is subject to examination by taxing authorities throughout the world, including such major jurisdictions as Brazil, Canada, Germany, Ireland, Italy, the Netherlands and the United States. In general, the examination of the Company's material tax returns is complete for the years prior to 2001, with certain matters being resolved through appeals and litigation.

On July 20, 2007, the Company received a notice from the IRS containing proposed adjustments to the Company's tax filings in connection with an audit of the 2001 and 2002 tax years. The IRS did not contest the validity of the Company's reincorporation in Bermuda. The most significant adjustments proposed by the IRS involve treating the entire intercompany debt incurred in connection with the Company's reincorporation in Bermuda as equity. As a result of this recharacterization, the IRS disallowed the deduction of interest paid on the debt and imposed dividend withholding taxes on the payments denominated as interest. The IRS also asserted an alternative argument to be applied if the intercompany debt is respected as debt. In that circumstance, the IRS proposed to ignore the entities that hold the debt and to which the interest was paid and impose 30% withholding tax on a portion of the interest payments as if they were made directly to a company that was not eligible for reduced U.S. withholding tax under a U.S. income tax treaty. The IRS asserted under this alternative theory that the Company owes additional taxes with respect to 2002 of approximately $84 million plus interest. The Company strongly disagreed with the view of the IRS and filed a protest with the IRS in the third quarter of 2007.

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On January 12, 2010, the Company received an amended notice from the IRS eliminating its assertion that the intercompany debt incurred in connection with the Company's reincorporation in Bermuda should be treated as equity. However, the IRS continues to assert the alternative position described above and proposes adjustments to the Company's 2002 tax filings. If this alternative position is upheld, the Company would be required to record additional charges. In addition, the IRS provided notice on January 19, 2010, that it is assessing penalties of 30% on the asserted underpayment of tax described above.

The Company has and intends to continue to vigorously contest these proposed adjustments. The Company, in consultation with its outside advisors, carefully considered the form and substance of the Company's intercompany financing arrangements including the actions necessary to qualify for the benefits of the applicable U.S. income tax treaties. The Company believes that these financing arrangements are in accordance with the laws of the relevant jurisdictions including the U.S., that the entities involved should be respected and that the interest payments qualify for the U.S. income tax treaty benefits claimed.

Although the outcome of this matter cannot be predicted with certainty, based upon an analysis of the merits of the Company's position, the Company believes that it is adequately reserved for this matter and does not expect that the ultimate resolution will have a material adverse impact on its future results of operations, financial condition, or cash flows. As the Company moves forward to resolve this matter with the IRS, the reserves established may be adjusted. Although the Company continues to contest the IRS's position, there can be no assurance that it will be successful. If the IRS's position with respect to 2002 is ultimately sustained it will have a material adverse impact on the Company's future results of operations, financial condition and cash flows.

Although the Company expects them to do so, at this time the IRS has not yet proposed any similar adjustments for years subsequent to 2002 as the federal income tax audits for those years are still in process or have not yet begun. It is unclear how the IRS will apply their position to subsequent years or whether the IRS will take a similar position with respect to other intercompany debt instruments.

The Company believes that it has adequately provided for any reasonably foreseeable resolution of any tax disputes, but will adjust its reserves if events so dictate in accordance with GAAP. To the extent that the ultimate results differ from the original or adjusted estimates of the Company, the effect will be recorded in the Provision for income taxes.

Total unrecognized tax benefits as of June 30, 2012 and December 31, 2011 were $542.3 million and $536.9 million, respectively.

The Company will continue to monitor healthcare reform legislation to review provisions which could impact its accounting for income taxes in future periods. The Company may consider future plan amendments, which may have accounting implications as further regulations are promulgated and interpretations of the legislation become available.

During the three months ended June 30, 2012, the Company recorded a net discrete tax benefit of approximately $47 million which includes a $54 million out-of-period adjustment related to a Spanish tax law change (Royal Decree-Law 12/2012) enacted on March 31, 2012, the benefit of which should have been recorded by the Company during the three months ended March 31, 2012.  The Company does not believe this out-of-period adjustment is material to its 2012 projected annual results or to its previously issued interim financial statements.

On July 17, 2012,  the Official Bulletin of the State (Boletín Oficial del Estado, the official gazette of the Government of Spain) published a resolution dated July 16, 2012 clarifying certain provisions of Royal Decree-Law 12/2012. As a result of this interpretation, the Company will record an additional discrete tax benefit of approximately $22 million in the three months ending September 30, 2012.  The Company will continue to monitor developments in the Spanish legislation and assess the financial statement implications.  It is reasonably possible that future enacted Spanish legislation could further impact the Company's tax positions and adversely impact our future results.

Note 15 – Divestitures and Discontinued Operations

Divested Operations

Hussmann Divestiture

On September 30, 2011, the Company completed a transaction to sell its Hussmann refrigerated display case business to a newly-formed affiliate (Hussmann Parent) of private equity firm Clayton Dubilier & Rice, LLC (CD&R). This transaction included the equipment business and certain of the service branches in the U.S. and Canada, and the equipment, service and installation businesses in Mexico, Chile, Australia, New Zealand, and Japan (Hussmann Business). The final transaction allowed Hussmann Parent the option to acquire the remaining North American Hussmann service and installation branches (Hussmann Branches). Hussmann Parent completed the acquisition of the Hussmann Branches on November 30, 2011. The Hussmann Business and Branches, which are reported as part of the Climate Solutions segment, manufacture, market, distribute, install, and service refrigerated display merchandising equipment, refrigeration systems, over the counter parts, and other commercial and industrial refrigeration applications.

The Hussmann Business divestiture was originally announced on April 21, 2011 and met the criteria for classification as held for sale treatment in accordance with GAAP during the first quarter of 2011. The Company classified the assets and liabilities of the Hussmann Business as held for sale and reported the results in discontinued operations in the first and second quarter of 2011 Form 10-Q filings. The company recognized a $200.5 million and $386.8 million pre-tax impairment loss to write the net assets down to their estimated fair value during the three and six months ended June 30, 2011, respectively.

During the third quarter of 2011, the Company negotiated the final transaction to sell the Hussmann Business and Branches to CD&R in exchange for $370 million in cash, subject to purchase price adjustments, and common stock of Hussmann Parent, such that following the sale, CD&R would own cumulative convertible participating preferred stock of Hussmann Parent, initially representing 60% of the outstanding capital stock (on an as-converted basis) of Hussmann Parent, and the Company would own all of the common stock, initially representing the remaining 40% of the outstanding capital stock (on an as-converted basis) of Hussmann Parent. The Company's ownership of common stock of Hussmann Parent represents significant continuing involvement. Therefore, the results of the Hussmann Business and Branches are included in continuing operations for all periods presented. Based on these terms, the Company recorded a total pre-tax loss on sale/asset impairment charge of $646.9 million during the full year of 2011.
Results for the Hussmann Business and Branches for the three and six months ended June 30, 2011 were as follows:

| In millions | Three months ended | Six months ended |
|---|---|---|
| Net revenues | $286.8 | $499.9 |
| Loss on sale/asset impairment | (200.5) | (386.8) |
| Net earnings (loss) attributable to Ingersoll-Rand plc | (179.3) | (370.4) |
| Diluted earnings (loss) per share attributable to Ingersoll-Rand plc ordinary shareholders: | (0.51) | (1.06) |

As a result of Hussmann Parent's required quarterly preferred dividend payment to CD&R being paid in the form of additional preferred shares, the Company's ownership percentage as of June 30, 2012 was 37.9%. The Company's ownership interest in Hussmann Parent is reported using the equity method of accounting subsequent to September 30, 2011. The Company's equity investment in the Hussmann Parent is reported within Other noncurrent assets in the Condensed Consolidated Balance Sheet and the related equity earnings reported in Other, net within Net earnings.

Discontinued Operations

The components of Discontinued operations, net of tax for the three and six months ended June 30 were as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| In millions | 2012 | 2011 | 2012 | 2011 |
| Net revenues | $— | $18.6 | $— | $34.5 |
| Pre-tax earnings (loss) from operations | $(13.7) | $(10.7) | $(26.8) | $(25.7) |
| Pre-tax gain (loss) on sale | 3.2 | (33.7) | 3.2 | (33.6) |
| Tax benefit (expense) | 18.3 | 14.1 | 29.2 | 19.9 |
| Discontinued operations, net of tax | $7.8 | $(30.3) | $5.6 | $(39.4) |

Discontinued operations, net of tax by business for the three and six months ended June 30 were as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| In millions | 2012 | 2011 | 2012 | 2011 |
| Integrated Systems and Services, net of tax | $(0.1) | $0.8 | $(0.3) | $— |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Other discontinued operations, net of tax | 7.9 | (31.1 | ) | 5.9 | (39.4 | ) |
| Discontinued operations, net of tax | $7.8 | $(30.3 | ) | $5.6 | $(39.4 | ) |

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INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

Integrated Systems and Services Divestiture

On December 30, 2011, the Company completed the divestiture of its security installation and service business, which was sold under the Integrated Systems and Services brand in the United States and Canada, to Kratos Public Safety & Security Solutions, Inc. This business, which was previously reported as part of the Security Technologies segment, designs, installs and services security systems. The Company reported this business as a discontinued operation for all periods presented. In the fourth quarter of 2011, the Company recorded a pre-tax loss on sale of $6.7 million ($5.0 million after-tax) within discontinued operations.

Net revenues and after-tax earnings of the Integrated Systems and Services business for the three and six months ended June 30 were as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| In millions | 2012 | 2011 | 2012 | 2011 |
| Net revenues | $— | $18.6 | $— | $34.5 |
| After-tax earnings (loss) from operations | $(0.1) | $0.8 | $(0.3) | $— |
| Gain (loss) on sale, net of tax | — | — | — | — |
| Discontinued operations, net of tax | $(0.1) | $0.8 | $(0.3) | $— |

Other Discontinued Operations

On November 30, 2007, the Company completed the sale of its Bobcat, Utility Equipment and Attachments businesses (collectively, Compact Equipment) to Doosan Infracore for gross proceeds of approximately $4.9 billion, subject to post-closing purchase price adjustments. Compact Equipment manufactured and sold compact equipment, including skid-steer loaders, compact track loaders, mini-excavators and telescopic tool handlers; portable air compressors, generators and light towers; general-purpose light construction equipment; and attachments. The Company was in dispute regarding post-closing matters with Doosan Infracore. During the second quarter of 2011, the Company collected approximately $48.3 million of its outstanding receivable from Doosan Infracore related to certain purchase price adjustments. During the second quarter of 2012, Doosan Infracore paid the Company a total of $46.5 million to settle the outstanding receivable and remaining disputed post-closing matters.

Other discontinued operations, net of tax from previously sold businesses is mainly related to postretirement benefits, product liability and legal costs (mostly asbestos-related) and tax effects of post-closing purchase price adjustments.

Note 16 – Earnings Per Share (EPS)

Basic EPS is calculated by dividing Net earnings attributable to Ingersoll-Rand plc by the weighted-average number of ordinary shares outstanding for the applicable period. Diluted EPS is calculated after adjusting the denominator of the basic EPS calculation for the effect of all potentially dilutive ordinary shares, which in the Company’s case, includes shares issuable under share-based compensation plans and the effects of the Exchangeable Senior Notes issued in April 2009. The following table summarizes the weighted-average number of ordinary shares outstanding for basic and diluted earnings per share calculations for the three and six months ended June 30:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| In millions | 2012 | 2011 | 2012 | 2011 |
| Weighted-average number of basic shares | 309.2 | 333.8 | 304.2 | 332.6 |
| Shares issuable under incentive stock plans | 3.5 | 5.2 | 3.2 | 5.4 |
| Exchangeable Senior Notes | 1.7 | 11.9 | 6.1 | 11.9 |
| Weighted-average number of diluted shares | 314.4 | 350.9 | 313.5 | 349.9 |
| Anti-dilutive shares | 5.8 | 1.5 | 6.4 | 1.7 |

The Company settled all remaining outstanding Notes during the second quarter of 2012. As a result, the Company issued 10.8 million ordinary shares related to the equity portion of the Notes. See Note 6 for a further discussion.

Note 17 – Business Segment Information

The Company classifies its businesses into the following four reportable segments based on industry and market focus: Climate Solutions, Residential Solutions, Industrial Technologies and Security Technologies.

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Segment operating income is the measure of profit and loss that the Company's chief operating decision maker uses to evaluate the financial performance of the business and as the basis for performance reviews, compensation and resource allocation. For these reasons, the Company believes that Segment operating income represents the most relevant measure of segment profit and loss. The Company may exclude certain charges or gains from Operating income to arrive at a Segment operating income that is a more meaningful measure of profit and loss upon which to base its operating decisions.

On September 30, 2011 and November 30, 2011, the Company completed transactions to sell the Hussmann Business and Branches, respectively, to a newly-formed affiliate (Hussmann Parent) of private equity firm Clayton Dubilier & Rice, LLC (CD&R). During the three and six months ended June 30, 2011, the Company recorded a pre-tax asset impairment charge related to the Hussmann divestiture totaling $200.5 million and $386.8 million, respectively. These charges have been excluded from Segment operating income within the Climate Solutions segment as management excludes these charges from Operating income when making operating decisions about the business. See Note 15 for a further discussion of the Hussmann divestiture.

2011 Net revenues and Segment operating income for the Climate Solutions segment includes the operating results of the Hussmann Business and Branches prior to the sale. The operating results for the Hussmann Business and Branches for the three and six months ended June 30, 2011, were as follows:

| In millions | Three months ended | Six months ended |
|---|---|---|
| Net revenues | $286.8 | $499.9 |
| Segment operating income | $30.0 | $26.0 |

On December 30, 2011, the Company completed the divestiture of its security installation and service business, which was sold under the Integrated Systems and Services brand in the United States and Canada, to Kratos Public Safety & Security Solutions, Inc. This business, which was previously reported as part of the Security Technologies segment, designs, installs and services security systems. Segment information has been revised to exclude the results of this business for all periods presented.

A summary of operations by reportable segment for the three and six months ended June 30 was as follows:

| | Three months ended | | Six months ended | |
|---|---|---|---|---|
| In millions | 2012 | 2011 | 2012 | 2011 |
| Net revenues | | | | |
| Climate Solutions | $1,967.1 | $2,265.4 | $3,628.9 | $4,090.3 |
| Residential Solutions | 652.5 | 632.1 | 1,074.1 | 1,065.4 |
| Industrial Technologies | 790.3 | 771.9 | 1,479.0 | 1,412.4 |
| Security Technologies | 411.4 | 422.0 | 790.0 | 797.1 |
| Total | $3,821.3 | $4,091.4 | $6,972.0 | $7,365.2 |
| Segment operating income | | | | |
| Climate Solutions * | $238.5 | $273.2 | $332.6 | $367.3 |
| Residential Solutions | 51.7 | 40.3 | 41.0 | 48.3 |
| Industrial Technologies | 134.4 | 120.5 | 225.9 | 205.7 |
| Security Technologies | 82.4 | 92.0 | 152.2 | 163.1 |
| Total | $507.0 | $526.0 | $751.7 | $784.4 |
| Reconciliation to Operating income | | | | |