Ingersoll-Rand plc
Form 10-Q
July 22, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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	98-0626632
(State or other jurisdiction of incorporation or organization)	(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 11, 2014 was 267,507,567.

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PART I-FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three months ended June 30,		Six months ended June 30,	
In millions, except per share amounts	2014	2013	2014	2013
Net revenues	$3,542.9	$3,398.4	$6,265.9	$6,037.4
Cost of goods sold	(2,439.9)	(2,377.5)	(4,394.8)	(4,290.0)
Selling and administrative expenses	(639.7)	(633.4)	(1,252.8)	(1,239.8)
Operating income	463.3	387.5	618.3	507.6
Interest expense	(53.0)	(61.9)	(105.0)	(122.6)
Other, net	8.6	(2.4)	10.7	(1.9)
Earnings before income taxes	418.9	323.2	524.0	383.1
Provision for income taxes	(103.7)	(48.7)	(128.3)	(53.2)
Earnings from continuing operations	315.2	274.5	395.7	329.9
Discontinued operations, net of tax	(4.6)	50.2	(1.7)	89.4
Net earnings	310.6	324.7	394.0	419.3
Less: Net earnings attributable to noncontrolling interests	(4.6)	(7.5)	(9.1)	(14.1)
Net earnings attributable to Ingersoll-Rand plc	$306.0	$317.2	$384.9	$405.2
Amounts attributable to Ingersoll-Rand plc ordinary shareholders:				
Continuing operations	$310.6	$269.2	$386.6	$319.7
Discontinued operations	(4.6)	48.0	(1.7)	85.5
Net earnings	$306.0	$317.2	$384.9	$405.2
Earnings (loss) per share attributable to Ingersoll-Rand plc ordinary shareholders:				
Basic:				
Continuing operations	$1.15	$0.91	$1.41	$1.07
Discontinued operations	(0.02)	0.16	(0.01)	0.29
Net earnings	$1.13	$1.07	$1.40	$1.36
Diluted:				
Continuing operations	$1.13	$0.89	$1.39	$1.06
Discontinued operations	(0.01)	0.16	(0.01)	0.28
Net earnings	$1.12	$1.05	$1.38	$1.34
Weighted-average shares outstanding:				
Basic	270.4	297.5	274.4	298.1
Diluted	274.2	301.2	278.2	301.9
Dividends declared per ordinary share	$0.25	$0.21	$0.50	$0.21
Total comprehensive income (loss)	$315.4	$324.2	$364.4	$333.8
Less: Total comprehensive (income) loss attributable to noncontrolling interests	(4.3)	1.6	(10.3)	(6.2)
Total comprehensive income (loss) attributable to Ingersoll-Rand plc	$311.1	$325.8	$354.1	$327.6

See accompanying notes to condensed consolidated financial statements.

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INGERSOLL-RAND PLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

In millions	June 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$929.8	$1,937.2
Accounts and notes receivable, net	2,449.4	2,071.5
Inventories	1,388.9	1,166.1
Deferred taxes and current tax receivable	329.8	359.5
Other current assets	228.6	182.4
Total current assets	5,326.5	5,716.7
Property, plant and equipment, net	1,472.7	1,468.4
Goodwill	5,527.6	5,540.6
Intangible assets, net	3,856.3	3,922.0
Other noncurrent assets	976.3	1,010.4
Total assets	$17,159.4	$17,658.1
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$1,478.8	$1,163.0
Accrued compensation and benefits	412.9	505.2
Accrued expenses and other current liabilities	1,379.1	1,311.3
Short-term borrowings and current maturities of long-term debt	915.7	367.7
Current income taxes	67.6	61.4
Total current liabilities	4,254.1	3,408.6
Long-term debt	2,646.5	3,153.5
Postemployment and other benefit liabilities	1,274.4	1,287.8
Deferred and noncurrent income taxes	1,241.7	1,335.8
Other noncurrent liabilities	1,302.6	1,341.1
Total liabilities	10,719.3	10,526.8
Equity:		
Ingersoll-Rand plc shareholders’ equity:		
Ordinary shares	268.1	282.7
Capital in excess of par value	44.7	158.4
Retained earnings	6,266.9	6,794.5
Accumulated other comprehensive income (loss)	(197.4)	(166.7)
Total Ingersoll-Rand plc shareholders’ equity	6,382.3	7,068.9
Noncontrolling interest	57.8	62.4
Total equity	6,440.1	7,131.3
Total liabilities and equity	$17,159.4	$17,658.1

See accompanying notes to condensed consolidated financial statements.

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

	Six months ended June 30,	
In millions	2014	2013
Cash flows from operating activities:		
Net earnings	$394.0	$419.3
(Income) loss from discontinued operations, net of tax	1.7	(89.4)
Adjustments to arrive at net cash provided by (used in) operating activities:		
Depreciation and amortization	168.2	167.0
Stock settled share-based compensation	38.7	40.1
Changes in assets and liabilities, net	(415.3)	(189.4)
Other, net	(11.4)	(34.1)
Net cash provided by (used in) continuing operating activities	175.9	313.5
Net cash provided by (used in) discontinued operating activities	(55.8)	115.3
Net cash provided by (used in) operating activities	120.1	428.8
Cash flows from investing activities:		
Capital expenditures	(92.6)	(131.6)
Acquisition of businesses, net of cash acquired	(6.8)	—
Proceeds from sale of property, plant and equipment	2.9	4.3
Proceeds from business dispositions, net of cash sold	2.0	4.4
Dividends received from equity investments	30.3	—
Net cash provided by (used in) continuing investing activities	(64.2)	(122.9)
Net cash provided by (used in) discontinued investing activities	—	(7.6)
Net cash provided by (used in) investing activities	(64.2)	(130.5)
Cash flows from financing activities:		
Short-term borrowings, net	38.2	11.7
Proceeds from long-term debt	8.6	1,546.2
Payments of long-term debt	(7.8)	(8.1)
Net proceeds (repayments) in debt	39.0	1,549.8
Dividends paid to ordinary shareholders	(132.8)	(124.4)
Dividends paid to noncontrolling interests	(14.9)	(2.5)
Proceeds from shares issued under incentive plans	23.5	118.6
Repurchase of ordinary shares	(1,012.8)	(477.6)
Other, net	42.8	(13.2)
Net cash provided by (used in) continuing financing activities	(1,055.2)	1,050.7
Net cash provided by (used in) discontinued financing activities	—	(5.5)
Net cash provided by (used in) financing activities	(1,055.2)	1,045.2
Effect of exchange rate changes on cash and cash equivalents	(8.1)	(25.1)
Net increase (decrease) in cash and cash equivalents	(1,007.4)	1,318.4
Cash and cash equivalents - beginning of period	1,937.2	708.4
Cash and cash equivalents - end of period	$929.8	$2,026.8

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 unaudited condensed consolidated financial statements of Ingersoll-Rand plc (IR-Ireland), a public limited company incorporated in Ireland in 2009, 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, 2013. In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, which include normal recurring adjustments, necessary to present fairly the condensed consolidated results for the interim periods presented.
Certain reclassifications of amounts reported in prior periods have been made to conform to the 2014 classification. The Company made certain changes in classification of global integrated supply chain costs within Operating income. This change in classification resulted in a $14.5 million and $22.4 million increase to Cost of goods sold with a corresponding decrease to Selling and administrative expenses for the three and six months ended June 30, 2013, respectively.
Note 2 – Spin-Off Transaction
On December 1, 2013 (the Distribution Date), the Company completed the previously announced separation (the spin-off) of its commercial and residential security businesses by distributing the related ordinary shares of Allegion plc (Allegion), on a pro rata basis, to the Company's shareholders of record as of November 22, 2013 (the Record Date). After the Distribution Date, Allegion became an independent publicly traded company.
The results of our commercial and residential security businesses are presented as a discontinued operation in the Condensed Consolidated Statement of Comprehensive Income and Condensed Consolidated Statement of Cash Flows for all periods presented. The equity activity of the commercial and residential security businesses is included within the Company's equity through December 1, 2013. Except where otherwise noted, all disclosures in the related footnotes represent the results of continuing operations.
In connection with the spin-off of Allegion, the Company and Allegion entered into several agreements covering administrative and tax matters to provide or obtain services on a transitional basis, as needed, for varying periods after the spin-off. The administrative agreements cover various services such as information technology, human resources and finance. The Company expects all services to be substantially complete within one year after the spin-off.
During the three and six months ended June 30, 2013, the Company incurred $21.0 million and $32.0 million, respectively, of professional service fees related to the spin-off. These costs are reported within Discontinued operations, net of tax in the Condensed Consolidated Statement of Comprehensive Income.
Note 3 – Recent Accounting Pronouncements
Recently Adopted Accounting Pronouncements
In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-04, “Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date.” ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements where the total obligation is fixed at the reporting date, and for which no specific guidance currently exists. This new guidance became effective for annual reporting periods beginning on or after December 15, 2013 and subsequent interim periods. The revised requirements of ASU 2013-04 did not have an impact on the condensed consolidated financial statements.
In March 2013, the FASB issued ASU 2013-05, “Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity.” ASU 2013-05 clarifies the application of GAAP to the release of cumulative translation adjustments related to changes of ownership in or within foreign entities, including step acquisitions. This new guidance became effective

for annual reporting periods beginning on or after December 15, 2013 and subsequent interim periods. The Company will apply the new guidance, as applicable, to future derecognitions of certain subsidiaries or groups of assets within a Foreign Entity or of an Investment in foreign entities.

In July 2013, the FASB issued ASU 2013-11, “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” ASU 2013-11 clarifies guidance and eliminates diversity in practice on the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. This new guidance became effective for annual reporting periods beginning on or after December 15, 2013 and subsequent interim periods. The Company has applied the requirements of ASU 2013-11 prospectively in preparing the June 30, 2014 condensed consolidated balance sheet, which resulted in a decrease to noncurrent deferred tax assets of $20.7 million, an increase to noncurrent deferred tax liabilities of $128.9 million and a decrease to noncurrent reserves for uncertain tax positions of $149.6 million. Had the Company applied the requirements of ASU 2013-11 retrospectively to the December 31, 2013 consolidated balance sheet, the impact would have been a decrease to current and noncurrent deferred tax assets of $22.6 million and $20.7 million, respectively, an increase to noncurrent deferred tax liabilities of $128.9 million and a decrease to noncurrent reserves for uncertain tax positions of $172.2 million.

Recently Issued Accounting Pronouncements

In April 2014, the FASB issued ASU 2014-08, “Presentation of Financial Statements and Property, Plant, and Equipment - Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” ASU 2014-08 provides new guidance related to the definition of a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. This new guidance is effective for annual periods beginning on or after December 15, 2014 and interim periods within those years. Beginning in 2015, the Company will apply the new guidance, as applicable, to future disposals of components or classifications as held for sale.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers.” ASU 2014-09 provides new guidance related to how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, ASU 2014-08 specifies new accounting for costs associated with obtaining or fulfilling contracts with customers and expands the required disclosures related to revenue and cash flows from contracts with customers. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative-effect adjustment as of the date of adoption, with early application not permitted. The Company is currently determining its implementation approach and assessing the impact on the condensed consolidated financial statements.

Note 4 – 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, 2014	December 31, 2013
Raw materials	$490.4	$378.0
Work-in-process	114.7	100.7
Finished goods	855.3	760.2
	1,460.4	1,238.9
LIFO reserve	(71.5)	(72.8)
Total	$1,388.9	$1,166.1

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

Note 5 – Goodwill

The changes in the carrying amount of goodwill for the six months ended June 30, 2014 were as follows:

In millions	Climate	Industrial	Total
Balance as of December 31, 2013			
Goodwill (gross)	$7,663.6	$373.0	$8,036.6
Accumulated impairment **	(2,496.0)	—	(2,496.0)
	5,167.6	373.0	5,540.6
Acquisitions and adjustments*	13.5	—	13.5
Currency translation	(25.5)	(1.0)	(26.5)
Balance as of June 30, 2014			
Goodwill (gross)	7,651.6	372.0	8,023.6
Accumulated impairment **	(2,496.0)	—	(2,496.0)
	$5,155.6	$372.0	$5,527.6

* Increase is primarily related to a $15.0 million acquisition in March of 2014.
** No impairment charges were recorded by the company in 2014 or 2013.

The Company records as goodwill the excess of the purchase price over the fair value of the net assets acquired. Once the final valuation has been performed for each acquisition, adjustments may be recorded.

Note 6 – Intangible Assets

The gross amount of the Company's intangible assets and related accumulated amortization were as follows:

	June 30, 2014			December 31, 2013		
In millions	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Completed technologies/patents	$174.5	$(138.6)	$35.9	$174.1	$(128.7)	$45.4
Customer relationships	1,863.7	(651.7)	1,212.0	1,865.9	(599.5)	1,266.4
Other	60.0	(53.6)	6.4	60.4	(52.2)	8.2
Total finite-lived intangible assets	2,098.2	$(843.9)	1,254.3	2,100.4	$(780.4)	1,320.0
Trademarks (indefinite-lived)	2,602.0		2,602.0	2,602.0		2,602.0
Total	$4,700.2		$3,856.3	$4,702.4		$3,922.0

Intangible asset amortization expense was $32.3 million and $31.9 million for the three months ended June 30, 2014 and 2013, respectively. Intangible asset amortization expense was $64.7 million and $64.4 million for the six months ended June 30, 2014 and 2013, respectively.

Note 7 – Debt and Credit Facilities

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

In millions	June 30, 2014	December 31, 2013
Debentures with put feature	$343.0	$343.0
5.50% Senior notes due 2015	198.9	—
4.75% Senior notes due 2015	299.9	—
Other current maturities of long-term debt	7.8	8.0
Other short-term borrowings	66.1	16.7
Total	$915.7	$367.7

Commercial Paper Program

The Company uses borrowings under its commercial paper program for general corporate purposes. The Company had $38.5 million and $0.0 million of commercial paper outstanding at June 30, 2014 and December 31, 2013, respectively.

Debentures with Put Feature

At June 30, 2014 and December 31, 2013, the Company had outstanding $343.0 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, subject to a notice requirement. 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.

Holders of these debentures had the option to exercise the put feature on $37.2 million of the outstanding debentures in February 2014, subject to the notice requirement. No exercises were made.

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

In millions	June 30, 2014	December 31, 2013
5.50% Senior notes due 2015	$—	$198.1
4.75% Senior notes due 2015	—	299.8
6.875% Senior notes due 2018	749.6	749.5
2.875% Senior notes due 2019	349.6	349.5
9.00% Debentures due 2021	125.0	125.0
4.250% Senior notes due 2023	698.8	698.8
7.20% Debentures due 2015-2025	75.0	82.5
6.48% Debentures due 2025	149.7	149.7
5.750% Senior notes due 2043	498.0	498.0
Other loans and notes	0.8	2.6
Total	$2,646.5	$3,153.5

Senior Notes due 2019, 2023, and 2043

In June 2013, the Company issued $1.55 billion principal amount of Senior Notes in three tranches through its wholly-owned subsidiary, Ingersoll-Rand Global Holding Company Limited (IR-Global) pursuant to Rule 144A of the U.S. Securities Act of 1933 (Securities Act). The tranches consist of $350 million of 2.875% Senior Notes due in 2019, $700 million of 4.250% Senior Notes due in 2023, and $500 million of 5.750% Senior Notes due in 2043. 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). Ingersoll-Rand Company (IR-New Jersey) became a co-obligor of the notes in December 2013. Interest on the notes is paid twice a year in arrears. The Company has the option to redeem the notes in whole or in part at any time, and from time to time, prior to their stated maturity date at redemption prices set forth in the indenture agreement. The notes are subject to certain customary covenants, however, none of these covenants are considered restrictive to the Company's operations. In connection with the issuance of each series of notes, IR-Global, the Guarantors and the initial purchasers of the notes entered into a Registration Rights Agreement. Each Registration Rights Agreement requires IR-Global and the Guarantors to use their commercially reasonable efforts to execute an effective exchange offer registration statement with the SEC no later than 365 days after the closing date of the notes offering and to complete an exchange offer within 30 business days of such effective date. If a registration default occurs additional interest shall accrue on the notes. The proceeds from these notes were used to fund the July 2013 redemption of $600 million of 6.000% Senior Notes due 2013 and $655 million of 9.500% Senior Notes due 2014 and to fund expenses related to the spin-off of the commercial and

residential security businesses, with any remaining proceeds to be used for general corporate purposes.
On April 25, 2014, the Company filed its exchange offer registration statement with the SEC, which became effective on May 13, 2014, and in June 2014, the Company completed its offer to exchange the notes for registered notes having terms identical in all material respects to the private notes, except that the registered notes do not contain terms with respect to transfer restrictions, registration rights or additional interest for failure to observe certain obligations in the applicable registration rights agreement.

Other Debt

On May 20, 2011, the Company entered into a 4-year $1.0 billion revolving credit facility through its wholly-owned subsidiary, IR-Global (2011 Credit Agreement). On March 20, 2014, the 2011 Credit Agreement was refinanced with a 5-year, $1.0 billion revolving credit facility maturing on March 20, 2019 and the 2011 Credit Agreement was terminated. The Company also has a 5-year, $1.0 billion revolving credit facility maturing on March 15, 2017 through its wholly-owned subsidiary, IR-Global.

IR-Ireland, IR-Limited, IR-International, and Ingersoll-Rand Company (IR-New Jersey) have each provided an irrevocable and unconditional guarantee for these credit facilities. The total committed revolving credit facilities of $2.0 billion were unused at June 30, 2014 and December 31, 2013, and provide support for the Company's commercial paper program, as well as other general corporate purposes.

Fair Value of Debt

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.

The carrying value of the Company's short-term borrowings is a reasonable estimate of fair value due to the short-term nature of the instruments. The Company measures the fair value of its long-term debt instruments based upon observable market prices quoted on public exchanges for similar assets. These fair value inputs are considered Level 2 within the fair value hierarchy discussed above. The methodologies used by the Company to determine the fair value of its long-term debt instruments at June 30, 2014 are the same as those used at December 31, 2013. There have been no transfers between levels of the fair value hierarchy. The fair value of the Company's debt instruments at June 30, 2014 and December 31, 2013 was $4.0 billion and $3.8 billion, respectively.

Guarantees

IR-Ireland, IR-Limited and IR-International fully and unconditionally guarantee the outstanding public debt of IR-Global and IR-New Jersey. IR-Ireland, IR-Limited and IR-New Jersey fully and unconditionally guarantee the outstanding public debt of IR-International. During 2013, IR-Global and IR-International public outstanding indentures were modified to include IR-New Jersey as a co-obligor.

Note 8 – 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 (loss) (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 $653.3 million and $1,510.0 million at June 30, 2014 and December 31, 2013, respectively. At June 30, 2014 and December 31, 2013, a loss of $0.1 million and $3.1 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 loss of $0.1 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, 2014, the maximum term of the Company's currency derivatives was approximately twelve months.

Other Derivative Instruments

In February 2013, the Company entered into forward starting interest rate swaps for $750.0 million of the forecasted issuance of $1.2 billion of Senior Notes due in 2023 and 2043. These interest rate swaps 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 swaps were recognized in AOCI. No further gain or loss will be recognized in AOCI related to these interest rate swaps as the contracts were terminated upon the June 2013 issuance of the underlying debt. The amount of AOCI associated with these interest rate swaps at the time of termination will be recognized in Interest expense over the term of the notes. At June 30, 2014 and December 31, 2013, $9.8 million and $10.1 million respectively, of gains remained in AOCI related to these interest rate swaps. The amount of gain expected to be reclassified into Interest expense over the next twelve months is $0.7 million.

The Company previously entered into interest rate locks for the forecasted issuance of approximately $1.7 billion of Senior Notes due in 2013, 2015 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 are recognized into Interest expense over the term of the notes. During 2013, the Company repaid $600.0 million due under the Senior Notes due in 2013, at which time any amounts remaining in AOCI related to such notes were reclassified into Interest expense. At June 30, 2014 and December 31, 2013, $6.1 million and $7.4 million, respectively, of losses remained in AOCI related to these interest rate locks. The amount of loss related to the Senior Notes is expected to be reclassified into Interest expense over the next twelve months is $2.4 million.

The Company measures the fair value of its derivative instruments on a recurring basis based on a pricing model that uses spot rates and forward prices from actively quoted currency markets that are readily accessible and observable. These fair value inputs are considered Level 2 within the fair value hierarchy discussed in Note 7. The methodologies used by the Company to determine the fair value of its derivative instruments at June 30, 2014 are the same as those used at December 31, 2013. There have been no transfers between levels of the fair value hierarchy.

The fair values of derivative instruments included within the Condensed Consolidated Balance Sheets were as follows:

In millions	Asset derivatives June 30, 2014	Asset derivatives December 31, 2013	Liability derivatives June 30, 2014	Liability derivatives December 31, 2013
Derivatives designated as hedges:				
Currency derivatives	$0.4	$ 0.1	$0.6	$ 3.4
Derivatives not designated as hedges:				
Currency derivatives	6.0	3.1	0.9	13.6
Total derivatives	$6.4	$ 3.2	$1.5	$ 17.0

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

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

In millions	Amount of gain (loss) recognized in AOCI 2014	Amount of gain (loss) recognized in AOCI 2013	Location of gain (loss) reclassified from AOCI and recognized into Net earnings	Amount of gain (loss) reclassified from AOCI and recognized into Net earnings 2014	Amount of gain (loss) reclassified from AOCI and recognized into Net earnings 2013
Currency derivatives - continuing	$0.4	$(2.3)	Cost of goods sold	$ (0.4)	$ (3.4)
Currency derivatives - discontinued	—	1.3	Discontinued operations	—	0.4
Interest rate swaps	—	20.4	Interest expense	0.2	—
Interest rate locks	—	—	Interest expense	(0.6)	(0.8)
Total	$0.4	$19.4		$ (0.8)	$ (3.8)

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

In millions	Location of gain (loss) recognized in Net earnings	Amount of gain (loss) recognized in Net earnings 2014	Amount of gain (loss) recognized in Net earnings 2013
Currency derivatives	Other, net	$6.9	$(26.7)
Total		$6.9	$(26.7)

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

In millions	Amount of gain (loss) recognized in AOCI 2014	Amount of gain (loss) recognized in AOCI 2013	Location of gain (loss) reclassified from AOCI and recognized into Net earnings	Amount of gain (loss) reclassified from AOCI and recognized into Net earnings 2014	Amount of gain (loss) reclassified from AOCI and recognized into Net earnings 2013
Currency derivatives - continuing	$1.6	$(6.1)	Cost of goods sold	$ (1.6)	$ (5.8)
Currency derivatives - discontinued	—	2.0	Discontinued operations	—	0.6
Interest rate swaps	—	10.5	Interest expense	0.4	—
Interest rate locks	—	—	Interest expense	(1.3)	(1.7)
Total	$1.6	$6.4		$ (2.5)	$ (6.9)

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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 2014	2013
Currency derivatives	Other, net	$1.6	$(41.0)
Total		$1.6	$(41.0)

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.

Fair Value of Other Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable and accounts payable are a reasonable estimate of their fair value due to the short-term nature of these instruments. See Note 7 for a discussion of the fair value measurement of the Company's debt instruments.

Note 9 – Pensions and Postretirement Benefits Other than Pensions

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

Pension Plans

The noncontributory defined benefit pension plans covering 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. The non-U.S. pension 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.

In connection with the spin-off, the Company transferred its obligations for pension benefits for all current and former employees of the commercial and residential security businesses to Allegion. The transfer of these obligations reduced our pension liabilities by $631.1 million, pension assets by $543.5 million, and accumulated other comprehensive losses by $164.8 million.

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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	2014	2013	2014	2013
Service cost	$17.3	$23.0	$34.6	$46.1
Interest cost	37.0	39.1	73.9	78.3
Expected return on plan assets	(39.3)	(41.9)	(78.5)	(83.9)
Net amortization of:				
Prior service costs	1.0	1.2	2.1	2.4
Plan net actuarial losses	9.0	15.5	18.0	31.0
Net periodic pension benefit cost	25.0	36.9	50.1	73.9
Net curtailment and settlement losses	3.7	—	3.7	—
Net periodic pension benefit cost after net curtailment and settlement losses	$28.7	$36.9	$53.8	$73.9
Amounts recorded in continuing operations	$26.9	$29.7	$50.2	$59.4
Amounts recorded in discontinued operations	1.8	7.2	3.6	14.5
Total	$28.7	$36.9	$53.8	$73.9

The Company made required and discretionary employer contributions of $39.2 million and $16.8 million to its defined benefit pension plans during the six months ended June 30, 2014 and 2013, respectively. The Company currently projects that it will contribute approximately $130.8 million to its plans worldwide in 2014.

The curtailment and settlement losses in 2014 are associated with lump sum distributions under supplemental benefit plans for officers and other key employees.

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 retired employees. The Company funds postretirement benefit obligations principally on a pay as you go basis. Generally, postretirement health benefits are contributory with contributions adjusted annually. Life insurance plans for retirees are primarily noncontributory.

In connection with the spin-off, the Company transferred its obligations for post retirement benefits other than pensions for all current and former employees of the commercial and residential security businesses to Allegion. The transfer of these obligations reduced our post retirement plan liabilities by $14.1 million and increased our accumulated other comprehensive income by $5.6 million.

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	2014	2013	2014	2013
Service cost	$1.3	$1.7	$2.6	$3.4
Interest cost	7.3	6.7	14.6	13.4
Net amortization of:				
Prior service gains	(2.2)	(2.6)	(4.4)	(5.2)
Net actuarial losses	—	2.7	—	5.4
Net periodic postretirement benefit cost	$6.4	$8.5	$12.8	$17.0
Amounts recorded in continuing operations	$4.2	$5.3	$8.4	$10.6
Amounts recorded in discontinued operations	2.2	3.2	4.4	6.4
Total	$6.4	$8.5	$12.8	$17.0

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Note 10 – Equity

The reconciliation of Ordinary shares is as follows:

In millions	Total
December 31, 2013	282.7
Shares issued under incentive plans, net	2.4
Repurchase of ordinary shares	(17.0)
June 30, 2014	268.1

During the six months ended June 30, 2014, the Company repurchased 17.0 million shares for $1,012.8 million as a part of its share repurchase program. These repurchases were accounted for as a reduction of Ordinary shares and Capital in excess of par value, or Retained earnings to the extent Capital in excess of par value was exhausted, as they were canceled upon repurchase.

The components of Equity for the six months ended June 30, 2014 were as follows:

In millions	IR-Ireland shareholders' equity	Noncontrolling interests	Total equity
Balance at December 31, 2013	$7,068.9	$62.4	$7,131.3
Net earnings	384.9	9.1	394.0
Currency translation	(44.1)	1.1	(43.0)
Change in value of derivatives qualifying as cash flow hedges, net of tax	3.6	—	3.6
Pension and OPEB adjustments, net of tax	9.8	—	9.8
Total comprehensive income	354.2	10.2	364.4
Share-based compensation	83.8	—	83.8
Dividends declared to noncontrolling interests	—	(14.8)	(14.8)
Dividends declared to ordinary shareholders	(135.3)	—	(135.3)
Shares issued under incentive plans, net	23.5	—	23.5
Repurchase of ordinary shares	(1,012.8)	—	(1,012.8)
Balance at June 30, 2014	$6,382.3	$57.8	$6,440.1

The components of Equity for the six months ended June 30, 2013 were as follows:

In millions	IR-Ireland shareholders' equity	Noncontrolling interests	Total equity
Balance at December 31, 2012	$7,147.8	$81.5	$7,229.3
Net earnings	405.2	14.1	419.3
Currency translation	(128.6)	(7.9)	(136.5)
Change in value of marketable securities and derivatives qualifying as cash flow hedges, net of tax	13.9	—	13.9
Pension and OPEB adjustments, net of tax	37.1	—	37.1
Total comprehensive income	327.6	6.2	333.8
Share-based compensation	40.1	—	40.1
Dividends declared to noncontrolling interests	—	(5.6)	(5.6)
Dividends declared to ordinary shareholders	(62.4)	—	(62.4)
Shares issued under incentive plans, net	118.6	—	118.6
Repurchase of ordinary shares	(477.6)	—	(477.6)
Balance at June 30, 2013	$7,094.1	$82.1	$7,176.2

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Other Comprehensive Income (Loss)
The changes in Accumulated other comprehensive income (loss) for the six months ended June 30, 2014 are as follows:

In millions	Cash flow hedges	Pension and OPEB Items	Foreign Currency Items	Total
December 31, 2013	$0.4	$(562.8)	$395.7	$(166.7)
Other comprehensive income before reclassifications	1.6	(3.1)	(44.1)	(45.6)
Amounts reclassified from accumulated other comprehensive income	2.5	19.4	—	21.9
Tax (expense) benefit	(0.5)	(6.5)	—	(7.0)
June 30, 2014	$4.0	$(553.0)	$351.6	$(197.4)

The changes in Accumulated other comprehensive income (loss) for the six months ended June 30, 2013 are as follows:

In millions	Cash flow hedges and marketable securities	Pension and OPEB Items	Foreign Currency Items	Total
December 31, 2012				