INGERSOLL RAND CO LTD
Form 10-Q
November 07, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2008

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 1-985

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

Bermuda	**75-2993910**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

Clarendon House
2 Church Street
Hamilton HM 11, Bermuda
(Address of principal executive offices)

(441) 295-2838
(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 o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

The number of Class A common shares outstanding as of October 31, 2008 was 318,786,336.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

INGERSOLL-RAND COMPANY LIMITED
CONDENSED CONSOLIDATED INCOME STATEMENT
(Unaudited)

In millions, except per share amounts	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net revenues	$ 4,313.2	$ 2,239.0	$ 9,557.3	$ 6,439.8
Cost of goods sold	(3,209.4)	(1,608.2)	(6,946.4)	(4,613.8)
Selling and administrative expenses	(756.4)	(354.5)	(1,654.9)	(1,067.0)
Operating income	347.4	276.3	956.0	759.0
Interest expense	(83.7)	(33.3)	(156.4)	(99.8)
Other, net	(3.7)	(7.6)	61.4	0.9
Earnings before income taxes	260.0	235.4	861.0	660.1
Provision for income taxes	(26.3)	(37.8)	(153.2)	(97.9)
Earnings from continuing operations	233.7	197.6	707.8	562.2
Discontinued operations, net of tax	(6.0)	69.0	(42.4)	886.0
Net earnings	$ 227.7	$ 266.6	$ 665.4	$ 1,448.2
Basic earnings per common share:				
Continuing operations	$ 0.73	$ 0.70	$ 2.40	$ 1.90
Discontinued operations	(0.02)	0.24	(0.14)	2.99
Net earnings	$ 0.71	$ 0.94	$ 2.26	$ 4.89
Diluted earnings per common share:				
Continuing operations	$ 0.72	$ 0.68	$ 2.38	$ 1.87
Discontinued operations	(0.02)	0.24	(0.14)	2.95
Net earnings	$ 0.70	$ 0.92	$ 2.24	$ 4.82
Dividends per common share	$ 0.18	$ 0.18	$ 0.54	$ 0.54

See accompanying notes to condensed consolidated financial statements.

INGERSOLL-RAND COMPANY LIMITED
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

In millions	September 30, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 741.5	$ 4,735.3
Accounts and notes receivable, net	2,791.8	1,660.7
Inventories	1,795.1	827.2
Other current assets	795.1	477.5
Total current assets	6,123.5	7,700.7
Property, plant and equipment, net	2,085.3	904.9
Goodwill	9,386.3	3,993.3
Intangible assets, net	6,101.3	724.6
Other noncurrent assets	2,078.7	1,052.7
Total assets	$ 25,775.1	$ 14,376.2
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 1,265.2	$ 721.2
Accrued compensation and benefits	511.1	338.9
Accrued expenses and other current liabilities	1,727.9	1,434.6
Short-term borrowings and current maturities of long-term debt	2,730.6	741.0
Total current liabilities	6,234.8	3,235.7
Long-term debt	2,785.1	712.7
Postemployment and other benefit liabilities	1,296.5	941.9
Deferred income taxes	2,804.9	539.9
Other noncurrent liabilities	1,847.6	940.6
Minority interests	103.4	97.5
Shareholders' equity:		
Class A common shares	318.8	272.6
Capital in excess of par value	2,243.5	-
Retained earnings	7,898.7	7,388.8
Accumulated other comprehensive income (loss)	241.8	246.5
Total shareholders' equity	10,702.8	7,907.9
Total liabilities and shareholders' equity	$ 25,775.1	$ 14,376.2

See accompanying notes to condensed consolidated financial statements.

INGERSOLL-RAND COMPANY LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

In millions	Nine months ended September 30, 2008	2007
Cash flows from operating activities:		
Net earnings	$ 665.4	$ 1,448.2
(Income) loss from discontinued operations, net of tax	42.4	(886.0)
Adjustments to arrive at net cash provided by (used in) operating activities:		
Depreciation and amortization	329.8	99.0
Stock settled share-based compensation	35.1	25.4
Changes in other assets and liabilities, net	(1,127.4)	(263.8)
Other, net	56.0	42.6
Net cash provided by (used in) continuing operating activities	1.3	465.4
Net cash provided by (used in) discontinued operating activities	(26.1)	(8.6)
Cash flows from investing activities:		
Capital expenditures	(196.2)	(88.5)
Proceeds from sale of property, plant and equipment	59.7	10.2
Acquisitions, net of cash acquired	(7,105.4)	(26.7)
Proceeds from business dispositions, net of cash	73.3	1,291.7
Other, net	(42.5)	31.4
Net cash provided by (used in) continuing investing activities	(7,211.1)	1,218.1
Net cash provided by (used in) discontinued investing activities	-	(50.7)
Cash flows from financing activities:		
Increase (decrease) in short-term borrowings	1,913.7	407.7
Proceeds from long-term debt	1,603.1	-
Payments of long-term debt	(170.0)	(12.4)
Net change in debt	3,346.8	395.3
Debt issuance costs	(23.2)	-
Dividends paid	(155.5)	(160.9)
Proceeds from exercise of stock options	18.2	147.5
Repurchase of common shares by subsidiary	(2.0)	(1,940.6)
Other, net	18.5	-
Net cash provided by (used in) continuing financing activities	3,202.8	(1,558.7)
Net cash provided by (used in) discontinued financing activities	-	-
Effect of exchange rate changes on cash and cash equivalents	39.3	16.7
Net increase (decrease) in cash and cash equivalents	(3,993.8)	82.2
Cash and cash equivalents - beginning of period	4,735.3	355.8
Cash and cash equivalents - end of period	$ 741.5	$ 438.0

See accompanying notes to condensed consolidated financial statements.

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

Note 1 – Description of Company
Ingersoll-Rand Company Limited (IR Limited), a Bermuda company, and its consolidated subsidiaries (we, our or the Company) is a leading innovation and solutions provider with strong brands and leading positions within its markets. The Company operates in four business segments: Air Conditioning Systems and Services, Climate Control Technologies, Industrial Technologies and Security Technologies. The Company generates revenue and cash primarily through the design, manufacture, sale and service of a diverse portfolio of industrial and commercial products that include well-recognized, premium brand names such as Club Car®, Hussmann®, Ingersoll Rand®, Schlage®, Thermo King® and Trane®.

Note 2– Basis of Presentation
In the opinion of management, the accompanying condensed consolidated financial statements contain all adjustments, which include normal recurring adjustments, necessary to present fairly the consolidated unaudited results for the interim periods presented. Certain reclassifications of amounts reported in prior years have been made to conform to the 2008 classification.

The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements included in the Ingersoll-Rand Company Limited Annual Report on Form 10-K for the year ended December 31, 2007.

As discussed in Note 3, the Company acquired Trane Inc. (Trane) at the close of business on June 5, 2008 (the Acquisition Date). As a result of the acquisition, the results of the operations of Trane have been included in the statement of financial position at September 30, 2008 and the consolidated statements of operations and cash flows since the Acquisition Date.

Note 3 – Acquisition of Trane Inc.
At the close of business on June 5, 2008, the Company completed its previously announced acquisition of 100% of the outstanding common shares of Trane. Trane, formerly American Standard Companies Inc., provides systems and services that enhance the quality and comfort of the air in homes and buildings around the world. Trane's systems and services have leading positions in premium commercial, residential, institutional and industrial markets, a reputation for reliability, high quality and product innovation and a powerful distribution network. Trane's 2007 annual revenues were $7.5 billion.

The Company paid a combination of (i) 0.23 of an IR Limited Class A common share and (ii) $36.50 in cash, without interest, for each outstanding share of Trane common stock. The total cost of the acquisition was approximately $9.6 billion, including change in control payments and direct costs of the transaction. The Company financed the cash portion of the acquisition with a combination of cash on hand, commercial paper and a 364-day senior unsecured bridge loan facility.

The components of the purchase price were as follows:

In billions		
Cash consideration	$	7.3
Stock consideration (Issuance of 45.4 million IR Limited Class A common shares)		2.0
Estimated fair value of Trane stock options converted to 7.4 million IR Limited stock options		0.2
Transaction costs		0.1
Total	$	9.6

The following table summarizes the preliminary fair values of the Trane assets acquired and liabilities assumed at the Acquisition Date. The Company is in the process of finalizing the fair values of certain assets and liabilities, thus, the allocation of the purchase price is subject to refinement. The Company anticipates finalizing purchase accounting in the fourth quarter of 2008.

In millions		June 5, 2008
Current assets:		
Cash and cash equivalents	$	317.5
Accounts and notes receivable		1,185.6
Inventories		970.5
Other current assets		376.4
Total current assets		2,850.0
Property, plant and equipment		1,180.7
Goodwill		5,393.1
Intangible assets		5,547.7
Other noncurrent assets		721.9
Total assets	$	15,693.4
Current liabilities:		
Accounts payable	$	562.9
Accrued compensation and benefits		218.5
Accrued expenses and other current liabilities		1,006.9
Short-term borrowings and current maturities of long-term debt		254.3
Total current liabilities		2,042.6
Long-term debt		476.3
Postemployment and other benefit liabilities		314.6
Deferred income taxes		2,237.5
Other noncurrent liabilities		1,006.2
Minority interests		7.7
Total liabilities and minority interests	$	6,084.9
Net assets acquired	$	9,608.5

Cash and cash equivalents, accounts and notes receivable, accounts payable and accrued compensation and benefits were stated at their historical carrying values, which approximate their fair value, given the short-term nature of these assets and liabilities.

Inventories were recorded at fair value, based on computations which considered many factors, including the future estimated selling price of the inventory, the cost to dispose of the inventory, as well as the replacement cost of the inventory, where applicable.

The Company recorded property, plant and equipment at its preliminary estimated fair value, based on adjustments recorded in recent acquisitions of other companies with assets similar to Trane.

The Company recorded intangible assets based on their estimated fair value, and consisted of the following:

In millions	Useful life	Amount	
Tradenames	Indefinite	$	3,198.0
Customer relationships	18 Years		2,014.0
Completed technology/patents	10 Years		158.0
In-process research and development	Expensed		26.0
License agreement	7 Years		40.7
Backlog	6 Months		111.0
Total		$	5,547.7

The Company has allocated $3,198.0 million to tradenames, primarily related to the Trane brand. Management considered many factors in the determination that it will account for the asset as an indefinite lived intangible asset, including the current market leadership position of the brand as well as recognition worldwide in the industry. Therefore, in accordance with Statement of Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets", tradenames will not be amortized, but instead will be tested for impairment at least annually (more frequently if certain indicators are present).

In addition, the Company assigned $26.0 million to in-process research and development assets that were expensed at the date of acquisition in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method." The expenses are included in general and administrative expenses.

The Company will have a valuation performed on property, plant and equipment and identified intangible assets in addition to pension, post employment and other liabilities. As such, the fair value recorded for the assets and liabilities could change upon the conclusion of the valuation.

The excess of the purchase price over the amounts allocated to specific assets and liabilities is included in goodwill, and amounted to $5,393.1 million. The premium in the purchase price paid by the Company for the acquisition of Trane reflects the establishment of $11 billion of businesses offering high value equipment, systems and services necessary for delivering solutions across the temperature spectrum for indoor, stationary and transport applications worldwide. The Company anticipates realizing significant operational and cost synergies. Anticipated synergies include purchase material savings through supplier rationalization and procurement leverage, improvement in manufacturing costs and lower general and administrative costs. Longer term, the Company expects to benefit from synergies related to service revenue expansion, leverage of distribution channels and cross selling through certain vertical markets.

In addition, Trane will be able to leverage the Company's global footprint to enhance their historically U.S.-based revenue generation. Lastly, the combined business will improve the Company's highly regarded Hussmann and Thermo King brands with Trane's position as a leader in the commercial and residential climate control industry. These combined factors primarily contributed to a purchase price in excess of the fair value of the net tangible assets acquired.

The following unaudited pro forma information assumes the acquisition of Trane occurred as of the beginning of the respective periods presented:

	Nine months ended September 30,			
In millions		2008		2007
Net revenues	$	12,691.0	$	12,060.8
Pre-tax profit		863.5		694.7
Net earnings	$	703.0	$	562.0
Basic earnings per common share	$	2.20	$	1.65
Diluted earnings per common share	$	2.17	$	1.61

The unaudited pro forma financial information for the nine months ended September 30, 2008 include $19.5 million of non-recurring purchase accounting charges associated with the fair value allocation of purchase price to backlog, inventory and in-process research and development costs. The comparative amount for the nine months ended September 30, 2007 was $113.1 million.

In addition, for the nine months ended September 30, 2008, the Company has included $81.3 million as an increase to interest expense associated with the borrowings to fund (a) the cash portion of the purchase price and (b) the out-of-pocket transaction costs associated with the acquisition. The comparative amount for the nine months ended September 30, 2007 was $146.9 million.

The unaudited pro forma information does not purport to be indicative of the results that actually would have been achieved had the operations been combined during the periods presented, nor is it intended to be a projection of future results or trends.

Note 4 – Divestitures and Discontinued Operations

The components of discontinued operations for the three and nine months ended September 30 are as follows:

In millions	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Revenues	$ 0.1	$ 714.0	$ 15.3	$ 2,410.8
Pre-tax earnings (loss) from operations	(11.0)	93.6	(34.0)	295.2
Pre-tax gain (loss) on sale	0.1	1.1	(5.5)	805.8
Tax expense	4.9	(25.7)	(2.9)	(215.0)
Discontinued operations, net of tax	$ (6.0)	$ 69.0	$ (42.4)	$ 886.0

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

In millions	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Compact Equipment, net of tax	$ -	$ 84.5	$ (22.9)	$ 226.7
Road Development, net of tax	-	1.1	(1.8)	695.2
Other discontinued operations, net of tax	(6.0)	(16.6)	(17.7)	(35.9)
Total discontinued operations, net of tax	$ (6.0)	$ 69.0	$ (42.4)	$ 886.0

Compact Equipment Divestiture

On July 29, 2007, the Company agreed to sell its Bobcat, Utility Equipment and Attachments business units (collectively, Compact Equipment) to Doosan Infracore for gross proceeds of approximately $4.9 billion. The sale was completed on November 30, 2007. The purchase price is subject to post-closing adjustments which could result in a favorable or unfavorable adjustment to the gain on sale when ultimately resolved.

Compact Equipment manufactures and sells compact equipment, including skid-steer loaders, compact track loaders, mini-excavators and telescopic tool handlers; portable air compressors, generators and light towers; general-purpose light construction equipment; and attachments. The Company has accounted for Compact Equipment as discontinued operations for all periods presented in accordance with SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (SFAS 144).

Net revenues and after-tax earnings of Compact Equipment for the three and nine months ended September 30 are as follows:

In millions	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net revenues	$ 0.1	$ 709.7	$ 15.3	$ 2,162.1
Earnings from operations, net of tax	-	84.5	0.1	226.7
Gain on sale, net of tax	-	-	(23.0)	-
Total discontinued operations, net of tax	$ -	$ 84.5	$ (22.9)	$ 226.7

Road Development Divestiture
On February 27, 2007, the Company agreed to sell its Road Development business unit to AB Volvo (publ) for cash proceeds of approximately $1.3 billion. The sale was completed on April 30, 2007 in all countries except for India, which closed on May 4, 2007. The purchase price has been finalized with the buyer and the Company will record final adjustments in the fourth quarter of 2008.

The Road Development business unit manufactures and sells asphalt paving equipment, compaction equipment, milling machines and construction-related material handling equipment. The Company has accounted for the Road Development business unit as discontinued operations for all periods presented in accordance with SFAS 144.

Net revenues and after-tax earnings of the Road Development business unit for the three and nine months ended September 30 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
In millions	2008	2007	2008	2007
Net revenues	$ -	$ 4.3	$ -	$ 248.7
Earnings from operations, net of tax	(0.1)	0.2	(0.2)	18.6
Gain on sale, net of tax	0.1	0.9	(1.6)	676.6
Total discontinued operations, net of tax	$ -	$ 1.1	$ (1.8)	$ 695.2

Other Discontinued Operations
The Company also has retained costs from previously sold businesses that mainly include costs related to postretirement benefits, product liability and legal costs (mostly asbestos-related). The components of other discontinued operations for the three and nine months ended September 30 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
In millions	2008	2007	2008	2007
Retained costs, net of tax	$ (6.0)	$ (16.7)	$ (17.7)	$ (36.3)
Net gain on disposals, net of tax	-	0.1	-	0.4
Total discontinued operations, net of tax	$ (6.0)	$ (16.6)	$ (17.7)	$ (35.9)

Retained costs, net of tax for the nine months ended September 30, 2008 includes $6.5 million of after-tax costs related to an adverse verdict in a product liability lawsuit associated with a previously divested business.

Note 5– 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 are as follows:

In millions		September 30, 2008		December 31, 2007
Raw materials	$	480.0	$	323.2
Work-in-process		351.0		163.4
Finished goods		1,106.2		424.9
Sub-total		1,937.2		911.5
LIFO reserve		(142.1)		(84.3)
Total	$	1,795.1	$	827.2

At September 30, 2008, approximately 50% of all inventory utilized the LIFO method compared to approximately 20% at December 31, 2007. The increase is primarily attributable to the Company's acquisition of Trane. See Note 3 for a further discussion on the Trane acquisition.

Note 6 –Goodwill

The changes in the carrying amount of goodwill are as follows:

In millions		Air Conditioning Systems and Services		Climate Control Technologies		Industrial Technologies		Security Technologies		Total
December 31, 2007	$	-	$	2,613.8	$	371.9	$	1,007.6	$	3,993.3
Acquisitions and adjustments*		5,393.1		-		5.6		23.3		5,422.0
Translation		-		(11.9)		(1.3)		(15.8)		(29.0)
September 30, 3008	$	5,393.1	$	2,601.9	$	376.2	$	1,015.1	$	9,386.3

* Includes current year adjustments related to final purchase price allocation adjustments.

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

See Note 3 for a further discussion regarding goodwill associated with the acquisition of Trane, which the Company records in the Air Conditioning Systems and Services segment.

Note 7 – Intangible Assets

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

September 30,