CARLISLE COMPANIES INC
Form 10-Q
July 26, 2017

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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 JUNE 30, 2017

Commission file number 1-9278

www.carlisle.com

CARLISLE COMPANIES INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**31-1168055**
(State of incorporation)	(I.R.S. Employer Identification No.)

(480) 781-5000
(Telephone Number)

16430 North Scottsdale Road, Suite 400, Scottsdale, Arizona 85254
(Address of principal executive office, including zip 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 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, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Yes No

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

Yes No

Shares of common stock outstanding at July 20, 2017: 63,171,850

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Carlisle Companies Incorporated

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Carlisle Companies Incorporated

Item 1. Financial Statements

Condensed Consolidated Statements of Earnings and Comprehensive Income (Unaudited)

(in millions except share and per share amounts)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Net sales	**$1,071.7**	$996.9	**$1,929.0**	$1,790.9
Cost of goods sold	**757.7**	675.7	**1,367.3**	1,224.3
Selling and administrative expenses	**141.6**	131.5	**281.3**	255.6
Research and development expenses	**13.9**	12.0	**26.7**	23.3
Other income, net	**(0.3)**	(1.2)	**(1.8)**	(1.8)
Earnings before interest and income taxes	**158.8**	178.9	**255.5**	289.5
Interest expense, net	**7.1**	8.2	**13.7**	16.6
Earnings before income taxes from continuing operations	**151.7**	170.7	**241.8**	272.9
Income tax expense	**49.4**	55.4	**78.0**	89.1
Income from continuing operations	**102.3**	115.3	**163.8**	183.8
Discontinued operations:				
(Loss) income before income taxes	**(0.1)**	(0.1)	**0.4**	(0.1)
Income tax (benefit) expense	**(0.1)**	—	**0.1**	—
(Loss) income from discontinued operations	**—**	(0.1)	**0.3**	(0.1)
Net income	**$102.3**	$115.2	**$164.1**	$183.7
Basic earnings per share attributable to common shares:				
Income from continuing operations	**$1.59**	$1.78	**$2.53**	$2.84
Income from discontinued operations	**—**	—	**—**	—
Basic earnings per share	**$1.59**	$1.78	**$2.53**	$2.84
Diluted earnings per share attributable to common shares:				
Income from continuing operations	**$1.58**	$1.75	**$2.52**	$2.80
Income from discontinued operations	**—**	—	**—**	—
Diluted earnings per share	**$1.58**	$1.75	**$2.52**	$2.80
Average shares outstanding (in thousands):				
Basic	**63,746**	64,246	**64,048**	64,131
Diluted	**64,140**	65,112	**64,473**	65,050
Dividends declared and paid	**$23.1**	$19.5	**$45.8**	$39.0
Dividends declared and paid per share	**$0.35**	$0.30	**$0.70**	$0.60
Comprehensive income:				
Net income	**$102.3**	$115.2	**$164.1**	$183.7
Other comprehensive income (loss)				

Foreign currency translation	**19.8**	(15.0)	**31.2**	(4.8)
Accrued post-retirement benefit liability, net of tax	**0.4**	0.4	**0.8**	0.8
Other, net of tax	**(0.6)**	(0.1)	**(0.7)**	(0.3)
Other comprehensive income (loss)	**19.6**	(14.7)	**31.3**	(4.3)
Comprehensive income	**$121.9**	$100.5	**$195.4**	$179.4

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

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Carlisle Companies Incorporated

Condensed Consolidated Balance Sheets

(in millions except share and per share amounts)	**June 30, 2017**	**December 31, 2016**
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	**$ 139.8**	$ 385.3
Receivables, net of allowance of $5.4 million and $4.0 million, respectively	**694.9**	511.6
Inventories	**436.0**	377.0
Prepaid expenses	**24.0**	24.3
Other current assets	**41.5**	57.0
Total current assets	**1,336.2**	1,355.2
Property, plant, and equipment, net	**683.1**	632.2
Other assets:		
Goodwill, net	**1,180.2**	1,081.2
Other intangible assets, net	**1,005.3**	872.2
Other long-term assets	**24.1**	25.0
Total other assets	**2,209.6**	1,978.4
TOTAL ASSETS	**$ 4,228.9**	$ 3,965.8
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	**$ 335.4**	$ 243.6
Accrued expenses	**235.3**	246.7
Deferred revenue	**31.2**	23.2
Total current liabilities	**601.9**	513.5
Long-term liabilities:		
Long-term debt	**706.7**	596.4
Deferred revenue	**177.3**	172.0
Other long-term liabilities	**270.5**	217.0
Total long-term liabilities	**1,154.5**	985.4
Commitments and contingencies (See Note 11)		
Shareholders' equity:		
Preferred stock, $1 par value per share (authorized and unissued 5,000,000 shares)	**—**	—
Common stock, $1 par value per share (authorized 200,000,000 shares; issued 78,661,248 shares; outstanding 62,968,289 and 64,257,182 shares, respectively)	**78.7**	78.7
Additional paid-in capital	**341.6**	335.3
Deferred compensation equity	**13.1**	10.3
Treasury shares, at cost (15,507,309 and 14,178,801 shares, respectively)	**(535.7)**	(382.6)
Accumulated other comprehensive loss	**(90.9)**	(122.2)
Retained earnings	**2,665.7**	2,547.4
Total shareholders' equity	**2,472.5**	2,466.9

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$4,228.9**	$3,965.8

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

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Carlisle Companies Incorporated

Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended June 30,	
(in millions)	**2017**	**2016**
Operating activities		
Net income	**$164.1**	$183.7
Reconciliation of net income to net cash provided by operating activities:		
Depreciation	**40.2**	36.9
Amortization	**38.9**	30.5
Stock-based compensation, net of tax benefit	**7.3**	(5.2)
Other operating activities, net	**6.4**	(1.5)
Changes in assets and liabilities, excluding effects of acquisitions:		
Receivables	**(167.6)**	(120.2)
Inventories	**(38.7)**	(19.3)
Prepaid expenses and other assets	**6.4**	4.1
Accounts payable	**71.7**	61.3
Accrued expenses	**(6.8)**	5.9
Deferred revenues	**13.1**	4.1
Other long-term liabilities	**(0.3)**	(0.4)
Net cash provided by operating activities	**134.7**	179.9
Investing activities		
Capital expenditures	**(66.1)**	(45.9)
Acquisitions, net of cash acquired	**(225.9)**	(103.1)
Other investing activities, net	**0.1**	0.1
Net cash used in investing activities	**(291.9)**	(148.9)
Financing activities		
Proceeds from revolving credit facility	**263.0**	—
Repayment of revolving credit facility	**(153.0)**	—
Dividends paid	**(45.8)**	(39.0)
Proceeds from exercise of stock options	**3.5**	39.8
Withholding tax paid related to stock-based compensation	**(8.1)**	(4.7)
Repurchases of common stock	**(150.0)**	(40.9)
Net cash used in financing activities	**(90.4)**	(44.8)
Effect of foreign currency exchange rate changes on cash and cash equivalents	**2.1**	1.0
Change in cash and cash equivalents	**(245.5)**	(12.8)
Cash and cash equivalents		
Beginning of period	**385.3**	410.7
End of period	**$139.8**	$397.9

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

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Carlisle Companies Incorporated

Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

(In millions, except share and per share amounts)

	Common Stock		Additional Paid-In Capital	Deferred Compensation Equity	Accumulated Other Comprehensive Income (loss)	Retained Earnings	Shares in Treasury		Total Shareholders' Equity
	Shares	Amount					Shares	Cost	
Balance at December 31, 2015	64,051,600	$ 78.7	$ 293.4	$ 8.0	$ (87.1)	$ 2,381.8	14,383,241	$ (327.4)	$ 2,347.4
Net income	—	—	—	—	—	183.7	—	—	183.7
Other comprehensive loss, net of tax	—	—	—	—	(4.3)	—	—	—	(4.3)
Cash dividends - $0.60 per share	—	—	—	—	—	(39.0)	—	—	(39.0)
Repurchases of common stock	(459,662)	—	—	—	—	—	459,662	(41.5)	(41.5)
Issuances and deferrals, net for stock based compensation (1)	808,705	—	25.5	2.4	—	—	(809,293)	15.9	43.8
Balance at June 30, 2016	64,400,643	$ 78.7	$ 318.9	$ 10.4	$ (91.4)	$ 2,526.5	14,033,610	$ (353.0)	$ 2,490.1
Balance at December 31, 2016	64,257,182	$ 78.7	$ 335.3	$ 10.3	$ (122.2)	$ 2,547.4	14,178,801	$ (382.6)	$ 2,466.9
Net income	—	—	—	—	—	164.1	—	—	164.1
Other comprehensive income, net of tax	—	—	—	—	31.3	—	—	—	31.3
Cash dividends - $0.70 per share	—	—	—	—	—	(45.8)	—	—	(45.8)
Repurchases of common stock	(1,482,114)	—	—	—	—	—	1,482,114	(150.0)	(150.0)
Issuances and deferrals, net for stock based compensation (1)	193,221	—	6.3	2.8	—	—	(153,606)	(3.1)	6.0
Balance at June 30, 2017	**62,968,289**	**$ 78.7**	**$ 341.6**	**$ 13.1**	**$ (90.9)**	**$ 2,665.7**	**15,507,309**	**$ (535.7)**	**$ 2,472.5**

(1) Issuances and deferrals, net for stock based compensation reflects share activity related to option exercises, restricted and performance shares vested and net issuances and deferrals associated with deferred compensation equity.

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited)

Carlisle Companies Incorporated
Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1—Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by Carlisle Companies Incorporated (the "Company", “We”, “Our” or "Carlisle"). The accompanying unaudited Condensed Consolidated Financial Statements do not include all disclosures as required by accounting principles generally accepted in the United States of America (U.S.), and should be read in conjunction with the Company’s audited Consolidated Financial Statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2016.

The accompanying unaudited Condensed Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the U.S. and, of necessity, include some amounts that are based upon management estimates and judgments. The accompanying unaudited Condensed Consolidated Financial Statements include assets, liabilities, net sales, and expenses of all majority-owned subsidiaries. Intercompany transactions and balances are eliminated in consolidation.

In our opinion, the accompanying unaudited Condensed Consolidated Financial Statements contain all adjustments, consisting solely of adjustments of a normal, recurring nature, necessary to present fairly the financial position, results of operations, and cash flows for the periods presented. We have reclassified certain prior period amounts to conform to current period presentation.

Note 2—New Accounting Pronouncements

New Accounting Standards Adopted

Effective January 1, 2017, the Company adopted Accounting Standards Update ("ASU") 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”). The ASU simplifies several aspects of the accounting for stock compensation, including the following:

- On a prospective basis, all income tax effects of awards are recognized in the statement of operations as tax expense or benefit at the time that the awards vest or are settled, which resulted in a $0.9 million and $3.5 million discrete income tax benefit for the second quarter and first six months of 2017, respectively.
- On a prospective basis, all income tax effects of awards are recognized in the statement of cash flows as only operating activities.
- The cash paid to a tax authority when shares are withheld to satisfy the tax withholding obligation are classified as financing activities on the statement of cash flows on a retrospective basis. The adoption had no impact on our cash flows presentation as we have historically presented these amounts as financing activities.
- Companies are required to elect the method of accounting for forfeitures of share-based payments, either by recognizing such forfeitures as they occur or estimating the number of awards expected to be forfeited and adjusting such estimate when it is deemed likely to change. The Company elected to account for forfeitures as they occur and the adoption did not have a material impact on stock-based compensation expense.

In January 2017, the Financial Accounting Standards Board ("FASB") issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment*, which simplifies how an entity is required to test goodwill for impairment by eliminating step 2 of the goodwill impairment test, which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount. Instead, entities should measure an impairment charge for the excess of carrying amount over the fair value of the respective reporting unit. The Company early adopted this ASU effective January 1, 2017 and anticipates the elimination of step 2 will reduce the complexity and cost of the subsequent measurement of goodwill.

Carlisle Companies Incorporated
Notes to Condensed Consolidated Financial Statements (Unaudited)

New Accounting Standards Issued But Not Yet Adopted

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 outlines a single, comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance issued by the FASB, including industry specific guidance. ASU 2014-09 provides accounting guidance for all revenue arising from contracts with customers and affects all entities that enter into contracts with customers to provide goods and services. The standard allows for either full retrospective or modified retrospective adoption. The company will adopt the standard, using the modified retrospective approach, for interim and annual periods beginning on January 1, 2018. ASU 2014-09 also requires entities to disclose both quantitative and qualitative information to enable users of the financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

To date, this assessment has included (1) utilizing questionnaires to assist with identifying our revenue streams, (2) performing sample contract analysis, and (3) assessing the identified differences in recognition and measurement that may result from adopting this ASU. The Company has made preliminary conclusions regarding separately-priced extended warranty contracts and variable consideration, and continues its analysis with respect to whether certain contracts' revenues will be recognized over time or at a point in time, but does not anticipate significant changes in its revenue recognition. Based on the evaluation to date, the Company does not anticipate the adoption of this standard will have a material impact on reported current net sales; however, given our acquisition strategy within diverse business segments, there may be additional revenue streams acquired prior to the adoption date. Further, the Company anticipates providing incremental disaggregated revenue disclosures, including net sales by end market in its Condensed Consolidated Financial Statements, beginning in the first quarter of 2018. The Company continues to evaluate the impact of a cumulative catch-up adjustment, if any, and does not expect it to be significant to the Consolidated Balance Sheet.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*("ASU 2016-02") which requires lessees to recognize a lease liability for the obligation to make lease payments, measured at the present value on a discounted basis, and a right-of-use ("ROU") asset for the right to use the underlying asset for the duration of the lease term, measured at the lease liability amount adjusted for lease prepayments, lease incentives received, and initial direct costs. The lease liability and ROU asset are recognized in the balance sheet at the commencement of the lease. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating or finance. Operating leases will result in straight-line expense while finance leases will result in a front-loaded expense pattern. Classification will be based on criteria that are largely similar to those applied in current lease accounting. ASU 2016-02 is effective for the Company beginning January 1, 2019 and requires the use of a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period presented in the financial statements. Early application of the ASU is permitted; however, the Company plans to adopt on January 1, 2019. The Company has not yet determined the impact of adopting the standard on the Consolidated Financial Statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which requires employers to include only the service cost component of net periodic pension cost and net periodic postretirement benefit cost in operating expenses. The other components of net benefit cost, including amortization of prior service cost/credit, and settlement and curtailment effects, are to be included in non-operating expenses. The ASU also stipulates that only the service cost component of net benefit cost is eligible for capitalization. The effective date for adoption of this guidance begins on January 1, 2018, with early adoption permitted. The Company is currently evaluating the effect that this standard will have on the Consolidated Financial Statements, however does not believe this update will have a significant impact on its consolidated financial statements.

Note 3—Segment Information

The Company’s operating segments are:

Carlisle Construction Materials (“CCM” or “Construction Materials”)—the principal products of this segment are insulation materials, rubber ("EPDM"), thermoplastic polyolefin ("TPO"), and polyvinyl chloride ("PVC") roofing membranes used predominantly on non-residential low-sloped roofs, related roofing accessories, including flashings, fasteners, sealing tapes, and coatings and waterproofing products. CCM also manufactures and distributes energy-efficient rigid foam insulation panels for substantially all roofing applications. The markets served include new construction, re-roofing and maintenance of low-sloped roofs, water containment, HVAC sealants, and coatings and waterproofing.

Carlisle Interconnect Technologies (“CIT” or “Interconnect Technologies”)—the principal products of this segment are high-performance wire, cable, connectors, contacts, and cable assemblies for the transfer of power and data primarily for the aerospace, medical, defense electronics, test and measurement equipment, and select industrial markets.

Carlisle FoodService Products (“CFS” or “FoodService Products”)—the principal products of this segment include commercial and institutional foodservice permanentware, table coverings, cookware, catering equipment, fiberglass and composite material trays and dishes, industrial brooms, brushes, mops, and rotary brushes for commercial and non-commercial foodservice operators and sanitary maintenance professionals.

Carlisle Fluid Technologies (“CFT” or “Fluid Technologies”)—the principal products of this segment are industrial liquid and powder finishing equipment and integrated system solutions for spraying, pumping, mixing, metering, and curing of a variety of coatings used in the transportation, general industrial, protective coating, wood, specialty and auto refinishing markets.

Carlisle Brake & Friction (“CBF” or “Brake & Friction”)—the principal products of this segment include high-performance brakes and friction material and clutch and transmission friction material for construction, agriculture, mining, aerospace, and motor sports markets.

The Chief Operating Decision Maker (“CODM”) uses net sales and earnings before interest and income taxes ("EBIT") as the primary basis to evaluate the performance of each operating segment. The Company's CODM is the Chief Executive Officer.

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Carlisle Companies Incorporated
Notes to Condensed Consolidated Financial Statements (Unaudited)

Segment information is summarized as follows:

Three Months Ended June 30,	**2017**		**2016**	
(in millions)	**Net Sales**	**EBIT**	**Net Sales**	**EBIT**
Carlisle Construction Materials	**$631.2**	**$129.0**	$582.5	$133.1
Carlisle Interconnect Technologies	**201.8**	**20.1**	209.4	39.6
Carlisle FoodService Products	**87.8**	**12.1**	63.5	8.2
Carlisle Fluid Technologies	**71.0**	**7.5**	68.2	7.3
Carlisle Brake & Friction	**79.9**	**1.4**	73.3	4.8
Corporate	**—**	**(11.3)**	—	(14.1)
Total	**$1,071.7**	**$158.8**	$996.9	$178.9

Six Months Ended June 30,	**2017**		**2016**	
(in millions)	**Net Sales**	**EBIT**	**Net Sales**	**EBIT**
Carlisle Construction Materials	**$1,077.3**	**$209.7**	$986.2	$205.4
Carlisle Interconnect Technologies	**396.0**	**42.4**	406.1	76.2
Carlisle FoodService Products	**171.1**	**17.9**	123.9	15.3
Carlisle Fluid Technologies	**131.5**	**12.4**	129.4	14.2
Carlisle Brake & Friction	**153.1**	**2.6**	145.3	8.5
Corporate	**—**	**(29.5)**	—	(30.1)
Total	**$1,929.0**	**$255.5**	$1,790.9	$289.5

Corporate EBIT includes other unallocated costs, primarily general corporate expenses.

Note 4—Acquisitions

2017 Acquisitions

Arbo

On January 31, 2017, the Company acquired 100% of the equity of Arbo Holdings Limited (“Arbo”) for estimated consideration of GBP 8.2 million or $10.3 million, net of GBP 1.0 million or $1.2 million cash acquired and including the estimated fair value of contingent consideration of GBP 2.0 million or $2.5 million and a working capital settlement, which was finalized in the second quarter of 2017. Arbo is a provider of sealants, coatings, and membrane systems used for waterproofing and sealing buildings and other structures. The results of operations of the acquired business are reported within the Construction Materials segment.

Consideration has been preliminarily allocated to goodwill of $4.7 million, $2.2 million to definite-lived intangible assets, $2.1 million to inventory, $1.6 million to indefinite-lived intangibles, $1.5 million to accounts receivable, $1.4 million to accounts payable, and $1.4 million to deferred income and other taxes payable. Definite-lived intangible assets consist of customer relationships with an estimated useful life of 15 years. Of the $4.7 million of goodwill, $1.3 million is deductible for tax purposes. All of the goodwill was assigned to the CCM reporting unit, which aligns with the reportable segment.

San Jamar

On January 9, 2017, the Company acquired 100% of the equity of SJ Holdings, Inc. (“San Jamar”) for consideration of $213.7 million, net of $3.5 million cash acquired and inclusive of a working capital settlement, which was finalized in the first quarter of 2017. San Jamar is a provider of universal dispensing systems and food safety products for foodservice and hygiene applications. San Jamar complements the operating performance at FoodService Products by adding new products, opportunities to expand our presence in complementary sales channels, and a history of profitable growth. The results of operations of the acquired business are reported within the FoodService Products segment.

Carlisle Companies Incorporated
Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table summarizes the consideration transferred to acquire San Jamar and the preliminary allocation of the purchase price among the assets acquired and liabilities assumed.

(in millions)	**Preliminary Allocation As of 1/9/2017**	**Measurement Period Adjustments**	**Revised Preliminary Allocation As of 6/30/2017**
Total consideration transferred	$ 217.2	$ —	$ 217.2
Recognized amounts of identifiable assets acquired and liabilities assumed:			
Cash and cash equivalents	$ 3.5	$ —	$ 3.5
Receivables	9.1	0.1	9.2
Inventories	13.1	0.3	13.4
Prepaid expenses and other current assets	2.3	0.4	2.7
Property, plant, and equipment	4.2	—	4.2
Definite-lived intangible assets	135.1	—	135.1
Indefinite-lived intangible assets	23.6	—	23.6
Other long-term assets	3.2	(0.3)	2.9
Accounts payable	(7.0)	—	(7.0)
Income tax payable	(0.5)	—	(0.5)
Accrued expenses	(4.3)	(0.9)	(5.2)
Other long-term liabilities	(4.8)	0.7	(4.1)
Deferred income taxes	(47.2)	—	(47.2)
Total identifiable net assets	130.3	0.3	130.6
Goodwill	$ 86.9	$ (0.3)	$ 86.6

The valuation of property, plant, and equipment, intangible assets, and income tax obligations is preliminary. We expect to complete the valuation in the second half of 2017. The goodwill recognized in the acquisition of San Jamar is attributable to its experienced workforce, expected operational improvements through implementation of the Carlisle Operating System ("COS"), opportunities for product line expansions in addition to supply chain efficiencies and other administrative opportunities, and the significant strategic value of the business to Carlisle. Of the $86.6 million of goodwill, $5.0 million is deductible for tax purposes. All of the goodwill was assigned to the CFS reporting unit, which aligns with the reportable segment. The $135.1 million value allocated to definite-lived intangible assets consists of $98.0 million of customer relationships with an estimated useful life of 13 years, various acquired technologies of $36.4 million with useful lives ranging from seven to 10 years, and a non-compete agreement of $0.7 million with an estimated useful life of two years. Indefinite-lived intangible assets consist of acquired trade names.

As a result of the acquisition, the Company recognized approximately $4.1 million of pre-acquisition tax liabilities, with a corresponding indemnification asset of $3.2 million, as the seller has indemnified Carlisle for certain of these liabilities. The indemnification asset will be subsequently measured and recognized on the same basis as the corresponding liability. The related seller indemnification asset will expire in stages through the third quarter of 2021 unless claims are made against the seller prior to that date.

2016 Acquisitions

Star Aviation

On October 3, 2016, the Company acquired 100% of the equity of Star Aviation, Inc. (“Star Aviation”), for consideration of $82.4 million, net of $0.3 million cash acquired and inclusive of a working capital settlement, which was finalized in the fourth quarter of 2016. Star Aviation is a provider of design and engineering services, testing and certification work, and manufactured products for in-flight connectivity applications on commercial, business, and military aircraft. The results of operations of the acquired business are reported within the Interconnect Technologies segment.

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Carlisle Companies Incorporated
Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table summarizes the consideration transferred to acquire Star Aviation and the revised preliminary allocation of the purchase price among the assets acquired and liabilities assumed.

(in millions)	**Preliminary Allocation As of 10/3/2016**	**Measurement Period Adjustments**	**Revised Preliminary Allocation As of 6/30/2017**
Total consideration transferred	$ 82.7	$ —	$ 82.7
Recognized amounts of identifiable assets acquired and liabilities assumed:			
Cash and cash equivalents	$ 0.3	$ —	$ 0.3
Receivables	5.9	(0.1)	5.8
Inventories	3.1	(0.2)	2.9
Prepaid expenses and other current assets	0.1	—	0.1
Property, plant, and equipment	3.3	(0.3)	3.0
Definite-lived intangible assets	29.0	—	29.0
Accounts payable	(1.3)	0.2	(1.1)
Accrued expenses	(0.8)	0.1	(0.7)
Total identifiable net assets	39.6	(0.3)	39.3
Goodwill	$ 43.1	$ 0.3	$ 43.4

The valuation of property, plant, and equipment and intangible assets is preliminary. We expect to complete the valuation in the third quarter of 2017. The goodwill recognized in the acquisition of Star Aviation is attributable to its experienced workforce, expected operational improvements through implementation of COS, opportunities for product line expansions in addition to supply chain efficiencies and other administrative opportunities, and the significant strategic value of the business to Carlisle. Goodwill of $43.4 million is deductible for tax purposes in the U.S. All of the goodwill was assigned to the CIT reporting unit, which aligns with the reportable segment. The $29.0 million value allocated to definite-lived intangible assets consists of $23.9 million of customer relationships with estimated useful lives ranging from five to 10 years, various acquired technologies of $4.7 million with an estimated useful life of six years, and a non-compete agreement of $0.4 million with a useful life of five years.

Micro-Coax

On June 10, 2016, the Company acquired 100% of the equity of Micro-Coax, Inc., and Kroll Technologies, LLC, (collectively “Micro-Coax”) for total final consideration of $95.1 million, net of $1.5 million cash acquired, inclusive of a working capital settlement. The Company finalized the working capital settlement in the fourth quarter of 2016. The acquired business is a provider of high-performance, high frequency coaxial wire and cable and cable assemblies to the defense, satellite, test and measurement, and other industrial markets. The results of operations of the acquired business are reported within the Interconnect Technologies segment.

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Carlisle Companies Incorporated
Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table summarizes the consideration transferred to acquire Micro-Coax and the final allocation of the purchase price among the assets acquired and liabilities assumed.

(in millions)	**Preliminary Allocation As of 6/10/2016**	**Measurement Period Adjustments**	**Final Allocation As of 6/30/2017**
Total consideration transferred	$ 97.3	$ (0.7)	$ 96.6
Recognized amounts of identifiable assets acquired and liabilities assumed:			
Cash and cash equivalents	$ 1.5	$ —	$ 1.5
Receivables	6.3	—	6.3
Inventories	8.6	—	8.6
Prepaid expenses and other current assets	0.4	(0.1)	0.3
Property, plant, and equipment	30.0	(14.0)	16.0
Definite-lived intangible assets	31.5	(5.0)	26.5
Indefinite-lived intangible assets	2.0	(2.0)	—
Other long-term assets	1.0	—	1.0
Accounts payable	(1.7)	—	(1.7)
Accrued expenses	(2.4)	(0.1)	(2.5)
Total identifiable net assets	77.2	(21.2)	56.0
Goodwill	$ 20.1	$ 20.5	$ 40.6

The valuation of property, plant, and equipment and intangible assets is final and there have been no changes to the allocation during the six months ended June 30, 2017. The goodwill recognized in the acquisition of Micro-Coax is attributable to its experienced workforce, expected operational improvements through implementation of COS, opportunities for product line expansions in addition to supply chain efficiencies and other administrative opportunities, and the significant strategic value of the business to Carlisle. Goodwill of $40.6 million is deductible for tax purposes in the U.S. All of the goodwill was assigned to the CIT reporting unit, which aligns with the reportable segment. The $26.5 million value allocated to definite-lived intangible assets consists of $14.5 million of customer relationships with a useful life of 12 years, various acquired technologies of $10.6 million with a useful life of approximately seven years, an amortizable trade name of $0.9 million with a useful life of 10 years, and a non-compete agreement of $0.5 million with a useful life of three years.

MS Oberflächentechnik AG

On February 19, 2016, the Company acquired 100% of the equity of MS Oberflächentechnik AG (“MS Powder”), a Swiss-based developer and manufacturer of powder coating systems and related components, for total consideration of CHF 12.3 million, or $12.4 million, including the estimated fair value of contingent consideration of CHF 4.3 million, or $4.3 million. The results of operations of MS Powder are reported within the Fluid Technologies segment.

Consideration has been allocated to definite-lived intangible asset of $9.7 million, $4.1 million to indefinite-lived intangible assets, and $2.2 million to deferred tax liabilities, with $2.9 million allocated to goodwill. Definite-lived intangible assets consist of $8.3 million of technology with a useful life of seven years and customer relationships of $1.4 million with a useful life of ten years. None of the goodwill is deductible for tax purposes. All of the goodwill was assigned to the CFT reporting unit, which aligns with the reportable segment.

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LHi Technology

In conjunction with the October 2014 acquisition of LHi Technology (“LHi”), the Company recorded an indemnification asset of $8.7 million in other long-term assets relating to the indemnification of Carlisle for certain pre-acquisition liabilities, principally related to direct and indirect tax uncertainties. During the third quarter of 2016, the Company concluded that $2.6 million of the indirect tax uncertainties were no longer probable, therefore resulting in the reversal of the related indemnification asset and the corresponding liability. The remaining indemnification asset of $6.1 million at June 30, 2017 is included in other current assets. The related seller indemnification will expire during the third quarter of 2017 unless claims are made against the seller prior to that date.

Note 5—Stock-Based Compensation

The Company maintains an Incentive Compensation Program (the “Program”) for executives, certain other employees of the Company and its operating segments and subsidiaries, and the Company’s non-employee directors. Members of the Board of Directors that receive stock-based compensation are treated as employees for accounting purposes. Shareholders approved the Program on May 6, 2015. The Program allows for awards to eligible employees of stock options, restricted stock, stock appreciation rights, performance shares and units, or other awards based on Company common stock. At June 30, 2017, 3,446,306 shares were available for grant under this plan, of which 1,295,490 shares were available for the issuance of stock awards.

Stock-based compensation cost is recognized over the requisite service period, which generally equals the stated vesting period, unless the stated vesting period exceeds the date upon which an employee reaches retirement eligibility. Stock-based compensation expense is primarily included in selling and administrative expenses in the Condensed Consolidated Statements of Earnings and is as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(in millions)	**2017**	**2016**	**2017**	**2016**
Total pre-tax stock-based compensation	**$4.7**	$3.9	**$10.7**	$8.6

Grants

The Company awarded the following stock-based compensation grants:

	Six Months Ended June 30, 2017
Stock options	**364,675**
Restricted stock	**65,637**
Performance shares	**47,285**
Restricted stock units	**12,952**

For the awards granted during the six months ended June 30, 2017, approximately $23.9 million will be expensed over the requisite service period for each award, which generally is consistent with the vesting period.

Stock Option Awards

Options issued under the Program generally have a three year graded vesting (i.e. one-third of total award vests on each anniversary of the grant date). All options have a maximum term life of 10 years. Shares issued to cover options under the Program may be issued from shares held in treasury, from new issuances of shares, or a combination of the two.

Stock-based compensation expense related to stock options were as follows:

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	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Pre-tax stock-based compensation	**$1.9**	$1.4	**3.8**	3.0

The Company utilizes the Black-Scholes-Merton (“BSM”) option pricing model to determine the fair value of its stock option awards. The BSM model relies on certain assumptions to estimate an option’s fair value. The weighted-average assumptions used in the determination of fair value for stock option awards in 2017 and 2016 were as follows:

	2017	**2016**
Expected dividend yield	**1.3 %**	1.4 %
Expected life in years	**5.58**	5.61
Expected volatility	**25.6 %**	27.5 %
Risk-free interest rate	**1.9 %**	1.4 %
Weighted-average fair value per share	**$24.57**	$19.30

The expected life of options is based on the assumption that all outstanding options will be exercised at the midpoint of the valuation (if vested) or the vesting (if unvested) dates and the options’ expiration dates, utilizing historical data. The expected volatility is based on historical volatility as well as implied volatility of the Company’s options. The risk-free interest rate is based on rates of U.S. Treasury issues with a remaining life equal to the expected life of the option. The expected dividend yield is based on the most recent annual dividend payment per share, divided by the stock price at the date of grant.

Restricted Stock Awards

Restricted stock awarded under the Program is generally released to the recipient after a period of approximately three years. The grant date fair value of the 2017 restricted stock awards is based on the closing market price of the stock on the date of grant.

Performance Share Awards

Performance shares vest based on the employee rendering approximately three years of service to the Company and the attainment of a market condition over the performance period, which is based on the Company’s relative total shareholder return versus the S&P Midcap 400 Index® over a pre-determined time period as determined by the Compensation Committee of the Board of Directors. The grant date fair value of the 2017 performance shares was estimated using a Monte-Carlo simulation approach based on a three-year measurement period. Such approach entails the use of assumptions regarding the future performance of the Company’s stock and those of the S&P Midcap 400 Index®. Those assumptions include expected volatility, risk-free interest rates, correlation coefficients, and dividend reinvestment. Dividends accrue on the performance shares during the performance period and are to be paid in cash based upon the number of awards ultimately earned. The Company expenses the compensation cost associated with the performance awards on a straight-line basis over the vesting period of approximately three years.

For the purpose of determining diluted earnings per share, performance share awards are considered contingently issuable shares and are included in diluted earnings per share based upon the number of shares that would have been awarded had the conditions at the end of the reporting period continued until the end of the performance period. See Note 7 for further information regarding earnings per share computations.

Restricted Stock Units

The restricted stock units awarded to eligible members of the Board of Directors are fully vested and will be paid in shares of Company common stock on the earlier of the date after the Director ceases to serve as a member of the Board or upon a change in control of the Company. The grant date fair value of the 2017 restricted stock units was based on the closing market price of the stock on the date of grant.

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Deferred Compensation - Equity

Certain employees are eligible to participate in the Company's Non-qualified Deferred Compensation Plan (the "Deferred Compensation Plan"). Participants may elect to defer all or part of their restricted and performance shares. Participants have elected to defer 308,304 shares of Company common stock vested as of June 30, 2017, and 294,574 shares vested as of December 31, 2016. Company stock held for future issuance of vested awards is classified as deferred compensation equity in the Condensed Consolidated Balance Sheets and is recorded at grant date fair value.

Note 6—Income Taxes

The effective income tax rate on continuing operations for the six months ended June 30, 2017 was 32.3%. The year-to-date provision for income taxes includes taxes on earnings at an anticipated rate of approximately 34.4% and a year-to-date discrete tax benefit of $5.1 million, of which $3.5 million related to the benefit from the adoption of ASU 2016-09. Under this guidance all excess tax benefits ("windfalls") and deficiencies ("shortfalls") related to employee stock compensation will be recognized within income tax expense. Under prior guidance, windfalls were recognized in additional paid-in capital and shortfalls were only recognized as tax expense to the extent they exceeded the pool of windfall tax benefits. The Company adopted ASU 2016-09 effective January 1, 2017. The adoption was on a prospective basis and therefore had no impact on prior periods. See Note 2 for further information related to the change in accounting for tax benefits associated with stock-based compensation.
The effective income tax rate on continuing operations for the six months ended June 30, 2016 was 32.6% and included a year-to-date net discrete tax benefit of $1.1 million.

Note 7—Earnings Per Share

The Company's restricted shares and restricted stock units contain non-forfeitable rights to dividends and, therefore, are considered participating securities for purposes of computing earnings per share pursuant to the two-class method. The computation below of earnings per share excludes the income attributable to the unvested restricted shares and restricted stock units from the numerator and excludes the dilutive impact of those underlying shares from the denominator. Stock options are included in the calculation of diluted earnings per share utilizing the treasury stock method, and performance share awards are included in the calculation of diluted earnings per share considering those that are contingently issuable. Neither is considered to be a participating security, as they do not contain non-forfeitable dividend rights.

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The following reflects income from continuing operations and share data used in the basic and diluted earnings per share computations using the two-class method:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions except share and per share amounts)	**2017**	**2016**	**2017**	**2016**
Income from continuing operations	**$102.3**	$115.3	**$163.8**	$183.8
Less: dividends declared - common stock outstanding, restricted shares and restricted share units	**(23.1)**	(19.5)	**(45.8)**	(39.0)
Undistributed earnings	**79.2**	95.8	**118.0**	144.8
Percent allocated to common shareholders [1]	**99.4 %**	99.3 %	**99.4 %**	99.3 %
	78.7	95.1	**117.3**	143.8
Add: dividends declared - common stock	**22.4**	19.3	**44.9**	38.5
Income from continuing operations attributable to common shares	**$101.1**	$114.4	**$162.2**	$182.3
Shares (in thousands):				
Weighted-average common shares outstanding	**63,746**	64,246	**64,048**	64,131
Effect of dilutive securities:				
Performance awards	**69**	445	**69**	445
Stock options	**325**	421	**356**	474
Adjusted weighted-average common shares outstanding and assumed conversion	**64,140**	65,112	**64,473**	65,050
Per share income from continuing operations attributable to common shares:				
Basic	**$1.59**	$1.78	**$2.53**	$2.84
Diluted	**$1.58**	$1.75	**$2.52**	$2.80
[1] Basic weighted-average common shares outstanding	**63,746**	64,246	**64,048**	64,131
Basic weighted-average common shares outstanding, unvested restricted shares expected to vest and restricted share units	**64,160**	64,703	**64,462**	64,587
Percent allocated to common shareholders	**99.4 %**	99.3 %	**99.4 %**	99.3 %

To calculate earnings per share for income from discontinued operations and for net income, the denominator for both basic and diluted earnings per share is the same as used in the above table. Income from discontinued operations and net income used in the basic and diluted earnings per share computations were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions except share amounts presented in thousands)	**2017**	**2016**	**2017**	**2016**
(Loss) income from discontinued operations attributable to common shareholders for basic and diluted earnings per share	**$—**	$(0.1)	**$0.3**	$(0.1)
Net income attributable to common shareholders for basic and diluted earnings per share	**$101.1**	$114.3	**$162.5**	$182.2
Anti-dilutive stock options excluded from EPS calculation [1]	**379**	54	**285**	387