

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014

or

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

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

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

Ireland (State or other jurisdiction of incorporation or organization) 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)	98-0626632 (I.R.S. Employer Identification No.)
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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark 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 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 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

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The number of ordinary shares outstanding of Ingersoll-Rand plc as of October 10, 2014 was 265,471,878.

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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		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net revenues	\$3,385.0	\$3,214.2	\$9,650.9	\$9,251.6
Cost of goods sold	(2,327.0)	(2,217.7)	(6,721.7)	(6,507.6)
Selling and administrative expenses	(618.0)	(617.0)	(1,870.8)	(1,857.0)
Operating income	440.0	379.5	1,058.4	887.0
Interest expense	(52.3)	(102.8)	(157.3)	(225.4)
Other, net	9.6	6.0	20.2	4.1
Earnings before income taxes	397.3	282.7	921.3	665.7
Provision for income taxes	(94.1)	(55.1)	(222.5)	(108.3)
Earnings from continuing operations	303.2	227.6	698.8	557.4
Discontinued operations, net of tax	(7.0)	(46.7)	(8.6)	42.7
Net earnings	296.2	180.9	690.2	600.1
Less: Net earnings attributable to noncontrolling interests	(4.9)	(15.0)	(14.0)	(29.0)
Net earnings attributable to Ingersoll-Rand plc	\$291.3	\$165.9	\$676.2	\$571.1
Amounts attributable to Ingersoll-Rand plc ordinary shareholders:				
Continuing operations	\$298.3	\$222.6	\$684.8	\$542.3
Discontinued operations	(7.0)	(56.7)	(8.6)	28.8
Net earnings	\$291.3	\$165.9	\$676.2	\$571.1
Earnings (loss) per share attributable to Ingersoll-Rand plc ordinary shareholders:				
Basic:				
Continuing operations	\$1.11	\$0.76	\$2.52	\$1.83
Discontinued operations	(0.02)	(0.19)	(0.04)	0.10
Net earnings	\$1.09	\$0.57	\$2.48	\$1.93
Diluted:				
Continuing operations	\$1.10	\$0.75	\$2.48	\$1.81
Discontinued operations	(0.03)	(0.19)	(0.03)	0.10
Net earnings	\$1.07	\$0.56	\$2.45	\$1.91
Weighted-average shares outstanding:				
Basic	267.9	291.6	272.2	295.9
Diluted	271.6	295.5	275.9	299.8
Dividends declared per ordinary share	\$0.25	\$0.21	\$0.75	\$0.42
Total comprehensive income (loss)	\$78.3	\$311.6	\$442.7	\$645.2
Less: Total comprehensive (income) loss attributable to noncontrolling interests	(3.2)	(20.1)	(13.5)	(26.2)
Total comprehensive income (loss) attributable to Ingersoll-Rand plc	\$75.1	\$291.5	\$429.2	\$619.0

See accompanying notes to condensed consolidated financial statements.

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INGERSOLL-RAND PLC
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

In millions	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$936.7	\$1,937.2
Accounts and notes receivable, net	2,302.6	2,071.5
Inventories	1,419.0	1,166.1
Deferred taxes and current tax receivable	303.0	359.5
Other current assets	208.8	182.4
Total current assets	5,170.1	5,716.7
Property, plant and equipment, net	1,465.7	1,468.4
Goodwill	5,447.0	5,540.6
Intangible assets, net	3,819.4	3,922.0
Other noncurrent assets	963.4	1,010.4
Total assets	\$16,865.6	\$17,658.1
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$1,380.5	\$1,163.0
Accrued compensation and benefits	453.9	505.2
Accrued expenses and other current liabilities	1,348.3	1,311.3
Short-term borrowings and current maturities of long-term debt	881.0	367.7
Current income taxes	66.3	61.4
Total current liabilities	4,130.0	3,408.6
Long-term debt	2,646.6	3,153.5
Postemployment and other benefit liabilities	1,220.8	1,287.8
Deferred and noncurrent income taxes	1,264.7	1,335.8
Other noncurrent liabilities	1,269.8	1,341.1
Total liabilities	10,531.9	10,526.8
Equity:		
Ingersoll-Rand plc shareholders' equity:		
Ordinary shares	265.8	282.7
Capital in excess of par value	70.8	158.4
Retained earnings	6,351.2	6,794.5
Accumulated other comprehensive income (loss)	(413.7	) (166.7
Total Ingersoll-Rand plc shareholders' equity	6,274.1	7,068.9
Noncontrolling interest	59.6	62.4
Total equity	6,333.7	7,131.3
Total liabilities and equity	\$16,865.6	\$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)

In millions	Nine months ended	
	September 30, 2014	2013
Cash flows from operating activities:		
Net earnings	\$ 690.2	\$ 600.1
(Income) loss from discontinued operations, net of tax	8.6	(42.7)
Adjustments to arrive at net cash provided by (used in) operating activities:		
Depreciation and amortization	250.5	249.9
Stock settled share-based compensation	51.6	53.8
Changes in assets and liabilities, net	(448.8	) (146.8)
Other, net	5.6	(52.8)
Net cash provided by (used in) continuing operating activities	557.7	661.5
Net cash provided by (used in) discontinued operating activities	(60.1	) 220.5
Net cash provided by (used in) operating activities	497.6	882.0
Cash flows from investing activities:		
Capital expenditures	(150.7	) (175.5)
Acquisition of businesses, net of cash acquired	(9.3) —
Proceeds from sale of property, plant and equipment	6.6	7.2
Proceeds from business dispositions, net of cash sold	2.1	4.7
Dividends received from equity investments	30.3	—
Net cash provided by (used in) continuing investing activities	(121.0	) (163.6)
Net cash provided by (used in) discontinued investing activities	—	13.1
Net cash provided by (used in) investing activities	(121.0	) (150.5)
Cash flows from financing activities:		
Short-term borrowings, net	(0.3	) 12.6
Proceeds from long-term debt	12.1	1,546.2
Payments of long-term debt	(7.8	) (1,263.3)
Net proceeds (repayments) in debt	4.0	295.5
Dividends paid to ordinary shareholders	(199.2	) (183.0)
Dividends paid to noncontrolling interests	(16.3	) (10.7)
Proceeds from shares issued under incentive plans	32.3	192.4
Repurchase of ordinary shares	(1,172.9	) (795.2)
Other, net	64.1	(13.2)
Net cash provided by (used in) continuing financing activities	(1,288.0	) (514.2)
Net cash provided by (used in) discontinued financing activities	—	(8.1)
Net cash provided by (used in) financing activities	(1,288.0	) (522.3)
Effect of exchange rate changes on cash and cash equivalents	(89.1	) (7.4)
Net increase (decrease) in cash and cash equivalents	(1,000.5	) 201.8
Cash and cash equivalents - beginning of period	1,937.2	708.4
Cash and cash equivalents - end of period	\$ 936.7	\$ 910.2

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.

Reclassifications to Previously Issued Statement of Comprehensive Income

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 \$9.9 million and \$32.3 million increase to Cost of goods sold with a corresponding decrease to Selling and administrative expenses for the three and nine months ended September 30, 2013, respectively.

Acquisition of Cameron International Corporation's Centrifugal Compression division

On August 18, 2014, the Company announced an agreement to acquire the assets of Cameron International Corporation's Centrifugal Compression division (the Division) for \$850 million, which we expect to be funded through a combination of cash and debt. The Division provides centrifugal compression equipment and aftermarket parts and services for global industrial applications, air separation, gas transmission and process. The acquisition, which is subject to regulatory approval, is expected to close in the fourth quarter of 2014.

Revisions to Previously Issued Statements of Cash Flows

The Company has revised its December 31, 2013, 2012 and 2011 consolidated statements of cash flows, and its June 30, 2014; March 31, 2014; September 30, 2013; June 30, 2013; and March 31, 2013 condensed consolidated statements of cash flows, to correct errors in the calculation and classification of the effect of exchange rate changes on cash and cash equivalents. The impact on the aforementioned financial statements is summarized in the tables below. These adjustments were not considered to be material individually or in the aggregate to the previously issued financial statements. The adjustments had no impact on the total net increase (decrease) in cash and cash equivalents, or total cash and cash equivalents amounts in any period.

Condensed Consolidated Statement of Cash Flows	For the six months ended June 30, 2014		
	As previously reported	As revised	Adjustment reported
In millions			
Cash flows from operating activities:			
Adjustments to arrive at net cash provided by (used in) operating activities:			
Other, net	(11.4)	(0.3)	11.1
Net cash provided by (used in) continuing operating activities	175.9	187.0	11.1
Net cash provided by (used in) discontinued operating activities	(55.8)	(55.8)	—
Net cash provided by (used in) operating activities	120.1	131.2	11.1
Effect of exchange rate changes on cash and cash equivalents	(8.1)	(19.2)	(11.1)
Net increase (decrease) in cash and cash equivalents	(1,007.4)	(1,007.4)	—

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

Condensed Consolidated Statement of Cash Flows	For the three months ended March 31, 2014		
	As previously reported	As revised	Adjustment reported
In millions			
Cash flows from operating activities:			
Adjustments to arrive at net cash provided by (used in) operating activities:			
Other, net	(14.8)	(10.8)	4.0
Net cash provided by (used in) continuing operating activities	(84.8)	(80.8)	4.0
Net cash provided by (used in) discontinued operating activities	(41.2)	(41.2)	—
Net cash provided by (used in) operating activities	(126.0)	(122.0)	4.0
Effect of exchange rate changes on cash and cash equivalents	(9.5)	(13.5)	(4.0)
Net increase (decrease) in cash and cash equivalents	(1,039.3)	(1,039.3)	—

Consolidated Statement of Cash Flows	For the year ended 2013		
	As previously reported	As revised	Adjustment reported
In millions			
Cash flows from operating activities:			
Adjustments to arrive at net cash provided by (used in) operating activities:			
Other, net	194.3	115.4	(78.9)
Net cash provided by (used in) continuing operating activities	877.7	798.8	(78.9)
Net cash provided by (used in) discontinued operating activities	292.7	292.7	—
Net cash provided by (used in) operating activities	1,170.4	1,091.5	(78.9)
Effect of exchange rate changes on cash and cash equivalents	(72.8)	6.1	78.9
Net increase (decrease) in cash and cash equivalents	1,228.8	1,228.8	—

Condensed Consolidated Statement of Cash Flows	For the nine months ended September 30, 2013		
	As previously reported**	As revised	Adjustment reported
In millions			
Cash flows from operating activities:			
Adjustments to arrive at net cash provided by (used in) operating activities:			
Other, net	16.3	(52.8)	(69.1)
Net cash provided by (used in) continuing operating activities	730.6	661.5	(69.1)
Net cash provided by (used in) discontinued operating activities	220.5	220.5	—
Net cash provided by (used in) operating activities	951.1	882.0	(69.1)
Effect of exchange rate changes on cash and cash equivalents	(76.5)	(7.4)	69.1
Net increase (decrease) in cash and cash equivalents	201.8	201.8	—

**The cash flows for nine months ended September 30, 2013, as previously reported, have been revised for the reclassification of Allegion plc to discontinued operations.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

Condensed Consolidated Statement of Cash Flows	For the six months ended June 30, 2013		
	As previously reported	As revised	Adjustment reported
In millions			
Cash flows from operating activities:			
Adjustments to arrive at net cash provided by (used in) operating activities:			
Other, net	(34.1)	(26.8)	7.3
Net cash provided by (used in) continuing operating activities	313.5	320.8	7.3
Net cash provided by (used in) discontinued operating activities	115.3	115.3	—
Net cash provided by (used in) operating activities	428.8	436.1	7.3
Effect of exchange rate changes on cash and cash equivalents	(25.1)	(32.4)	(7.3)
Net increase (decrease) in cash and cash equivalents	1,318.4	1,318.4	—

Condensed Consolidated Statement of Cash Flows	For the three months ended March 31, 2013		
	As previously reported	As revised	Adjustment reported
In millions			
Cash flows from operating activities:			
Adjustments to arrive at net cash provided by (used in) operating activities:			
Other, net	(22.8)	(9.9)	12.9
Net cash provided by (used in) continuing operating activities	(17.2)	(4.3)	12.9
Net cash provided by (used in) discontinued operating activities	9.2	9.2	—
Net cash provided by (used in) operating activities	(8.0)	4.9	12.9
Effect of exchange rate changes on cash and cash equivalents	(0.6)	(13.5)	(12.9)
Net increase (decrease) in cash and cash equivalents	(49.2)	(49.2)	—

Consolidated Statement of Cash Flows	For the year ended 2012		
	As previously reported	As revised	Adjustment reported
In millions			
Cash flows from operating activities:			
Adjustments to arrive at net cash provided by (used in) operating activities:			
Other, net	122.7	137.1	14.4
Net cash provided by (used in) continuing operating activities	868.1	882.5	14.4
Net cash provided by (used in) discontinued operating activities	312.9	312.9	—
Net cash provided by (used in) operating activities	1,181.0	1,195.4	14.4
Effect of exchange rate changes on cash and cash equivalents	(9.2)	(23.6)	(14.4)
Net increase (decrease) in cash and cash equivalents	(278.6)	(278.6)	—

Consolidated Statement of Cash Flows	For the year ended 2011		
	As previously reported	As revised	Adjustment reported
In millions			

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Cash flows from operating activities:

Adjustments to arrive at net cash provided by (used in) operating activities:

Other, net	15.6	51.4	35.8
Net cash provided by (used in) continuing operating activities	786.3	822.1	35.8
Net cash provided by (used in) discontinued operating activities	400.5	400.5	—
Net cash provided by (used in) operating activities	1,186.8	1,222.6	35.8
Effect of exchange rate changes on cash and cash equivalents	(1.5) (37.3) (35.8
Net increase (decrease) in cash and cash equivalents	146.4	146.4	—

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INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

Note 2 – Spin-Off Transaction

On December 1, 2013 (the Distribution Date), the Company completed the 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 former 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 nine months ended September 30, 2013, the Company incurred \$25.7 million and \$57.7 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 September 30, 2014 condensed consolidated balance sheet, which resulted in a decrease to noncurrent deferred tax assets of \$13.8 million, an increase to noncurrent deferred tax liabilities of \$125.0 million and a decrease to noncurrent reserves for uncertain tax positions of \$138.8 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.

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INGERSOLL-RAND PLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

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.

In June 2014, the FASB issued ASU 2014-12 "Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The new guidance is effective for annual and interim reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early application is permitted. Beginning in 2015, the Company will apply the new guidance to future share-based payment arrangements, as applicable.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements - Going Concern - Disclosures of Uncertainties about an entity's Ability to Continue as a Going Concern." ASU 2014-15 provides new guidance related to management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards and to provide related footnote disclosures. This new guidance is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. The requirements of ASU 2014-15 are not expected to have a significant 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	September 30, 2014	December 31, 2013
Raw materials	\$505.1	\$378.0
Work-in-process	117.1	100.7
Finished goods	868.0	760.2
	1,490.2	1,238.9
LIFO reserve	(71.2) (72.8
Total	\$1,419.0	\$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 nine months ended September 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	2.6	16.1
Currency translation	(104.2)	(5.5)	(109.7)
Balance as of September 30, 2014			
Goodwill (gross)	7,572.9	370.1	7,943.0
Accumulated impairment **	(2,496.0)	—	(2,496.0)
	\$5,076.9	\$370.1	\$5,447.0

* Increase is primarily related to a \$15.0 million acquisition in March of 2014 within the Climate sector and a \$3.0 million acquisition within the Industrial sector.

** 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:

In millions	September 30, 2014			December 31, 2013		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Completed technologies/patents	\$173.2	\$(142.6)	\$30.6	\$174.1	\$(128.7)	\$45.4
Customer relationships	1,856.3	(675.5)	1,180.8	1,865.9	(599.5)	1,266.4
Other	57.0	(51.0)	6.0	60.4	(52.2)	8.2
Total finite-lived intangible assets	2,086.5	\$(869.1)	1,217.4	2,100.4	\$(780.4)	1,320.0
Trademarks (indefinite-lived)	2,602.0		2,602.0	2,602.0		2,602.0
Total	\$4,688.5		\$3,819.4	\$4,702.4		\$3,922.0

Intangible asset amortization expense was \$32.2 million and \$32.2 million for the three months ended September 30, 2014 and 2013, respectively. Intangible asset amortization expense was \$96.9 million and \$96.6 million for the nine months ended September 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	September 30, 2014	December 31, 2013
Debentures with put feature	\$343.0	\$343.0
5.50% Senior notes due 2015	199.3	—
4.75% Senior notes due 2015	299.9	—
Other current maturities of long-term debt	7.8	8.0
Other short-term borrowings	31.0	16.7
Total	\$881.0	\$367.7

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(Unaudited)

Commercial Paper Program

The Company uses borrowings under its commercial paper program for general corporate purposes. The Company had no commercial paper outstanding at September 30, 2014 or December 31, 2013.

Debentures with Put Feature

At September 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	September 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	698.9	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	\$2,646.6	\$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.

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(Unaudited)

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 September 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 September 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 September 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.

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(Unaudited)

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 \$690.2 million and \$1,510.0 million at September 30, 2014 and December 31, 2013, respectively. At September 30, 2014 and December 31, 2013, a loss of \$1.4 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 \$1.4 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 September 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 September 30, 2014 and December 31, 2013, \$9.6 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 September 30, 2014 and December 31, 2013, \$5.5 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 \$2.1 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 September 30, 2014 are the same as

those used at December 31, 2013. There have been no transfers between levels of the fair value hierarchy.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

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

In millions	Asset derivatives		Liability derivatives	
	September 30, 2014	December 31, 2013	September 30, 2014	December 31, 2013
Derivatives designated as hedges:				
Currency derivatives	\$0.1	\$ 0.1	\$2.0	\$ 3.4
Derivatives not designated as hedges:				
Currency derivatives	0.8	3.1	9.0	13.6
Total derivatives	\$0.9	\$ 3.2	\$11.0	\$ 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 September 30 were as follows:

In millions	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	
	2014	2013		2014	2013
Currency derivatives - continuing	\$(2.1)	\$(0.8)	Cost of goods sold	\$(0.4)	\$(2.7)
Currency derivatives - discontinued	—	(0.8)	Discontinued operations	—	0.4
Interest rate swaps	—	—	Interest expense	0.2	0.2
Interest rate locks	—	—	Interest expense	(0.6)	(0.6)
Total	\$(2.1)	\$(1.6)		\$(0.8)	\$(2.7)

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

In millions	Location of gain (loss) recognized in Net earnings	Amount of gain (loss) recognized in Net earnings	
		2014	2013
Currency derivatives	Other, net	\$(12.8)	\$12.7
Total		\$(12.8)	\$12.7

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

In millions	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	
	2014	2013		2014	2013
Currency derivatives - continuing	\$(0.5)	\$(6.9)	Cost of goods sold	\$(2.0)	\$(8.5)
Currency derivatives - discontinued	—	1.1	Discontinued operations	—	0.9
Interest rate swaps	—	10.5	Interest expense	0.6	0.2
Interest rate locks	—	—	Interest expense	(1.9)	(2.2)
Total	\$(0.5)	\$4.7		\$(3.3)	\$(9.6)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

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

In millions	Location of gain (loss)	Amount of gain (loss)	
	recognized in Net earnings	recognized in Net earnings	
	Other, net	2014	2013
Currency derivatives		\$(11.1)	\$(28.3)
Total		\$(11.1)	\$(28.3)

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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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The components of the Company's net periodic pension benefit costs for the three and nine months ended September 30 were as follows:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Service cost	\$16.6	\$20.2	\$51.2	\$66.3
Interest cost	36.8	39.9	110.7	118.2
Expected return on plan assets	(38.9	) (42.2	) (117.4	) (126.1
Net amortization of:				
Prior service costs	1.3	1.2	3.4	3.6
Plan net actuarial losses	9.2	17.8	27.2	48.8
Net periodic pension benefit cost	25.0	36.9	75.1	110.8
Net curtailment and settlement losses	2.8	—	6.5	—
Net periodic pension benefit cost after net curtailment and settlement losses	\$27.8	\$36.9	\$81.6	\$110.8
Amounts recorded in continuing operations	\$25.9	\$30.7	\$76.1	\$90.1
Amounts recorded in discontinued operations	1.9	6.2	5.5	20.7
Total	\$27.8	\$36.9	\$81.6	\$110.8

The Company made required and discretionary employer contributions of \$93.0 million and \$45.3 million to its defined benefit pension plans during the nine months ended September 30, 2014 and 2013, respectively. The Company currently projects that it will contribute approximately \$116.5 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 nine months ended September 30 were as follows:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Service cost	\$1.1	\$1.6	\$3.7	\$5.0
Interest cost	6.5	6.0	21.1	19.4
Net amortization of:				
Prior service gains	(2.2	) (2.7	) (6.6	) (7.9
Net actuarial losses	—	(0.1	) —	5.3
Net periodic postretirement benefit cost	\$5.4	\$4.8	\$18.2	\$21.8
Amounts recorded in continuing operations	\$3.7	\$4.4	\$12.1	\$15.0
Amounts recorded in discontinued operations	1.7	0.4	6.1	6.8
Total	\$5.4	\$4.8	\$18.2	\$21.8

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

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	2.8
Repurchase of ordinary shares	(19.7)
September 30, 2014	265.8

During the nine months ended September 30, 2014, the Company repurchased 19.7 million shares for \$1,172.9 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 nine months ended September 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	676.2	14.0	690.2
Currency translation	(275.4)	(0.5)	(275.9)
Change in value of derivatives qualifying as cash flow hedges, net of tax	2.4	—	2.4
Pension and OPEB adjustments, net of tax	26.0	—	26.0
Total comprehensive income	429.2	13.5	442.7
Share-based compensation	51.6	—	51.6
Dividends declared to noncontrolling interests	—	(16.3)	(16.3)
Dividends declared to ordinary shareholders	(201.8)	—	(201.8)
Shares issued under incentive plans, net	99.1	—	99.1
Repurchase of ordinary shares	(1,172.9)	—	(1,172.9)
Balance at September 30, 2014	\$6,274.1	\$59.6	\$6,333.7

The components of Equity for the nine months ended September 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	571.1	29.0	600.1
Currency translation	(2.7)	(2.8)	(5.5)
Change in value of marketable securities and derivatives qualifying as cash flow hedges, net of tax	18.6	—	18.6
Pension and OPEB adjustments, net of tax	32.0	—	32.0
Total comprehensive income	619.0	26.2	645.2
Share-based compensation	53.8	—	53.8
Dividends declared to noncontrolling interests	—	(15.8)	(15.8)
Dividends declared to ordinary shareholders	(123.0)	—	(123.0)
Shares issued under incentive plans, net	192.3	—	192.3
Repurchase of ordinary shares	(795.2)	—	(795.2)
Balance at September 30, 2013	\$7,094.7	\$91.9	\$7,186.6

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(Unaudited)

Other Comprehensive Income (Loss)

The changes in Accumulated other comprehensive income (loss) for the nine months ended September 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	(0.5)	6.3	(275.4)	(269.6)
Amounts reclassified from accumulated other comprehensive income	3.3	30.5	—	33.8
Tax (expense) benefit	(0.4)	(10.8)	—	(11.2)
September 30, 2014	\$2.8	\$(536.8)	\$120.3	\$(413.7)

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

In millions	Cash flow hedges and marketable securities	Pension and OPEB Items	Foreign Currency Items	Total
December 31, 2012	\$(1.4)	\$(964.2)	\$444.6	\$(521.0)
Other comprehensive income before reclassifications	9.4	(1.1)	(2.7)	5.6
Amounts reclassified from accumulated other comprehensive income	9.6	49.8	—	59.4
Tax (expense) benefit	(0.3)	(16.7)	—	(17.0)
September 30, 2013	\$17.3	\$(932.2)	\$441.9	\$(473.0)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The reclassifications out of Accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2014 were as follows:

In millions	Amount Reclassified from Accumulated Other Comprehensive Income		Statement of Comprehensive Income Line Item
	Three months ended	Nine months ended	
Reclasses below represent (Income) loss to the Statement of Comprehensive Income			
Gains and losses on cash flow hedges:			
Interest rate locks	\$0.6	\$1.9	Interest expense
Interest rate swaps	(0.2	) (0.6	) Interest expense
Foreign exchange contracts	0.4	2.0	Cost of goods sold
	0.8	3.3	Earnings before income taxes
	0.1	(0.4	) Provision for income taxes
	0.9	2.9	Net earnings
Pension and postretirement benefit items:			
Amortization of:			
Prior-service (gains) costs	\$(0.9	) \$(3.2	) (a)
Actuarial (gains) losses	9.2	27.2	(a)
Settlements/curtailments reclassified to earnings	2.8	6.5	(a)
	11.1	30.5	Earnings before income taxes
	(4.3	) (10.8	) Provision for income taxes
	6.8	19.7	Net earnings
Total reclassifications for the period	\$7.7	\$22.6	

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost and net periodic postretirement benefit cost (see Note 9 for additional details).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

The reclassifications out of Accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2013 were as follows:

In millions	Amount Reclassified from Accumulated Other Comprehensive Income		Statement of Comprehensive Income Line Item
	Three months ended	Nine months ended	
Reclasses below represent (Income) loss to the Statement of Comprehensive Income			
Gains and losses on cash flow hedges:			
Interest rate locks	\$0.6	2.2	Interest expense
Interest rate swaps	(0.2)	) (0.2)	) Interest expense
Foreign exchange contracts - Continuing	2.7	\$8.5	Cost of goods sold
Foreign exchange contracts - Discontinued	(0.4)	) (0.9)	) Discontinued operations
	2.7	9.6	Earnings before income taxes
	(0.2)	) (0.7)	) Provision for income taxes
	2.5	8.9	Net earnings
Pension and Postretirement benefit items:			
Amortization of:			
Prior-service (gains) costs	\$(1.5)	) \$(4.3)	) (a)
Actuarial (gains) losses	17.7	54.1	(a)
	16.2	49.8	Earnings before income taxes
	(5.2)	) (16.7)	) Provision for income taxes
	11.0	33.1	Net earnings
Total reclassifications for the period	\$13.5	\$42.0	

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost and net periodic postretirement benefit cost (see Note 9 for additional details).

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, stock appreciation rights (SARs), restricted stock units (RSUs), performance share units (PSUs) and deferred compensation.

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(Unaudited)

Compensation Expense

Share-based compensation expense relates to continuing operations and is included in Selling and administrative expenses. The expenses recognized for the three and nine months ended September 30 were as follows:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Stock options	\$3.3	\$4.3	\$13.3	\$17.5
RSUs	5.0	5.5	20.1	21.9
Performance shares	4.9	4.5	19.3	15.8
Deferred compensation	0.3	0.3	1.3	1.2
Other	(0.4	) 0.9	(0.1	) 1.7
Pre-tax expense	13.1	15.5	53.9	58.1
Tax benefit	(5.0	) (5.9	) (20.6	) (22.2
After-tax expense	\$8.1	\$9.6	\$33.3	\$35.9
Amounts recorded in continuing operations	\$8.1	\$8.5	\$33.3	\$32.4
Amounts recorded in discontinued operations	—	1.1	—	3.5
Total	\$8.1	\$9.6	\$33.3	\$35.9

Stock Options/RSUs

Eligible participants may receive (i) stock options, (ii) RSUs or (iii) a combination of both stock options and RSUs. For the stock options and RSUs granted prior to the spin-off, the number granted and weighted average fair value in the table below reflect historical information. Grants issued during the nine months ended September 30 were as follows:

	2014		2013	
	Number granted	Weighted-average fair value per award	Number granted	Weighted-average fair value per award
Stock options	1,160,057	\$ 14.29	1,338,402	\$ 16.54
RSUs	375,273	\$ 59.83	575,176	\$ 52.92

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. Included within the 2013 grant are 139,649 stock options and 82,833 RSUs related to Allegion employees.

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 nine months ended September 30:

	2014	2013	
Dividend yield	1.67	% 1.60	%
Volatility	31.43	% 42.15	%
Risk-free rate of return	1.46	% 0.85	%
Expected life	4.9 years	5.1 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. During the nine months ended September 30, 2014, the Company granted PSUs with a maximum award level of approximately 0.5 million shares.

Awards granted in 2011 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.

Awards granted after 2011 are based 50% upon a performance condition, measured at each reporting period by relative EPS growth to the industrial group of companies in the S&P 500 Index and the fair market value of the Company's stock on the date of grant, and 50% upon a market condition, measured by 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. The fair value of the market condition is estimated using a Monte Carlo Simulation approach in a risk-neutral framework based upon historical volatility, risk-free rates and correlation matrix.

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 stock appreciation rights (SARs) since 2006 and does not anticipate additional grants in the future. As of September 30, 2014, there were 66,440 SARs outstanding, all of which 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 nine months ended September 30 were as follows:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Climate	\$0.4	\$2.6	\$4.6	\$23.5
Industrial	0.5	0.3	3.4	5.4
Corporate and Other	0.3	6.4	2.1	9.2
Total	\$1.2	\$9.3	\$10.1	\$38.1
Cost of goods sold	\$0.5	\$0.6	\$2.4	\$12.5
Selling and administrative expenses	0.7	8.7	7.7	25.6
Total	\$1.2	\$9.3	\$10.1	\$38.1

The changes in the restructuring reserve during the nine months ended September 30, 2014 were as follows:

In millions	Climate	Industrial	Corporate and Other	Total
December 31, 2013	\$18.0	\$9.5	\$5.0	\$32.5
Additions, net of reversals	4.6	3.4	2.1	10.1
Cash and non-cash uses	(19.0)	(11.9)	(6.3)	(37.2)
Currency translation	—	—	—	—
September 30, 2014	\$3.6	\$1.0	\$0.8	\$5.4

The 2014 and 2013 charges primarily represent termination benefits to improve the Company's cost structure. As of September 30, 2014, the Company had \$5.4 million accrued for costs associated with its ongoing restructuring

actions, of which a majority will be paid within one year.

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(Unaudited)

Note 13 – Other, Net

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

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Interest income	\$3.0	\$3.6	\$9.4	\$9.5
Exchange gain (loss)	(1.0	) (3.4	) (2.4	) (10.1
Earnings (loss) from equity investments	3.3	1.0	3.7	(1.6
Other	4.3	4.8	9.5	6.3
Other, net	\$9.6	\$6.0	\$20.2	\$4.1

Earnings (loss) from equity investments for the three months ended September 30, 2014 and 2013 represents \$3.3 million and \$1.0 million of income on the Hussmann equity investment, respectively. Earnings (loss) from equity investments for the nine months ended September 30, 2014 and 2013 represents \$3.7 million of income and \$1.6 million of losses on the Hussmann equity investment, respectively. The Company's ownership percentage in Hussmann Parent, an affiliate of private equity firm Clayton Dubilier & Rice, LLC, was 37.2% as of September 30, 2014 and is recorded using the equity method of accounting. The Company's equity investment in the Hussmann Parent is reported within Other noncurrent assets.

Included within Other for the nine months ended September 30, 2014 is a \$6.0 million gain on sale of an investment. In February 2013, the government of Venezuela announced a devaluation of the Bolivar, from the pre-existing official exchange rate of 4.29 Bolivars to the U.S. dollar to 6.3 Bolivars to the U.S. dollar. As a result of the devaluation, the Company realized a foreign currency translation loss of approximately \$3.8 million, which is included in Exchange gain (loss) for the nine months ended September 30, 2013.

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, China, France, Germany, Ireland, Italy, Mexico, Switzerland, 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.

In 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 IRS proposed to ignore the entities that hold the intercompany debt incurred in connection with the Company's reincorporation in Bermuda (2001 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 that the Company owed 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. In 2010, the Company received an amended notice from the IRS assessing penalties of 30% on the asserted underpayment of tax described above.

The Company has so far been unsuccessful in resolving this dispute and in 2013 received a Notice of Deficiency from the IRS for 2002. The Company filed a petition in the United States Tax Court in November 2013 contesting this deficiency. In its January 2014 answer to the Company's petition, the IRS asserted that the Company also owes 30%

withholding tax on the portion of 2002 interest payments made on the 2001 Debt upon which it did not previously assert withholding tax. A 30% withholding tax on this \$85.0 million interest payment would increase the total tax liability proposed for 2002 to \$109.0 million (\$84 million referred to in the paragraph above plus this additional \$25.0 million) plus 30% penalties and interest.

In 2013, the Company received notices from the IRS containing proposed adjustments to the Company's tax filings in connection with an audit of the 2003-2006 tax years. In these notices, the IRS asserts that the Company owes a total of approximately \$665 million of additional taxes, as described more fully below, in connection with the Company's interest payments on the 2001 Debt for the 2003-2006 period, plus penalties and interest on these unpaid taxes.

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The IRS continues to take the position on the 2001 Debt, which was retired at the end of 2011, that it previously took for the Company's 2002 tax year and which is described above. As a result of this recharacterization, the IRS asserts that the Company owes approximately \$455.0 million of withholding tax for 2003-2006 plus 30% penalties.

The IRS also proposes to extend its position further and to treat all of the interest income from the 2001 Debt as creating earnings and profits at IR-Limited and, as a result, recharacterize the distributions made by IR-Limited during the 2002-2006 tax years as taxable dividends instead of as a return of capital. Consequently the IRS asserts that the Company owes approximately \$210.0 million of income tax on these dividends plus penalties of 20%.

Although the Company expects it to do so, the IRS has not yet proposed any similar adjustments for years subsequent to 2006, as the federal income tax audits for those years are still in process or have not yet begun. In addition, the Company does not know how the IRS will apply its position to the different facts presented in those years or whether the IRS will take a similar position in future audits with respect to intercompany debt instruments not outstanding in prior years.

The Company has vigorously contested all of these proposed adjustments and intends to continue to do so. Although the outcome of these matters 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 under the applicable accounting standards for these matters 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 these matters 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 the 2002-2006 tax years is ultimately sustained, the Company would be required to record additional charges and the resulting liability will have a material adverse impact on its future results of operations, financial condition and cash flows.

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 September 30, 2014 and December 31, 2013 were \$361.8 million and \$363.3 million, respectively.

Note 15 – Discontinued Operations

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

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Net revenues	\$—	\$535.3	\$—	\$1,542.9
Pre-tax earnings (loss) from operations	\$(9.8)	\$(9.5)	\$(27.3)	\$134.3
Tax benefit (expense)	2.8	(37.2)	18.7	(91.6)
Discontinued operations, net of tax	\$(7.0)	\$(46.7)	\$(8.6)	\$42.7

Discontinued operations by business for the three and nine months ended September 30 are as follows:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Allegion, net of tax*	\$2.8	\$(44.2)	\$15.6	\$46.9
Other discontinued operations, net of tax	(9.8)	(2.5)	(24.2)	(4.2)
Discontinued operations, net of tax	\$(7.0)	\$(46.7)	\$(8.6)	\$42.7

* Included in Allegion, net of tax for the three and nine months ended September 30, 2013 are spin costs of \$25.7 million and \$57.7 million, respectively.

Allegion Spin Off

On December 1, 2013, the Company completed the previously announced separation of its commercial and residential security businesses by distributing the related ordinary shares of Allegion, on a pro rata basis, to the Company's shareholders of record as of November 22, 2013. After the Distribution Date, Allegion became an independent publicly traded company.

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The results of the Company's commercial and residential security businesses are presented as a discontinued operation on the Condensed Consolidated Statement of Comprehensive Income and Condensed Consolidated Statement of Cash Flows for all periods presented.

Other Discontinued Operations

Other discontinued operations, net of tax from previously sold businesses is mainly related to postretirement benefits, product liability, worker's compensation, 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 IR-Ireland 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. The following table summarizes the weighted-average number of ordinary shares outstanding for basic and diluted earnings per share calculations for the three and nine months ended September 30:

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Weighted-average number of basic shares	267.9	291.6	272.2	295.9
Shares issuable under incentive stock plans	3.7	3.9	3.7	3.9
Weighted-average number of diluted shares	271.6	295.5	275.9	299.8
Anti-dilutive shares	0.9	1.0	1.1	1.1

Note 17 – Business Segment Information

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that the operating segments' results are prepared on a management basis that is consistent with the manner in which the Company disaggregates financial information for internal review and decision making. The Company largely evaluates performance based on Segment operating income and Segment operating margins. 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.

Our Climate segment delivers energy-efficient solutions globally and includes Trane® and American Standard® Heating & Air Conditioning which provide heating, ventilation and air conditioning (HVAC) systems, and commercial and residential building services, parts, support and controls; and Thermo King® transport temperature control solutions.

Our Industrial segment delivers products and services that enhance energy efficiency, productivity and operations. It includes Ingersoll Rand® compressed air systems and services, power tools, material handling systems, ARO® fluid management equipment, as well as Club Car® golf, utility and rough terrain vehicles.

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(Unaudited)

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

In millions	Three months ended		Nine months ended	
	2014	2013	2014	2013
Net revenues				
Climate	\$2,644.0	\$2,492.3	\$7,433.8	\$7,086.5
Industrial	741.0	721.9	2,217.1	2,165.1
Total	\$3,385.0	\$3,214.2	\$9,650.9	\$9,251.6
Segment operating income				
Climate	\$377.6	\$323.7	\$897.9	\$725.4
Industrial	108.8	114.8	318.2	336.5
Total	\$486.4	\$438.5	\$1,216.1	\$1,061.9
Reconciliation to Operating income				
Unallocated corporate expense	(46.4	) (59.0	) (157.7	) (174.9
Operating income	\$440.0	\$379.5	\$1,058.4	\$887.0

Note 18 – Commitments and Contingencies

The Company is involved in various litigations, claims and administrative proceedings, including those related to environmental, asbestos, and product liability matters. Amounts recorded for identified contingent liabilities are estimates, which are reviewed periodically and adjusted to reflect additional information when it becomes available. Subject to the uncertainties inherent in estimating future costs for contingent liabilities, except as expressly set forth in this note, management believes that any liability which may result from these legal matters would not have a material adverse effect on the financial condition, results of operations, liquidity or cash flows of the Company.

Environmental Matters

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

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

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

During the three months ended September 30, 2014 and 2013, the Company incurred \$1.8 million and \$(1.2) million of expenses, respectively, for environmental remediation at sites presently or formerly owned or leased by us. For the nine months ended September 30, 2014 and 2013, the Company incurred expenses of \$3.9 million and \$1.7 million, respectively. As of September 30, 2014 and December 31, 2013, the Company has recorded reserves for environmental matters of \$46.5 million and \$47.9 million, respectively. Of these amounts, \$40.5 million and \$42.1 million, respectively, relate to remediation of sites previously disposed by the Company. Environmental reserves are classified as Accrued expenses and other current liabilities or Other noncurrent liabilities based on their expected term. The Company's total current environmental reserve at September 30, 2014 and December 31, 2013 was \$19.8 million and \$13.5 million, respectively. Given the evolving nature of environmental laws, regulations and technology,

the ultimate cost of future compliance is uncertain.

Asbestos-Related Matters

Certain wholly-owned subsidiaries of the Company are named as defendants in asbestos-related lawsuits in state and federal courts. In virtually all of the suits, a large number of other companies have also been named as defendants. The vast majority of those claims have been filed against either IR-New Jersey or Trane U.S. Inc. (Trane) and generally allege injury caused by exposure to

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asbestos contained in certain historical products sold by IR-New Jersey or Trane, primarily pumps, boilers and railroad brake shoes. Neither IR-New Jersey nor Trane was a producer or manufacturer of asbestos, however, some formerly manufactured products utilized asbestos-containing components such as gaskets and packings purchased from third-party suppliers.

The Company engages an outside expert to assist in calculating an estimate of the Company's total liability for pending and unasserted future asbestos-related claims and annually performs a detailed analysis with the assistance of an outside expert to update its estimated asbestos-related assets and liabilities. The methodology used to project the Company's total liability for pending and unasserted potential future asbestos-related claims