CARLISLE COMPANIES INC
Form 10-Q
October 27, 2016
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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, 2016

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)

11605 North Community House Road, Suite 600, Charlotte, North Carolina 28277
(Former address, if changed since last report)

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 the 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

Shares of common stock outstanding at October 20, 2016: 64,504,487

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Item 1. Financial Statements

Carlisle Companies Incorporated

Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income (Unaudited)

(in millions except share and per share amounts)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net sales	$ 991.0	$ 973.1	$ 2,781.9	$ 2,667.0
Cost of goods sold	667.4	677.6	1,891.7	1,913.1
Selling and administrative expenses	135.6	121.7	391.2	345.4
Research and development expenses	12.3	11.3	35.6	31.0
Impairment charges	141.5	-	141.5	-
Other (income) expense, net	(2.2)	0.7	(4.0)	1.3
Earnings before interest and income taxes	36.4	161.8	325.9	376.2
Interest expense, net	7.5	8.7	24.1	25.6
Earnings before income taxes from continuing operations	28.9	153.1	301.8	350.6
Income tax expense	38.4	49.5	127.5	112.7
(Loss) income from continuing operations	(9.5)	103.6	174.3	237.9
Discontinued operations:				
Loss before income taxes	(0.6)	-	(0.7)	-
Income tax benefit	(0.3)	-	(0.3)	-
Loss from discontinued operations	(0.3)	-	(0.4)	-
Net (loss) income	$ (9.8)	$ 103.6	$ 173.9	$ 237.9
Basic earnings per share attributable to common shares:				
(Loss) income from continuing operations	$ (0.15)	$ 1.59	$ 2.69	$ 3.64
Loss from discontinued operations	-	-	-	-
Basic (loss) earnings per share	$ (0.15)	$ 1.59	$ 2.69	$ 3.64
Diluted earnings per share attributable to common shares:				
(Loss) income from continuing operations	$ (0.15)	$ 1.56	$ 2.66	$ 3.58
Loss from discontinued operations	-	-	-	-
Diluted (loss) earnings per share	$ (0.15)	$ 1.56	$ 2.66	$ 3.58
Average shares outstanding (in thousands):				
Basic	64,353	64,970	64,206	64,952
Diluted	64,353	65,987	64,879	66,052
Dividends declared and paid	$ 22.8	$ 19.6	$ 61.8	$ 52.7
Dividends declared and paid per share	$ 0.35	$ 0.30	$ 0.95	$ 0.80

Comprehensive (loss) income:				
Net (loss) income	$ (9.8)	$ 103.6	$ 173.9	$ 237.9
Other comprehensive (loss) income:				
Change in foreign currency translation	(0.5)	(9.2)	(5.3)	(17.7)
Change in accrued post-retirement benefit liability, net of tax	0.3	0.8	1.1	2.4
Other, net of tax	(0.1)	(0.1)	(0.4)	(0.3)
Other comprehensive loss	(0.3)	(8.5)	(4.6)	(15.6)
Comprehensive (loss) income	$ (10.1)	$ 95.1	$ 169.3	$ 222.3

See accompanying notes

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Carlisle Companies Incorporated

Condensed Consolidated Balance Sheets

(in millions except share and per share amounts)	September 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 355.4	$ 410.7
Receivables, net (allowance of $5.1 and $4.7, respectively)	605.0	502.5
Inventories	385.8	356.0
Prepaid expenses and other current assets	53.5	50.3
Total current assets	1,399.7	1,319.5
Property, plant, and equipment, net	623.6	585.8
Other assets:		
Goodwill, net	1,046.5	1,134.4
Other intangible assets, net	870.5	887.8
Other long-term assets	23.0	23.4
Total other assets	1,940.0	2,045.6
TOTAL ASSETS	$ 3,963.3	$ 3,950.9
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt, including current maturities	$ -	$ 149.8
Accounts payable	264.9	212.6
Accrued expenses	234.8	219.4
Deferred revenue	23.9	24.0
Total current liabilities	523.6	605.8
Long-term liabilities:		
Long-term debt	596.2	595.6
Deferred revenue	167.2	159.7
Other long-term liabilities	229.4	242.4
Total long-term liabilities	992.8	997.7
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 64,306,206 and 64,051,600 shares, respectively)	78.7	78.7
Additional paid-in capital	326.5	293.4
Deferred compensation equity	10.3	8.0
Treasury shares, at cost (14,129,777 and 14,383,241 shares, respectively)	(370.8)	(327.4)
Accumulated other comprehensive loss	(91.7)	(87.1)
Retained earnings	2,493.9	2,381.8
Total shareholders' equity	2,446.9	2,347.4
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,963.3	$ 3,950.9

See accompanying notes

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Carlisle Companies Incorporated

Condensed Consolidated Statements of Cash Flows (Unaudited)

(in millions)	Nine Months Ended September 30, 2016		2015	
Operating activities				
Net income	$	173.9	$	237.9
Reconciliation of net income to cash flows provided by operating activities:				
Depreciation and amortization		102.0		95.4
Impairment charges		141.5		-
Non-cash compensation, net of tax benefit		(3.1)		1.0
Deferred taxes		(20.8)		2.3
Other operating activities, net		(0.8)		1.8
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:				
Receivables		(93.5)		(108.3)
Inventories		(20.6)		(6.5)
Prepaid expenses and other assets		1.0		0.6
Accounts payable		43.3		49.4
Accrued expenses and deferred revenues		32.7		77.4
Other long-term liabilities		(0.5)		1.9
Net cash provided by operating activities		355.1		352.9
Investing activities				
Capital expenditures		(77.3)		(48.7)
Acquisitions, net of cash acquired		(103.1)		(598.9)
Other investing activities, net		0.8		0.1
Net cash used in investing activities		(179.6)		(647.5)

Financing activities				
Repayments of borrowings		(150.0)		(1.5)
Dividends paid		(61.8)		(52.7)
Proceeds from issuance of treasury shares and stock options		41.4		35.2
Repurchases of common stock		(61.3)		(57.9)
Other financing activities, net		-		(1.4)
Net cash used in financing activities		(231.7)		(78.3)
Effect of foreign currency exchange rate changes on cash and cash equivalents		0.9		(3.5)
Change in cash and cash equivalents		(55.3)		(376.4)
Cash and cash equivalents				
Beginning of period		410.7		730.8
End of period	$	355.4	$	354.4

See accompanying notes

Carlisle Companies Incorporated

Condensed Consolidated Statement of Shareholders' Equity (Unaudited)

(In millions, except share and per share amounts)

	Common Stock		Additional Paid-In	Deferred Compensation	Accumulated Other Comprehensive	Retained	Shares in Treasury		Total Shareholders'
	Shares	Amount	Capital	Equity	Income (loss)	Earnings	Shares	Cost	Equity
Balance at December 31, 2014	64,691,059	$ 78.7	$ 247.8	$ 6.0	$ (61.8)	$ 2,134.4	13,723,201	$ (200.1)	$ 2,205.0
Net income	-	-	-	-	-	237.9	-	-	237.9
Other comprehensive loss, net of tax	-	-	-	-	(15.6)	-	-	-	(15.6)
Cash dividends - $0.80 per share	-	-	-	-	-	(52.7)	-	-	(52.7)
Repurchases of common stock	-	-	-	-	-	-	591,062	(57.9)	(57.9)
Issuances for stock based compensation (1)	164,397	-	37.1	2.4	-	-	(735,593)	7.9	47.4
Balance at September 30, 2015	64,855,456	$ 78.7	$ 284.9	$ 8.4	$ (77.4)	$ 2,319.6	13,578,670	$ (250.1)	$ 2,364.1
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	-	-	-	-	-	173.9	-	-	173.9
Other comprehensive loss, net of tax	-	-	-	-	(4.6)	-	-	-	(4.6)
Cash dividends - $0.95 per share	-	-	-	-	-	(61.8)	-	-	(61.8)
Repurchases of common stock	(656,057)	-	-	-	-	-	656,057	(61.9)	(61.9)
Issuances for stock based compensation (1)	910,663	-	33.1	2.3	-	-	(909,521)	18.5	53.9

Balance at September 30, 2016	64,306,206	$ 78.7	$ 326.5	$ 10.3	$ (91.7)	$ 2,493.9	14,129,777	$ (370.8)	$ 2,446.9

(1) Issuances for stock based compensation includes shares issued from treasury to cover stock option exercises, restricted and performance share releases, net of shares repurchased to cover employee taxes.

See accompanying notes

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Notes to the 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, 2015.

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. Carlisle accounts for investments in minority-owned companies where it exercises significant influence, but does not have control, on the equity basis. Intercompany transactions and balances are eliminated in consolidation.

In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the periods presented.

Note 2—New Accounting Pronouncements

New Accounting Standards Adopted

In November 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes (“ASU 2015-17”). ASU 2015-17 requires entities to present deferred tax assets and liabilities as noncurrent in a classified balance sheet instead of separating into current and noncurrent amounts. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods, on a prospective or retrospective basis. Early adoption is permitted, and as such, we early adopted as of December 31, 2015 on a prospective basis and periods prior to December 31, 2015 were not restated. As this standard relates to balance sheet presentation only, the adoption of ASU 2015-17 did not have a material impact on the Company’s consolidated results of operations, financial position, or cash flows.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, this guidance was clarified in ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (“ASU 2015-15”). ASU 2015-15 states that presentation of costs associated with securing a revolving line of credit as an asset is permitted, regardless of whether a balance is outstanding. As a result of adopting ASU 2015-03 on January 1, 2016, $3.1 million of debt issuance costs was reclassified from other long-term assets to long-term debt at December 31, 2015. Unamortized costs related to securing our revolving line of credit will continue to be presented in other long-term assets in accordance with ASU 2015-15. As this standard relates to balance sheet presentation only, the adoption of ASU 2015-03 had no further impact on the Company’s results of operations, financial position, or cash flows.

In April 2015, the FASB issued ASU 2015-05, Customer's Accounting For Fees Paid In A Cloud Computing Arrangement (“ASU 2015-05”), which provides guidance for a customer's accounting for cloud computing costs. ASU 2015-05 is effective for annual reporting periods, including interim reporting periods within those periods, beginning after December 15, 2015. The adoption of ASU 2015-05 had no impact on the Company’s results of operations, financial position, or cash flows.

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In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory ("ASU 2015-11"), which applies to inventory valued at first-in, first-out (FIFO) or average cost. ASU 2015-11 requires inventory to be measured at the lower of cost and net realizable value, rather than at the lower of cost or market. ASU 2015-11 is effective on a prospective basis for annual periods, including interim reporting periods within those periods, beginning after December 15, 2016. The Company early adopted this standard on January 1, 2016. The adoption of ASU 2015-11 had no impact on the Company's results of operations, financial position, or cash flows.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments ("ASU 2015-16"). ASU 2015-16 eliminates the requirement to restate prior period financial statements for measurement period adjustments. The new guidance requires that the cumulative impact of a measurement period adjustment (including the impact on prior periods) be recognized in the reporting period in which the adjustment is identified. In addition, separate presentation on the face of the income statement or disclosure in the notes is required regarding the portion of the adjustment recorded in the current period earnings, by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. ASU 2015-16 is to be applied prospectively for measurement period adjustments that occur after the effective date. ASU 2015-16 is effective for annual reporting periods, including interim reporting periods within those periods, beginning in 2016. The adoption of ASU 2015-16 had no impact on the Company's results of operations, financial position, or cash flows.

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 or services. The guidance also provides a model for the measurement and recognition of gains and losses on the sale of certain nonfinancial assets, such as property and equipment, including real estate. 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. ASU 2014-09 is effective for annual reporting periods, including interim reporting periods within those periods, beginning after December 15, 2017. The new standard must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. We have not yet selected a transition method. Given the diversity of our business segments, we are continuing to assess the potential impact of adopting the standard on our financial statements.

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 annual reporting periods, including interim periods within those periods, beginning after December 15, 2018, 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. We have not yet determined the impact of adopting the standard on our financial statements.

In March 2016, the FASB issued 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.

- On a prospective basis, all income tax effects of awards should be recognized in the statement of operations as tax expense or benefit at the time that the awards vest or are settled, rather than recording excess tax benefit and certain deficiencies in additional paid in capital, and eliminates the requirement that excess tax benefits be realized through a reduction in income taxes payable before they can be recognized.

- Awards may be classified as equity when an employer withholds the maximum amount of taxes on behalf of the employee. This aspect is to be adopted using a modified retrospective transition method, with a cumulative effect adjustment to retained earnings. The cash paid to a tax authority when shares are withheld to satisfy the tax withholding obligation should be classified as a financing activity on the statement of cash flows on a retrospective basis.

- 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. This aspect is to be adopted using a modified retrospective transition method, with a cumulative effect adjustment to retained earnings.

ASU 2016-09 is effective for annual reporting periods, including interim periods within those periods, beginning after December 15, 2016. We are in the process of determining the impact of adopting the standard on our financial statements. However, we do not expect the adoption to have a material impact on our consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which provides guidance on reducing the diversity in practice on eight specific cash flow matters and how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for the fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted including an adoption in an interim period. We have not yet determined the impact of adopting the standard on our financial statements. However, we do not expect the adoption to have a material impact on our consolidated financial statements.

Note 3—Segment Information

The Company’s operating segments are:

Carlisle Construction Materials (“CCM” or the “Construction Materials segment”)—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. The markets served include new construction, re-roofing and maintenance of low-sloped roofs, water containment, heating, ventilation and cooling (HVAC) sealants, and coatings and waterproofing.

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

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

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Carlisle FoodService Products ("CFS" or the "FoodService Products segment")—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.

Corporate expenses are largely comprised of compensation, benefits, and travel expense for the corporate office staff, business development costs, and certain compliance costs not allocated to the segments.

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

Segment information is summarized as follows:

Three Months Ended September 30, (in millions)	2016 Net Sales	EBIT	2015 Net Sales	EBIT
Carlisle Construction Materials	$ 578.2	$ 132.0	$ 570.1	$ 115.5
Carlisle Interconnect Technologies	218.2	42.2	202.3	41.2
Carlisle Fluid Technologies	69.0	9.5	67.9	10.1
Carlisle Brake & Friction	62.6	(141.3) (1)	70.7	0.5
Carlisle FoodService Products	63.0	9.0	62.1	7.7
Corporate	-	(15.0)	-	(13.2)
Total	$ 991.0	$ 36.4	$ 973.1	$ 161.8

Nine Months Ended September 30, (in millions)	2016 Net Sales	EBIT	2015 Net Sales	EBIT
Carlisle Construction Materials	$ 1,564.4	$ 337.4	$ 1,519.0	$ 264.3
Carlisle Interconnect Technologies	624.3	118.4	595.0	111.8
Carlisle Fluid Technologies	198.4	23.7	129.6	9.1
Carlisle Brake & Friction	207.9	(132.8) (1)	242.1	16.8

Carlisle FoodService Products	186.9	24.3	181.3	20.3
Corporate	-	(45.1)	-	(46.1)
Total	$ 2,781.9	$ 325.9	$ 2,667.0	$ 376.2

(1) Includes impairment charges of $141.5 million in the three and nine month periods ended September 30, 2016. Refer to Note 10 for further discussion

Note 4— Acquisitions

2016 Acquisitions

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 consideration of $94.8 million, net of $1.5 million cash acquired, inclusive of an estimated working capital receivable of $0.2 million. The Company expects to finalize 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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The following table summarizes the consideration transferred to acquire Micro-Coax and the preliminary allocation of the purchase price among the assets acquired and liabilities assumed. The acquisition has been accounted for using the acquisition method of accounting in accordance with ASC 805, Business Combinations, which requires that consideration be allocated to the acquired assets and liabilities based upon their acquisition date fair values, with the remainder allocated to goodwill.

(in millions)	Preliminary Allocation As of 6/10/2016	Measurement Period Adjustments	Revised Allocation As of 9/30/2016
Total consideration transferred	$ 97.3	$ (1.0)	$ 96.3
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	(5.3)	26.2
Indefinite-lived intangible assets	2.0	(1.1)	0.9
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	(20.6)	56.6
Goodwill	$ 20.1	$ 19.6	$ 39.7

The valuation of property, plant, and equipment, and intangible assets is preliminary. We expect to complete the valuation in the fourth quarter of 2016. The goodwill recognized in the acquisition of Micro-Coax 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. COS is a manufacturing structure and strategy deployment system based on lean enterprise and six sigma principles and is a continuous improvement process that defines the way we do business. Goodwill of $39.7 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. Indefinite-lived intangible assets of $0.9 million represent acquired trade names. The $26.2 million value allocated to definite-lived intangible assets consists of $15.0 million of customer relationships with a useful life of 12 years, various acquired technologies of $10.6 million with useful a useful life of seven years, and a non-compete agreement of $0.6 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”), 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 CHF4.3 million, or $4.3 million. The results of operations of MS are reported within the Fluid Technologies segment.

Consideration has been primarily allocated to $9.8 million to definite-lived intangible assets, $4.2 million to indefinite-lived intangible assets, and $2.7 million to deferred tax liabilities, with $2.7 million allocated to goodwill. Definite-lived intangible assets consist of $8.4 million of technology with a useful life of seven years and customer relationships of $1.4 million with a useful life of ten years.

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2015 Acquisition

On April 1, 2015, the Company acquired 100% of the Finishing Brands business from Graco Inc. (“Graco”) for total cash consideration of $598.9 million, net of $12.2 million cash acquired, inclusive of the working capital settlement. The Company reports the results of the acquired business as the CFT segment.

The Finishing Brands amounts included in the pro forma financial information below are based on the Finishing Brands’ historical results and, therefore may not be indicative of the actual results if operated by Carlisle. The pro forma adjustments represent management’s best estimates based on information available at the time the pro forma information was prepared and may differ from the adjustments that may actually have been required. Accordingly, pro forma information should not be relied upon as being indicative of the historical results that would have been realized had the acquisition occurred as of the date indicated or that may be achieved in the future.

The unaudited combined pro forma financial information presented below includes net sales and income from continuing operations, net of tax, of the Company as if the business combination had occurred on January 1, 2014 based on the purchase price allocation presented below:

(in millions)	Pro Forma Three Months Ended September 30, 2015	Pro Forma Nine Months Ended September 30, 2015
Net sales	$ 973.1	$ 2,728.2
Income from continuing operations	103.6	250.5

The pro forma financial information reflects adjustments to Finishing Brands’ historical financial information to apply the Company's accounting policies and to reflect the additional depreciation and amortization related to the final fair value adjustments of the acquired net assets, together with the associated tax effects. Also, the pro forma financial information reflects the non-recurring costs of goods sold related to the fair valuation of inventory and acquisition-related costs described above as if they occurred in the first quarter of 2014.

The following table summarizes the consideration transferred to acquire Finishing Brands and the preliminary allocation and measurement period adjustments to arrive at the final allocation of the purchase price among the assets acquired and liabilities assumed. The acquisition has been accounted for using the acquisition method of accounting in accordance with ASC 805, Business Combinations, which requires that consideration be allocated to the acquired assets and liabilities based upon their acquisition date fair values with the remainder allocated to goodwill. The measurement period adjustments resulted primarily from finalizing valuations of inventory with corresponding measurement period adjustment to deferred taxes.

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(in millions)	Preliminary Allocation As of 4/1/2015	Measurement Period Adjustments	Final Allocation As of 3/31/2016
Total cash consideration transferred	$ 610.6	$ 0.5	$ 611.1
Recognized amounts of identifiable assets acquired and liabilities assumed:			
Cash and cash equivalents	$ 12.2	$ -	$ 12.2
Receivables	57.3	1.2	58.5
Inventories	40.9	2.2	43.1
Prepaid expenses and other current assets	6.4	(0.2)	6.2
Property, plant, and equipment	41.0	(0.2)	40.8
Definite-lived intangible assets	216.0	-	216.0
Indefinite-lived intangible assets	125.0	-	125.0
Deferred income tax assets	1.9	(1.2)	0.7
Other long-term assets	3.8	(0.3)	3.5
Line of credit	(1.4)	-	(1.4)
Accounts payable	(16.3)	-	(16.3)
Income tax payable	(1.9)	(0.1)	(2.0)
Accrued expenses	(15.6)	-	(15.6)
Deferred income tax liabilities	(28.8)	0.6	(28.2)
Other long-term liabilities	(5.6)	(0.7)	(6.3)
Total identifiable net assets	434.9	1.3	436.2
Goodwill	$ 175.7	$ (0.8)	$ 174.9

The goodwill recognized in the acquisition of Finishing Brands is attributable to its experienced workforce, the expected operational improvements through implementation of COS, opportunities for geographic and product line expansions in addition to supply chain efficiencies and other administrative opportunities, and the significant strategic value of the business to Carlisle. The Company acquired $60.0 million of gross contractual accounts receivable, of which $1.5 million was not expected to be collected at the date of acquisition. Goodwill of $132.9 million is tax deductible, primarily in the U.S. All of the goodwill was assigned to the CFT reporting unit which aligns with the reportable segment. Indefinite-lived intangible assets of $125.0 million represent acquired trade names. The $216.0 million value allocated to definite-lived intangible assets consists of $186.0 million of customer relationships with a useful life of 15 years and various acquired technologies of $30.0 million with useful lives ranging from five to eight years. The Company recorded an indemnification asset of $3.0 million in other long-term assets relating to the indemnification of Carlisle for a pre-acquisition income tax liability in accordance with the purchase agreement. The Company has also recorded deferred tax liabilities related to intangible assets of $28.2 million.

LHi Technology

In conjunction with the acquisition of LHi Technology (“LHi”) in October 2014, 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.

Note 5—Stock-Based Compensation

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. Pre-tax stock-based compensation expense was $4.1 million for the three month periods ended September 30, 2016 and 2015, and $12.7 million and $14.6 million for the nine month periods ended September 30, 2016 and 2015, respectively.

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Incentive Compensation Program

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. The Program was approved by shareholders 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 September 30, 2016, 3,949,093 shares were available for grant under this plan, of which 1,437,607 shares were available for the issuance of stock awards.

Grants

For the nine months ended September 30, 2016, the Company awarded 371,623 stock options, 69,583 restricted stock awards, 61,127 performance share awards and 14,359 restricted stock units with an aggregate grant-date fair value of approximately $22.0 million to be expensed over the requisite service period for each award.

Stock Option Awards

Options issued under the Program generally vest on a straight-line basis one-third on the first anniversary of grant, one-third on the second anniversary of grant, and the remaining one-third on the third anniversary of grant. 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.

Pre-tax share-based compensation expense related to stock options was $1.6 million and $1.5 million for the three month periods ended September 30, 2016 and 2015, respectively, and $4.6 million and $3.9 million for the nine month periods ended September 30, 2016 and 2015, respectively.

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 2016 and 2015 were as follows:

	2016	2015

Expected dividend yield	1.4 %	1.1 %
Expected life in years	5.61	5.71
Expected volatility	27.5 %	27.3 %
Risk-free interest rate	1.4 %	1.4 %
Weighted-average fair value	$ 19.30	$ 21.19

The expected life of options is based on the assumption that all outstanding options will be exercised at the midpoint of the vesting dates (if unvested) and the options' expiration date. 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 projected 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 2016 restricted stock awards, which are released to the recipient after a period of three years, is based on the closing market price of the stock on the date of grant.

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Performance Share Awards

The performance shares awarded vest based on the employee rendering 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 2016 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.

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 after the Director ceases to serve as a member of the Board, or if earlier, upon a change in control of the Company. The grant date fair value of the 2016 restricted stock units is based on the closing market price of the stock on the date of the grant.

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 stock-based compensation. Participants have elected to defer 274,800 shares of Company common stock as of September 30, 2016, and 253,520 shares as of December 31, 2015.

Note 6—Income Taxes

The effective income tax rate on continuing operations for the nine months ended September 30, 2016 reflects our anticipated annual effective tax rate of 42.5% and a year-to-date net discrete tax benefit of $0.8 million. The anticipated rate of 42.5% includes the impact of $141.5 million pre-tax impairment charges, for which we anticipate recognizing a tax benefit of approximately $8.9 million. The income tax provision for the third quarter of 2016 also includes incremental tax expense resulting from the first six months of 2016, having reflected a forecasted annual effective tax rate of 33.0%.

The effective income tax rate on continuing operations for the nine months ended September 30, 2015 was 32.2% and included a year-to-date net discrete tax benefit of $3.3 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 the 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 September 30,		Nine Months Ended September 30,	
(in millions except share and per share amounts)	2016	2015	2016	2015
(Loss) income from continuing operations	$ (9.5)	$ 103.6	$ 174.3	$ 237.9
Less: dividends declared - common stock outstanding, restricted shares and restricted share units	(22.8)	(19.6)	(61.8)	(52.7)
Undistributed earnings	(32.3)	84.0	112.5	185.2
Percent allocated to common shareholders (1)	99.3 %	99.5 %	99.3 %	99.5 %
	(32.1)	83.6	111.7	184.3
Add: dividends declared - common stock	22.6	19.5	61.1	52.0
(Loss) income from continuing operations attributable to common shares	$ (9.5)	$ 103.1	$ 172.8	$ 236.3
Shares (in thousands):				
Weighted-average common shares outstanding	64,353	64,970	64,206	64,952
Effect of dilutive securities:				
Performance awards	- (2)	348	252	348
Stock options	- (2)	669	421	752
Adjusted weighted-average common shares outstanding and assumed conversion	64,353	65,987	64,879	66,052
Per share (loss) income from continuing operations:				
Basic	$ (0.15)	$ 1.59	$ 2.69	$ 3.64
Diluted	$ (0.15)	$ 1.56	$ 2.66	$ 3.58
(1) Basic weighted-average common shares outstanding	64,353	64,970	64,206	64,952
Basic weighted-average common shares outstanding, unvested restricted shares expected to vest and restricted share units	64,809	65,304	64,662	65,286
Percent allocated to common shareholders	99.3 %	99.5 %	99.3 %	99.5 %

(2) Performance awards and stock options representing approximately 252,000 and 326,000 shares, respectively, for third-quarter 2016 were excluded from adjusted weighted-average common shares outstanding and assumed conversion for purposes of calculating diluted per share loss from continuing operations as they were anti-dilutive.

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 (loss) from discontinued operations and net income were as follows:

(in millions except share amounts presented in thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
(Loss) from discontinued operations attributable to common shareholders for basic and diluted earnings per share	$ (0.3)	$ -	$ (0.4)	$ -
Net (loss) income attributable to common shareholders for basic and diluted earnings per share	$ (9.8)	$ 103.1	$ 172.4	$ 236.3
Anti-dilutive stock options excluded from EPS calculation (1)	1	-	125	-

(1) Represents stock options excluded from the calculation of diluted earnings per share as such options' assumed proceeds upon exercise would result in the repurchase of more shares than the underlying award.

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Note 8—Inventories

The components of inventory is summarized as follows:

(in millions)	September 30, 2016	December 31, 2015
Finished goods	$ 220.1	$ 205.1
Work-in-process	57.5	48.8
Raw materials	143.9	133.9
Reserves	(35.7)	(31.8)
Inventories	$ 385.8	$ 356.0

Note 9—Property, Plant, and Equipment, net

The components of property, plant, and equipment, net is summarized as follows:

(in millions)	September 30, 2016	December 31, 2015
Land	$ 62.8	$ 59.9
Buildings and leasehold improvements	343.4	324.6
Machinery and equipment	773.5	735.4
Projects in progress	45.0	