

Allegion plc  
Form 10-Q  
October 29, 2015  
Table of Contents

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

---

FORM 10-Q

---

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-35971

---

ALLEGION PUBLIC LIMITED COMPANY  
(Exact name of registrant as specified in its charter)

---

Ireland 98-1108930  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
Block D  
Iveagh Court  
Harcourt Road  
Dublin 2, Ireland  
(Address of principal executive offices, including zip code)  
+(353) (1) 2546200  
(Registrant's telephone number, including area code)

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company," in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

Edgar Filing: Allegion plc - Form 10-Q

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

YES  NO

The number of ordinary shares outstanding of Allegion plc as of October 26, 2015 was 95,911,934.

---

Table of Contents

ALLEGION PLC  
FORM 10-Q  
INDEX

<u>PART I FINANCIAL INFORMATION</u>	<u>1</u>
Item 1 - <u>Financial Statements</u>	<u>1</u>
<u>Condensed and Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2015 and 2014 (Unaudited)</u>	<u>1</u>
<u>Condensed and Consolidated Balance Sheets at September 30, 2015 and December 31, 2014 (Unaudited)</u>	<u>2</u>
<u>Condensed and Consolidated Statements of Cash Flows for the nine months ended September 30, 2015 and 2014 (Unaudited)</u>	<u>3</u>
<u>Notes to Condensed and Consolidated Financial Statements (Unaudited)</u>	<u>4</u>
Item 2 - <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
Item 3 - <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>45</u>
Item 4 - <u>Controls and Procedures</u>	<u>45</u>
<u>PART II OTHER INFORMATION</u>	<u>46</u>
Item 1 - <u>Legal Proceedings</u>	<u>46</u>
Item 1A - <u>Risk Factors</u>	<u>46</u>
Item 2 - <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>46</u>
Item 6 - <u>Exhibits</u>	<u>47</u>
<u>SIGNATURES</u>	<u>48</u>

---

Table of Contents

## PART I-FINANCIAL INFORMATION

## Item 1. Financial Statements

## ALLEGION PLC

## CONDENSED AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

In millions, except per share amounts	Three months ended		Nine months ended		
	September 30,		September 30,		
	2015	2014	2015	2014	
Net revenues	\$544.5	\$546.7	\$1,522.7	\$1,544.8	
Cost of goods sold	304.5	310.1	873.8	890.0	
Selling and administrative expenses	129.6	130.5	371.8	391.6	
Operating income	110.4	106.1	277.1	263.2	
Interest expense	13.7	12.7	36.6	38.3	
Loss on divestitures	106.7	—	106.7	—	
Other (income) expense, net	(3.2	) (2.0	) 0.3	(3.1	)
Earnings (loss) before income taxes	(6.8	) 95.4	133.5	228.0	
Provision for income taxes	19.4	27.3	50.8	66.8	
Earnings (loss) from continuing operations	(26.2	) 68.1	82.7	161.2	
Discontinued operations, net of tax	(0.2	) (2.0	) (0.4	) (10.8	)
Net earnings (loss)	(26.4	) 66.1	82.3	150.4	
Less: Net earnings attributable to noncontrolling interests	0.9	5.3	0.3	10.6	
Net earnings (loss) attributable to Allegion plc	\$(27.3	) \$60.8	\$82.0	\$139.8	
Amounts attributable to Allegion plc ordinary shareholders:					
Continuing operations	\$(27.1	) \$62.8	\$82.4	\$150.6	
Discontinued operations	(0.2	) (2.0	) (0.4	) (10.8	)
Net earnings (loss)	\$(27.3	) \$60.8	\$82.0	\$139.8	
Earnings (loss) per share attributable to Allegion plc ordinary shareholders:					
Basic:					
Continuing operations	\$(0.28	) \$0.65	\$0.86	\$1.57	
Discontinued operations	—	(0.02	) —	(0.12	)
Net earnings (loss)	\$(0.28	) \$0.63	\$0.86	\$1.45	
Diluted:					
Continuing operations	\$(0.28	) \$0.65	\$0.85	\$1.55	
Discontinued operations	—	(0.02	) —	(0.11	)
Net earnings (loss)	\$(0.28	) \$0.63	\$0.85	\$1.44	
Weighted-average shares outstanding					
Basic	95.9	95.9	95.8	96.2	
Diluted	95.9	96.9	96.9	97.3	
Dividends declared per ordinary share	\$0.10	\$0.08	\$0.30	\$0.24	
Total comprehensive income (loss)	\$(29.1	) \$40.9	\$54.7	\$117.0	
Less: Total comprehensive income (loss) attributable to noncontrolling interests	(0.3	) 5.6	(0.9	) 10.1	
Total comprehensive income (loss) attributable to Allegion plc	\$(28.8	) \$35.3	\$55.6	\$106.9	
See accompanying notes to condensed and consolidated financial statements.					



Table of Contents

ALLEGION PLC  
 CONDENSED AND CONSOLIDATED BALANCE SHEETS  
 (Unaudited)

In millions	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$175.2	\$290.5
Accounts and notes receivable, net	273.1	230.4
Inventories	216.3	169.3
Other current assets	56.8	55.6
Assets held for sale	154.3	255.9
Total current assets	875.7	1,001.7
Property, plant and equipment, net	227.9	207.2
Goodwill	823.4	484.4
Intangible assets, net	260.3	125.4
Other noncurrent assets	221.7	197.2
Total assets	\$2,409.0	\$2,015.9
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$180.2	\$175.6
Accrued expenses and other current liabilities	196.3	203.8
Short-term borrowings and current maturities of long-term debt	59.0	49.6
Liabilities held for sale	81.7	103.5
Total current liabilities	517.2	532.5
Long-term debt	1,575.9	1,215.0
Other noncurrent liabilities	287.9	249.9
Total liabilities	2,381.0	1,997.4
Equity:		
Allegion plc shareholders' equity (deficit):		
Ordinary shares	1.0	1.0
Capital in excess of par value	17.9	—
Retained earnings	170.2	142.4
Accumulated other comprehensive loss	(174.6	) (148.2
Total Allegion plc shareholders' equity (deficit)	14.5	(4.8
Noncontrolling interests	13.5	23.3
Total equity	28.0	18.5
Total liabilities and equity	\$2,409.0	\$2,015.9
See accompanying notes to condensed and consolidated financial statements.		

Table of Contents

ALLEGION PLC  
CONDENSED AND CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

In millions	Nine months ended	
	September 30,	
	2015	2014
Cash flows from operating activities:		
Net earnings	82.3	150.4
Discontinued operations, net of tax	0.4	10.8
Adjustments to arrive at net cash provided by (used in) operating activities:		
Loss on divestitures	104.5	—
Depreciation and amortization	37.5	36.5
Changes in assets and liabilities and other non-cash items	(98.7	) (22.9
Net cash provided by continuing operating activities	126.0	174.8
Net cash used in discontinued operating activities	(0.5	) (2.8
Net cash provided by operating activities	125.5	172.0
Cash flows from investing activities:		
Capital expenditures	(27.3	) (39.8
Acquisition of and equity investments in businesses, net of cash acquired	(511.4	) (23.0
Other investing activities, net	4.3	41.9
Net cash used in investing activities	(534.4	) (20.9
Cash flows from financing activities:		
Short-term borrowings, net	11.8	(40.6
Proceeds from revolving credit facility	400.0	—
Proceeds from long-term debt	300.0	—
Payments on revolving credit facility	(320.0	) —
Payments of long-term debt	(24.4	) (22.5
Debt borrowings (repayments), net	367.4	(63.1
Dividends paid to ordinary shareholders	(28.7	) (22.6
Repurchase of ordinary shares	(30.0	) (50.3
Other financing activities, net	(7.8	) 15.4
Net cash provided by (used in) continuing financing activities	300.9	(120.6
Effect of exchange rate changes on cash and cash equivalents	(7.3	) (6.5
Net increase (decrease) in cash and cash equivalents	(115.3	) 24.0
Cash and cash equivalents - beginning of period	290.5	227.4
Cash and cash equivalents - end of period	\$175.2	\$251.4
See accompanying notes to condensed and consolidated financial statements.		

Table of Contents

ALLEGION PLC

NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 – Basis of Presentation

The accompanying condensed and consolidated financial statements of Allegion plc, an Irish public limited company, and its consolidated subsidiaries ("Allegion" or the "Company"), reflect the consolidated operations of the Company and have been prepared in accordance with United States Securities and Exchange Commission ("SEC") interim reporting requirements. Accordingly, the accompanying condensed and consolidated financial statements do not include all disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for full financial statements and should be read in conjunction with the consolidated financial statements included in the Allegion Annual Report on Form 10-K for the year ended December 31, 2014. In the opinion of management, the accompanying condensed and consolidated financial statements contain all adjustments, which include normal recurring adjustments, necessary to present fairly the consolidated unaudited results for the interim periods presented.

Note 2 – Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements:

In April 2014, the FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," which amends the definition of a discontinued operation in Accounting Standards Codification Topic 205-20 (Presentation of Financial Statements — Discontinued Operations) and requires entities to disclose additional information about disposal transactions that do not meet the discontinued operations criteria. ASU 2014-08 redefines a discontinued operation as a component or group of components of an entity that (1) has been disposed of by sale or other than by sale or is classified as held for sale and (2) represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. According to the ASU, a strategic shift that has (or will have) a major effect on an entity's operations and results includes the disposal of a major geographical area, a major line of business, a major equity investment, or other major parts of an entity. The ASU is effective prospectively for disposals or components classified as held for sale in periods on or after December 15, 2014. As a result of the adoption of ASU 2014-08, the Company's divestiture of its operation in Venezuela and the planned divestiture of its systems integration business in China do not qualify as discontinued operations. See Note 7 below for more information.

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 is the result of a joint project between the FASB and International Accounting Standards Board ("IASB") to clarify the principles for recognizing revenue and to develop a common revenue standard for GAAP and International Financial Reporting Standards ("IFRS") that would remove inconsistencies and weaknesses in revenue requirements, provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets, provide more useful information to users of financial statements through improved disclosure requirements and simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. On July 9, 2015, the FASB voted to defer the effective date by one year to the interim and annual periods beginning on or after December 15, 2017. Early adoption is permitted for periods beginning on or after December 15, 2016. The Company is assessing what impact ASU 2014-09 will have on the Condensed and Consolidated Financial Statements.



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

In August 2014, the FASB issued ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." ASU 2014-15 provides guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. The ASU will be effective in the

## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

fourth quarter of 2016. Early adoption is permitted. The requirements of ASU 2014-15 are not expected to have a significant impact on the Condensed and Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs." ASU 2015-03 amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability instead of as an asset. The ASU is effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. The requirements of ASU 2015-03 are not expected to have a significant impact on the Condensed and Consolidated Financial Statements. As of September 30, 2015, the Company had \$30.5 million in unamortized debt issuance costs.

In May 2015, the FASB issued ASU 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)." ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and removes the requirement to make certain disclosures for these investments. The ASU will be effective for annual reporting periods beginning after December 15, 2015, but early adoption is permitted. The Company is assessing what impact ASU 2015-07 will have on the Condensed and Consolidated Financial Statements.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." ASU 2015-11 changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. The standard defines net realizable value as estimated selling prices in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. The ASU is effective for annual and interim reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. The requirements of ASU 2015-11 are not expected to have a significant impact on the Condensed and Consolidated Financial Statements.

In September 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 802): Simplifying the Accounting for Measurement-Period Adjustments." ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Prior to the issuance of the standard, entities were required to retrospectively apply adjustments made to provisional amounts recognized in a business combination. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2015, and early adoption is permitted. The requirements of ASU 2014-12 are not expected to have a significant impact on the Condensed and Consolidated Financial Statements.

## Note 3 – Inventories

Inventories are stated at the lower of cost or net realizable value. In the fourth quarter of 2014, the Company changed its method of inventory costing for certain inventory in its Americas operating segment to the first-in first-out (FIFO) method from the last-in first-out (LIFO) method. The Company's other operating segments also determine inventory cost using the FIFO method.

The major classes of inventory were as follows:

In millions	September 30, 2015	December 31, 2014
Raw materials	\$63.0	\$52.7
Work-in-process	34.3	26.0

Edgar Filing: Allegion plc - Form 10-Q

Finished goods	119.0	90.6
Total	\$216.3	\$169.3

5

---

## Note 4 – Goodwill

The changes in the carrying amount of goodwill for the nine months ended September 30, 2015 were as follows:

In millions	Americas	EMEIA	Asia Pacific	Total
December 31, 2014 (gross)	\$364.8	\$533.1	\$72.0	\$969.9
Accumulated impairment	—	(478.6	) (6.9	) (485.5
December 31, 2014 (net)	364.8	54.5	65.1	484.4
Acquisitions	9.2	316.1	29.1	354.4
Write-off	(0.8	) —	—	(0.8
Currency translation	(0.4	) (5.7	) (8.5	) (14.6
September 30, 2015 Goodwill (net)	\$372.8	\$364.9	\$85.7	\$823.4

As discussed in Note 7 - Divestitures, below, in September 2015 the assets of the Company's security system integration business within the Asia Pacific segment were reclassified to assets held for sale for all periods presented. Goodwill allocated to this business was \$21.6 million at December 31, 2014. In conjunction with determining the fair value of the assets held for sale, the Company determined that the goodwill previously assigned to this business was impaired. As a result, approximately \$21.0 million of the \$80.6 million pre-tax charge related to the divestiture recorded in the third quarter of 2015 related to the write-off of goodwill.

## Note 5 – Intangible Assets

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

In millions	September 30, 2015			December 31, 2014		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Completed technologies/patents	\$29.1	\$(22.5	) \$6.6	\$27.1	\$(22.8	) \$4.3
Customer relationships	198.0	(38.0	) 160.0	94.7	(37.0	) 57.7
Trademarks (finite-lived)	82.0	(35.5	) 46.5	89.3	(36.0	) 53.3
Other	17.0	(9.0	) 8.0	10.2	(10.2	) —
Total finite-lived intangible assets	326.1	\$(105.0	) 221.1	221.3	\$(106.0	) 115.3
Trademarks (indefinite-lived)	39.2		39.2	10.1		10.1
Total	\$365.3		\$260.3	\$231.4		\$125.4

Intangible asset amortization expense was \$6.6 million and \$7.2 million for the nine months ended September 30, 2015 and 2014, respectively. Future estimated amortization expense on existing intangible assets in each of the next five years amounts to approximately \$10.9 million for full year 2015, \$17.2 million for 2016, \$17.2 million for 2017, \$17.2 million for 2018, and \$17.2 million for 2019.

## Note 6 – Acquisitions

In February 2015, the Company made an investment in iDevices, a brand and development partner in the Internet of Things industry. The investment is accounted for using the equity method.

In April 2015, the Company completed the acquisition of certain assets of Zero International, Inc. ("Zero"). Zero manufactures door and window products for commercial spaces and products include sealing systems, such as sound control, fire and smoke protection, threshold applications, lites, door louvers, intumescent products, photo-luminescent and flood barrier for doors.



In May 2015, the Company completed the acquisition of the assets of Brio, a division of RMD Industries Pty Ltd ("Brio"). Brio is a designer and manufacturer of sliding and folding door hardware for commercial and residential spaces in Australia, New Zealand, the United Kingdom and the United States.

In July 2015, the Company completed the acquisition of Milre System Co., Ltd. ("Milre"). Milre is a leading security solutions manufacturer in South Korea, focused on producing high-quality and innovative electronic door locks.

In September 2015, the Company completed the acquisition of SimonsVoss Technologies GmbH ("SimonsVoss") for approximately \$230.0 million. SimonsVoss, headquartered in Munich, Germany, is an electronic lock company in the European electronic market segment. SimonsVoss generated sales of approximately \$69.2 million in 2014.

In September 2015, the Company completed the acquisition of AXA Stenman Holding ("AXA") for approximately \$208.0 million. AXA is a European residential and portable security provider headquartered in Veenendaal, the Netherlands, with production facilities in the Netherlands, France and Poland. AXA manufactures and sells a branded portfolio of portable locks and lights as well as a wide variety of window and door hardware. The products are sold throughout Europe to bicycle manufacturers, retail distributors and property builders. AXA generated sales of approximately \$79.8 million in 2014.

Total consideration paid for the acquisitions was \$511.4 million (net of cash acquired). The preliminary allocation of the aggregate purchase price to assets acquired and liabilities assumed for the acquisitions described above is as follows:

In millions

Accounts and notes receivable, net	\$ 23.3	
Inventories	27.7	
Other current assets	2.0	
Property, plant and equipment, net	27.2	
Goodwill	355.4	
Intangible assets, net	152.0	
Other noncurrent assets	12.6	
Accounts payable	(12.2	)
Accrued expenses and other current liabilities	(22.3	)
Deferred tax liabilities and other noncurrent liabilities	(54.3	)
Total cash consideration	\$ 511.4	

The purchase price allocations for the acquisitions are pending completion of valuations for certain acquired intangible assets, finalization of working capital adjustments and calculation of deferred tax balances. These acquisitions are accounted for as business combinations.

The following unaudited pro forma financial information for the three and nine months ended September 30, 2015 and 2014 reflects the consolidated results of operations of the Company as if the acquisitions had taken place on January 1, 2014.

In millions, except per share amounts	Three months ended		Nine months ended	
	2015	2014	2015	2014
Net revenues	\$ 565.7	\$ 591.6	\$ 1,624.8	\$ 1,686.1
Net earnings (loss) attributable to Allegion plc	\$ (23.1	) \$ 59.6	\$ 86.3	\$ 131.2
Basic income (loss) per share	\$ (0.24	) \$ 0.62	\$ 0.90	\$ 1.36
Diluted income (loss) per share	\$ (0.24	) \$ 0.62	\$ 0.89	\$ 1.35

During the three and nine months ended September 30, 2015 the Company incurred \$5.1 million and \$7.1 million of acquisition related costs. These expenses are included in Selling and administrative expenses in the Condensed and Consolidated Statement of Comprehensive Income. For pro forma purposes, these expenses were assumed to have been incurred on January 1, 2014. Pro

7

---

forma Net earnings (loss) attributable to Allegion plc in the table above has been adjusted to reflect the costs in the assumed acquisition period.

The Company's historical financial information was adjusted to give effect to the pro forma events that were directly attributable to the acquisitions. This unaudited pro forma financial information has been presented for informational purposes only and does not purport to be indicative of results of operations that would have occurred had the pro forma events taken place on the date indicated or the future consolidated results of operations of the combined company.

The unaudited pro forma financial information has been calculated after applying the Company's accounting policies and adjusting the results of the acquired companies to reflect the additional amortization that would have been charged assuming the fair value adjustments to intangible assets had been applied from January 1, 2014 with the consequential tax effects. Additionally, interest related to the issuance of \$300 million of senior notes and the borrowing of \$100 million on the revolving facility has been included in the pro forma results above as if the debt was outstanding as of January 1, 2014. For purposes of calculating interest on the additional debt amounts, the Company has assumed the total amount is outstanding for all pro forma periods presented.

The following financial information reflects the results of revenue and earnings of the acquisitions since their respective acquisition dates included in the Condensed and Consolidated Statement of Comprehensive Income as of the three and nine months ended September 30, 2015.

In millions	Three months ended 2015	Nine months ended 2015
Net revenues	\$ 23.7	\$ 30.0
Earnings before income tax	\$ 2.6	\$ 3.3

#### Note 7 – Divestitures

As previously disclosed, the Company sold its majority ownership in its Venezuelan operation to Venezuelan investors. As a result of the sale in the third quarter of 2015, the Company recorded a non-cash charge of \$26.1 million, which primarily represents cumulative currency translation adjustments that were previously deferred in equity and were reclassified to a loss in the Condensed and Consolidated Statement of Comprehensive Income. The assets and liabilities of the Venezuela operation were reclassified to assets and liabilities held for sale within the Condensed and Consolidated Balance Sheets for all periods presented.

As previously disclosed, the Company entered into an agreement to sell a majority stake of Bocom Wincent Technologies Co., Ltd. ("Bocom") in the third quarter of 2015. Bocom operates a security system integration business exclusively in China. Under the terms of the transaction, the Company may receive up to \$75 million based on the future performance and will retain 15% of the shares of Bocom. The Company currently estimates the fair value of the consideration to be \$70.4 million. The transaction is expected to close in the fourth quarter of this year, subject to regulatory approvals.

The Company recorded a pre-tax charge of \$80.6 million (\$84.4 million after-tax) in the third quarter of 2015 to write the carrying value of Bocom's assets and liabilities down to their estimated fair value less costs to complete the transaction. Bocom's assets and liabilities were reclassified to assets and liabilities held for sale within the Condensed and Consolidated Balance Sheets for all periods presented.



Bocom's assets and liabilities held for sale at September 30, 2015 and December 31, 2014 were comprised of the following:

8

---

Edgar Filing: Allegion plc - Form 10-Q

In millions	September 30, 2015	December 31, 2014
Accounts receivable, net	\$ 16.5	\$ 26.8
Costs in excess of billings on uncompleted contracts	133.3	181.1
Inventory	2.3	1.3
Other current assets	0.7	4.0
Other noncurrent assets	1.5	24.2
Total assets held for sale	154.3	237.4
Accounts payable	63.3	72.9
Accrued expenses & other current liabilities	18.2	24.8
Other noncurrent liabilities	0.2	0.8
Total liabilities held for sale	\$ 81.7	\$ 98.5

Net revenues and loss before income taxes of Bocom for the three and nine months ended September 30 were as follows:

In millions	Three months ended		Nine months ended	
	2015	2014	2015	2014
Net Revenues	\$ 10.6	\$ 16.5	\$ 35.7	\$ 39.3
Loss before income taxes	(1.4	) —	(3.8	) (5.0

Net revenues and earnings for Bocom have historically been weighted to the second half of the year, reflecting typical seasonality of contract awards. Net revenues and operating income were \$97.3 million and \$4.5 million for the year ended December 31, 2014.

Upon closing of the sale, the Company currently estimates that it will record additional charges of \$5.5 million to \$7.5 million.

#### Note 8 – Debt and Credit Facilities

Long-term debt and other borrowings consisted of the following:

In millions	September 30, 2015	December 31, 2014
Term Loan Facility due 2020	\$938.4	\$962.8
Revolver Facility due 2020	80.0	—
5.75% Senior notes due 2021	300.0	300.0
5.875% Senior notes due 2023	300.0	—
Other debt, including capital leases, maturing in various amounts through 2028	16.5	1.8
Total debt	1,634.9	1,264.6
Less: current portion of long term debt	59.0	49.6
	\$ 1,575.9	\$ 1,215.0

#### Senior Secured Credit Facilities

As of September 30, 2015, the Company has a credit agreement providing for (i) a \$938.4 million Senior Secured Term Loan Facility maturing on October 15, 2020 (the "Term Loan Facility") and (ii) a \$500.0 million Senior Secured Revolving Credit Facility (the "Revolver") maturing in 2020. The Company refers to these credit facilities as its

"Senior Secured Credit Facilities." Allegion plc is the primary borrower for the Senior Secured Credit Facilities.

ALLEGION PLC

NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

In September 2015, the Company entered into a Second Amendment and Restatement Agreement (the "Second Amendment and Restatement Agreement") to amend and restate its existing Amended and Restated Credit Agreement (the "Credit Agreement"), dated as of November 26, 2013 and amended and restated on October 15, 2014. The terms of the Second Amendment and Restatement Agreement are substantially consistent with the terms of the Credit Agreement, subject to certain changes, including: (i) a reduction of the applicable margin for LIBOR rate borrowings to range from 1.375% to 1.875% (from 1.50% to 2.00%) and the applicable margin for base rate borrowings to range from 0.375% to 0.875% (from 0.50% to 1.00%), in each case depending on the corporate credit or family rating, (ii) an extension of the maturity date of the Revolver and the Term Loan Facility from October 15, 2019 to October 15, 2020; and (iii) changes to certain other terms of the Credit Agreement, including the restrictive covenants, to provide the Company with additional flexibility.

Outstanding borrowings under the Senior Secured Credit Facilities currently accrue interest at LIBOR plus an applicable margin. The margin for the Term Loan Facility borrowings was 1.63% at September 30, 2015.

To manage the Company's exposure to fluctuations in LIBOR rates, the Company has interest rate swaps for \$300.0 million of the Company's variable rate \$938.4 million Term Loan Facility. Swaps with notional amounts totaling \$275.0 million were effective in January 2015 and expire in September 2017 and swaps with notional amounts totaling \$25.0 million were effective in January 2015 and expire in December 2016. The swaps exchange 90-day LIBOR for a fixed interest rate.

During August 2015, the Company borrowed \$400.0 million under the Revolver in order to fund a portion of the acquisitions of SimonsVoss and AXA. In addition to repaying \$320.0 million of the outstanding Revolver balance during September 2015, the Company repaid \$24.4 million of principal on its Term Loan Facility during the nine months ended September 30, 2015 in accordance with the terms of its Senior Secured Credit Facility. At September 30, 2015, the Company had \$80.0 million outstanding under the Revolver and had \$27.4 million of letters of credit outstanding.

#### Senior Notes

A wholly-owned subsidiary of the Company has issued \$300.0 million of 5.75% senior notes due 2021 (the "2021 Senior Notes"). The 2021 Senior Notes accrue interest at the rate of 5.75% per annum, payable semi-annually on April 1 and October 1 of each year. The 2021 Senior Notes mature on October 1, 2021.

In September 2015, the Company issued \$300.0 million of 5.875% senior notes due 2023 (the "2023 Senior Notes"). The Company used the net proceeds of the offering and cash on hand to repay approximately \$300.0 million under Allegion's revolving credit facility. The 2023 Senior Notes accrue interest at the rate of 5.875% per annum, payable semi-annually on March 15 and September 15 of each year, beginning March 15, 2016. The 2023 Senior Notes mature on September 15, 2023.

At September 30, 2015, the weighted-average interest rate for borrowings was 2.3% under the Term Loan Facility (including the effect of interest rate swaps), 5.75% under the 2021 Senior Notes and 5.875% under the 2023 Senior Notes.

#### Note 9 – Financial Instruments

In the normal course of business, the Company uses various financial instruments, including derivative instruments, to manage the risks associated with interest and currency rate exposures. These financial instruments are not used for trading or speculative purposes.

On the date a derivative contract is entered into, the Company designates the derivative instrument as a cash flow hedge of a forecasted transaction, a cash flow hedge of a recognized asset or liability, or as an undesignated derivative. The Company formally documents its hedge relationships, including identification of the derivative instruments and the hedged items, as well as its risk management objectives and strategies for undertaking the hedge transaction. This process includes linking derivative instruments that are designated as hedges to specific assets, liabilities or forecasted transactions.

The fair market value of derivative instruments is determined through market-based valuations and may not be representative of the actual gains or losses that will be recorded when these instruments mature due to future fluctuations in the markets in which they are traded.

## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Unaudited)

The Company assesses at inception and at least quarterly thereafter, whether the derivatives used in cash flow hedging transactions are highly effective in offsetting the changes in the cash flows of the hedged item. To the extent the derivative is deemed to be a highly effective hedge, the fair market value changes of the instrument are recorded to accumulated other comprehensive loss.

Any ineffective portion of a derivative instrument's change in fair value is recorded in Net earnings in the period of change. If the hedging relationship ceases to be highly effective, or it becomes probable that a forecasted transaction is no longer expected to occur, the hedging relationship will be undesignated and any future gains and losses on the derivative instrument will be recorded in Net earnings.

## Currency Hedging Instruments

The gross notional amount of the Company's currency derivatives was \$291.7 million and \$494.5 million at September 30, 2015 and December 31, 2014, respectively. At September 30, 2015 and December 31, 2014, gains of \$1.7 million and \$1.6 million, net of tax, respectively, were included in Accumulated other comprehensive loss related to the fair value of the Company's currency derivatives designated as cash flow hedges. The amount expected to be reclassified into Net earnings over the next twelve months is a gain of \$1.7 million. The actual amounts that will be reclassified to Net earnings may vary from this amount as a result of changes in market conditions. Gains and losses associated with the Company's currency derivatives not designated as hedges are recorded in Net earnings as changes in fair value occur. At September 30, 2015, the maximum term of the Company's currency derivatives was less than one year.

## Interest Rate Swaps

In June 2014, the Company entered into forward starting interest rate swaps to fix the interest rate paid during the contract period for \$300.0 million of the Company's variable rate \$938.4 million Term Loan Facility. Swaps with notional amounts totaling \$275.0 million effective January 2015 expire in September 2017 and swaps with notional amounts totaling \$25.0 million effective January 2015 expire in December 2016. These interest rate swaps met the criteria to be accounted for as cash flow hedges of variable rate interest payments. Consequently, the changes in fair value of the interest rate swaps were recognized in Accumulated other comprehensive loss. At September 30, 2015, \$3.2 million of losses were recorded in Accumulated other comprehensive loss related to these interest rate swaps and none are expected to be reclassified into Interest expense over the next twelve months.

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

In millions	Asset derivatives		Liability derivatives	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Derivatives designated as hedges:				
Currency derivatives	\$ 1.9	\$ 2.1	\$ —	\$ —
Interest rate swaps	—	—	3.2	0.9
Derivatives not designated as hedges:				
Currency derivatives	1.8	2.2	1.8	13.9
Total derivatives	\$3.7	\$ 4.3	\$5.0	\$ 14.8

Asset and liability derivatives included in the table above are recorded within Other current assets and Accrued expenses and other current liabilities within the Condensed and Consolidated Balance Sheets.

## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Unaudited)

The amounts associated with derivatives designated as hedges affecting Net earnings and Accumulated other comprehensive loss for the nine months ended September 30 were as follows:

In millions	Amount of gain (loss) recognized in Accumulated other comprehensive loss		Location of gain (loss) recognized in Net earnings	Amount of gain (loss) reclassified from Accumulated other comprehensive loss and recognized into Net earnings	
	2015	2014		2015	2014
Currency derivatives	\$5.7	\$0.9	Cost of goods sold	\$5.5	\$2.5
Interest rate swaps	(2.2	) 0.8	Interest expense	—	—
Total	\$3.5	\$1.7		\$5.5	\$2.5

## Concentration of Credit Risk

The counterparties to the Company's forward contracts and swaps consist of a number of investment grade major international financial institutions. The Company could be exposed to losses in the event of nonperformance by the counterparties. However, the credit ratings and the concentration of risk in these financial institutions are monitored on a continuous basis and present no significant credit risk to the Company.

## Note 10 – Pensions and Postretirement Benefits Other than Pensions

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

## Pension Plans

The noncontributory defined benefit pension plans covering non-collectively bargained U.S. employees provide benefits on an average pay formula while most plans for collectively bargained U.S. employees provide benefits on a flat dollar benefit formula. The non-U.S. pension plans generally provide benefits based on earnings and years of service. The Company also maintains additional other supplemental plans for officers and other key employees. The components of the Company's net periodic pension benefit costs for the three and nine months ended September 30 were as follows:

In millions	U.S.			
	Three months ended		Nine months ended	
	2015	2014	2015	2014
Service cost	\$2.7	\$1.7	\$7.4	\$5.3
Interest cost	2.7	2.8	8.2	8.4
Expected return on plan assets	(2.8	) (2.7	) (8.5	) (8.3
Net amortization of:				
Prior service costs	0.1	0.1	0.5	0.5
Plan net actuarial losses	1.2	0.5	3.5	1.5
Net periodic pension benefit cost	\$3.9	\$2.4	\$11.1	\$7.4
Net settlement losses	—	—	0.6	—
Net periodic pension benefit cost after settlement losses	\$3.9	\$2.4	\$11.7	\$7.4





## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Unaudited)

In millions	Non-U.S.		Non-U.S.	
	Three months ended		Nine months ended	
	2015	2014	2015	2014
Service cost	\$0.8	\$1.3	\$2.5	\$3.6
Interest cost	3.4	4.4	10.3	13.1
Expected return on plan assets	(4.5	) (4.3	) (13.4	) (13.0
Amortization of plan net actuarial losses	0.4	0.7	1.1	2.1
Net periodic pension benefit cost	\$0.1	\$2.1	\$0.5	\$5.8

The Company made employer contributions of \$0.3 million and \$1.2 million during the nine months ended September 30, 2015 and 2014 to its defined benefit pension plans. Additional contributions of approximately \$4.2 million are expected during the remainder of 2015.

## Postretirement Benefits Other Than Pensions

The Company sponsors several postretirement plans that provide for healthcare benefits, and in some instances, life insurance benefits that cover certain eligible retired employees. The Company funds postretirement benefit obligations principally on a pay as you go basis. Generally, postretirement health benefits are contributory with contributions adjusted annually. Life insurance plans for retirees are primarily noncontributory.

The components of net periodic postretirement benefit income for the three and nine months ended September 30 were as follows:

In millions	Three months ended		Nine months ended	
	2015	2014	2015	2014
Service cost	\$—	\$—	\$0.1	\$0.1
Interest cost	0.1	0.1	0.3	0.4
Amortization of prior service gains	(0.4	) (0.4	) (1.2	) (1.2
Net periodic postretirement benefit income	\$(0.3	) \$(0.3	) \$(0.8	) \$(0.7

## Note 11 – Fair Value Measurement

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurements are based on a framework that utilizes the inputs market participants use to determine the fair value of an asset or liability and establishes a fair value hierarchy to prioritize those inputs. The fair value hierarchy is comprised of three levels that are described below:

Level 1 – Inputs based on quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Unobservable inputs based on little or no market activity and that are significant to the fair value of the assets and liabilities.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are obtained from independent sources and can be validated by a third party, whereas unobservable inputs reflect assumptions regarding what a third party would use in pricing an asset or liability based on the best information available under the circumstances. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement.



## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Unaudited)

Assets and liabilities measured at fair value at September 30, 2015 were as follows:

In millions	Fair value measurements			Total fair value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Recurring fair value measurements				
Assets:				
Marketable securities	\$26.1	\$—	\$—	\$26.1
Foreign currency contracts	—	3.7	—	3.7
Total asset recurring fair value measurements	\$26.1	\$3.7	\$—	\$29.8
Liabilities:				
Foreign currency contracts	\$—	\$1.8	\$—	\$1.8
Interest rate swap	—	3.2	—	3.2
Deferred compensation plans	—	14.8	—	14.8
Total liability recurring fair value measurements	\$—	\$19.8	\$—	\$19.8
Financial instruments not carried at fair value				
Total debt	—	1,646.6	—	1,646.6
Total financial instruments not carried at fair value	\$—	\$1,646.6	\$—	\$1,646.6

Assets and liabilities measured at fair value at December 31, 2014 were as follows:

In millions	Fair value measurements			Total fair value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Recurring fair value measurements				
Assets:				
Marketable securities	\$17.9	\$—	\$—	\$17.9
Foreign currency contracts	—	4.3	—	4.3
Total asset recurring fair value measurements	\$17.9	\$4.3	\$—	\$22.2
Liabilities:				
Foreign currency contracts	\$—	\$13.9	\$—	\$13.9
Interest rate swap	—	0.9	—	0.9
Deferred compensation plans	—	14.9	—	14.9
Total liability recurring fair value measurements	\$—	\$29.7	\$—	\$29.7
Financial instruments not carried at fair value				
Total debt	—	1,279.4	—	1,279.4
Total financial instruments not carried at fair value	\$—	\$1,279.4	\$—	\$1,279.4

The Company determines the fair value of its financial assets and liabilities using the following methodologies:

Marketable securities – These securities include investments in publicly traded stock of non-U.S. companies held by non-U.S. subsidiaries of the Company. The fair value is obtained for the securities based on observable market prices quoted on public stock exchanges.



## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

Foreign currency contracts – These instruments include foreign currency contracts for non-functional currency balance sheet exposures. The fair value of the foreign currency contracts are determined based on a pricing model that uses spot rates and forward prices from actively quoted currency markets that are readily accessible and observable.

Interest rate swaps – These instruments include forward-starting interest rate swap contracts for \$300.0 million of the Company's variable rate debt. The fair value of the derivative instruments are determined based on quoted prices for the Company's swaps, which are not considered an active market.

Deferred compensation plans - These include obligations related to deferred compensation adjusted for market performance. The fair value is obtained based on observable market prices quoted on public exchanges for similar instruments.

Debt – These securities are recorded at cost and include senior notes maturing through 2023. The fair value of the long-term debt instruments is obtained based on observable market prices quoted on public exchanges for similar instruments.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings are a reasonable estimate of their fair value due to the short-term nature of these instruments.

These methodologies used by the Company to determine the fair value of its financial assets and liabilities at September 30, 2015 are the same as those used at December 31, 2014. There have been no significant transfers between Level 1 and Level 2 categories.

## Note 12 – Equity

The reconciliation of Ordinary shares is as follows:

In millions	Total
December 31, 2014	95.8
Shares issued under incentive plans, net	0.6
Repurchase of ordinary shares	(0.5 )
September 30, 2015	95.9

During the nine months ended September 30, 2015, the Company paid \$30.0 million to repurchase 0.5 million ordinary shares on the open market under a share repurchase program previously approved by its Board of Directors. The components of Equity for the nine months ended September 30, 2015 were as follows:

In millions	Allegion plc shareholders' equity (deficit)	Noncontrolling interests	Total equity (deficit)
Balance at December 31, 2014	\$(4.8 )	\$23.3	\$18.5
Net earnings	82.0	0.3	82.3
Currency translation	(38.0 )	(1.2 )	(39.2 )
Change in value of marketable securities and derivatives qualifying as cash flow hedges, net of tax	7.3	—	7.3
Pension and OPEB adjustments, net of tax	4.3	—	4.3
Total comprehensive income	55.6	(0.9 )	54.7
Share-based compensation	10.3	—	10.3
Acquisition/divestiture of noncontrolling interests	—	1.7	1.7
Dividends to noncontrolling interests	—	(10.6 )	(10.6 )
Dividends to ordinary shareholders	(28.7 )	—	(28.7 )
Repurchase of ordinary shares	(30.0 )	—	(30.0 )
Shares issued under incentive plans, net	12.1	—	12.1

Edgar Filing: Allegion plc - Form 10-Q

Balance at September 30, 2015	\$14.5	\$13.5	\$28.0
-------------------------------	--------	--------	--------

15

---

## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Unaudited)

The components of Equity for the nine months ended September 30, 2014 were as follows:

In millions	Allegion plc shareholders' equity (deficit)	Noncontrolling interests	Total equity (deficit)
Balance at December 31, 2013	\$(66.1 )	\$31.1	\$(35.0 )
Net earnings	139.8	10.6	150.4
Currency translation	(41.6 )	(0.5 )	(42.1 )
Change in value of marketable securities and derivatives qualifying as cash flow hedges, net of tax	0.7	—	0.7
Pension and OPEB adjustments, net of tax	8.0	—	8.0
Total comprehensive income	106.9	10.1	117.0
Share-based compensation	9.7	—	9.7
Dividends to noncontrolling interests	—	(4.5 )	(4.5 )
Dividends to ordinary shareholders	(23.0 )	—	(23.0 )
Shares issued under incentive plans, net	16.4	—	16.4
Repurchase of ordinary shares	(50.3 )	—	(50.3 )
Other	(3.3 )	—	(3.3 )
Balance at September 30, 2014	\$(9.7 )	\$36.7	\$27.0
Other Comprehensive Income (Loss)			

The changes in Accumulated other comprehensive income (loss) for the nine months ended September 30, 2015 are as follows:

In millions	Cash flow hedges and marketable securities	Pension and OPEB Items	Foreign Currency Items	Total
December 31, 2014	\$15.7	\$(116.1 )	\$(47.8 )	\$(148.2 )
Other comprehensive income (loss) before reclassifications	14.2	1.2	(38.0 )	(22.6 )
Amounts reclassified from accumulated other comprehensive income	(6.9 )	3.9	—	(3.0 )
Tax expense	—	(0.8 )	—	(0.8 )
September 30, 2015	\$23.0	\$(111.8 )	\$(85.8 )	\$(174.6 )

The changes in Accumulated other comprehensive income (loss) for the nine months ended September 30, 2014 are as follows:

In millions	Cash flow hedges and marketable securities	Pension and OPEB Items	Foreign Currency Items	Total
December 31, 2013	\$16.7	\$(131.3 )	\$17.9	\$(96.7 )
Other comprehensive loss before reclassifications	3.2	5.1	(41.6 )	(33.3 )
Amounts reclassified from accumulated other comprehensive income	(2.5 )	2.9	—	0.4
Tax benefit	(0.2 )	—	—	(0.2 )
September 30, 2014	\$17.2	\$(123.3 )	\$(23.7 )	\$(129.8 )





## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

Reclassifications out of Accumulated other comprehensive income (loss) for the three and nine months ended September 30, 2015 were as follows:

In millions	Amount Reclassified from Accumulated Other Comprehensive Income		Statement of Comprehensive Income Line Item
	Three months ended	Nine months ended	
Reclasses below represent (Income) loss to the Statement of Comprehensive Income			
Gains losses on cash flow hedges:			
Foreign exchange contracts	\$ (0.8)	) \$ (5.5)	) Cost of goods sold
	(0.8)	) (5.5)	) Earnings before income taxes
	0.4	—	Provision for income taxes
	\$ (0.4)	) \$ (5.5)	) Earnings from continuing operations
Unrealized gains and losses on marketable securities:			
Realized gain on sale of securities	\$ (1.4)	) \$ (1.4)	) Other (income) loss, net
	(1.4)	) (1.4)	) Earnings before income taxes
	—	—	Provision for income taxes
	\$ (1.4)	) \$ (1.4)	) Earnings from continuing operations
Defined benefit pension items:			
Amortization of:			
Prior-service gains	\$ (0.3)	) \$ (0.7)	) (a)
Actuarial losses	1.6	4.6	(a)
	1.3	3.9	Earnings before income taxes
	(0.4)	) (0.8)	) Provision for income taxes
	\$ 0.9	\$ 3.1	Earnings from continuing operations
Total reclassifications for the period	\$ (0.9)	) \$ (3.8)	) Earnings from continuing operations

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost and net periodic postretirement benefit cost (see Note 10 for additional details).

## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Unaudited)

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

In millions	Amount Reclassified from Accumulated Other Comprehensive Income		Statement of Comprehensive Income Line Item
	Three months ended	Nine months ended	
Reclasses below represent (Income) loss to the Statement of Comprehensive Income			
Gains on cash flow hedges:			
Foreign exchange contracts	\$(1.9)	) \$(2.5)	) Cost of goods sold
	(1.9)	) (2.5)	) Earnings before income taxes
	(0.3)	) (0.2)	) Provision for income taxes
	\$(2.2)	) \$(2.7)	) Earnings from continuing operations
Defined benefit pension items:			
Amortization of:			
Prior-service gains	\$(0.3)	) \$(0.7)	) (a)
Actuarial (gains) losses	1.2	) 3.6	) (a)
	0.9	) 2.9	) Earnings before income taxes
	—	) —	) Provision for income taxes
	0.9	) 2.9	) Earnings from continuing operations
Total reclassifications for the period	\$(1.3)	) \$0.2	) Earnings from continuing operations

(a) These accumulated other comprehensive income components are included in the computation of net periodic pension cost and net periodic postretirement benefit cost (see Note 10 for additional details).

## Note 13 – Share-Based Compensation

The Company records share-based compensation awards using a fair value method and recognizes compensation expense for an amount equal to the fair value of the share-based payment issued in its financial statements. The Company's share-based compensation plans include programs for stock options, restricted stock units ("RSUs"), performance share units ("PSUs") and deferred compensation.

## Compensation Expense

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

In millions	Three months ended		Nine months ended	
	2015	2014	2015	2014
Stock options	\$0.9	\$0.8	\$2.8	\$2.7
RSUs	1.5	1.3	4.4	4.5
PSUs	1.0	1.1	3.1	2.5

Edgar Filing: Allegion plc - Form 10-Q

Deferred compensation	(0.6	) —	(0.1	) 0.5	
Pre-tax expense	2.8	3.2	10.2	10.2	
Tax benefit	(0.9	) (1.1	) (3.4	) (3.6	)
After-tax expense	\$1.9	\$2.1	\$6.8	\$6.6	

18

---

## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Stock Options/RSUs

Eligible participants may receive (i) stock options, (ii) RSUs or (iii) a combination of both stock options and RSUs. Grants issued during the nine months ended September 30 were as follows:

	2015		2014	
	Number granted	Weighted-average fair value per award	Number granted	Weighted-average fair value per award
Stock options	220,679	\$17.88	188,817	\$19.54
RSUs	105,976	\$58.71	101,653	\$54.29

The fair value of each of the Company's stock option and RSU awards is expensed on a straight-line basis over the required service period, which is generally the 3-year vesting period. However, for stock options and RSUs granted to retirement eligible employees, the Company recognizes expense for the fair value at the grant date.

The average fair value of the stock options granted is determined using the Black-Scholes option-pricing model. The following assumptions were used during the nine months ended September 30:

	2015		2014	
Dividend yield	0.69	%	0.60	%
Volatility	34.02	%	36.55	%
Risk-free rate of return	1.78	%	1.94	%
Expected life	6.0 years		6.0 years	

Expected volatility is based on the weighted average of the implied volatility of a group of the Company's peers due to the lack of trading history for the Company's ordinary shares. The risk-free rate of return is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the award is granted with a maturity equal to the expected life of the award. Historical peer data is used to estimate forfeitures within the Company's valuation model. The expected life of the Company's stock option awards is derived from the simplified approach based on the weighted average time to vest and the remaining contractual term and represents the period of time that awards are expected to be outstanding.

## Performance Shares

The Company has a Performance Share Program for key employees. The program provides awards in the form of PSUs based on performance against pre-established objectives. The annual target award level is expressed as a number of the Company's ordinary shares. All PSUs are settled in the form of ordinary shares unless deferred. During the nine months ended September 30, 2015, the Company granted PSUs with a maximum award level of approximately 0.1 million shares.

In March 2014, the Company's Compensation Committee granted PSUs that were based 50% upon a performance condition, measured at each performance period by earnings per share ("EPS") growth, and 50% upon a market condition, measured by the Company's relative total shareholder return ("TSR") as compared to the TSR of the industrial group of companies in the S&P 400 Capital Goods Index over the one-year, two-year, and three-year performance periods. The fair values of the market condition were estimated using a Monte Carlo Simulation approach in a risk-neutral framework based upon historical volatility, risk-free rates and correlation matrix.

In March 2015, the Company's Compensation Committee granted PSU's that were based 50% upon a performance condition, measured at the end of the performance period by EPS growth, and 50% upon a market condition, measured by the Company's relative TSR as compared to the TSR of the industrial group of companies in the S&P 400 Capital Goods Index over the three-year performance period. The fair value of the market condition was estimated using a Monte Carlo Simulation approach in a risk-neutral framework based upon historical volatility, risk-free rates and correlation matrix.

Deferred Compensation

ALLEGION PLC  
 NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
 (Unaudited)

The Company allows key employees to defer a portion of their eligible compensation into a number of investment choices including its ordinary share equivalents. Any amounts invested in ordinary share equivalents will be settled in ordinary shares of the Company at the time of distribution.

#### Note 14 – Restructuring Activities

The changes in the restructuring reserve during the nine months ended September 30, 2015 were as follows:

In millions	EMEIA	Total
December 31, 2014	\$ 1.9	\$ 1.9
Additions, net of reversals	4.4	4.4
Cash and non-cash uses	(2.1)	(2.1)
Currency translation	(0.2)	(0.2)
September 30, 2015	\$ 4.0	\$ 4.0

The majority of the costs accrued as of September 30, 2015 will be paid within one year.

#### 2015 Italy Restructuring Plan

In the second quarter of 2015, management committed to a restructuring plan in Italy. The plan aims to improve competitive position, ensure long-term viability and enhance customer experience. Expenses incurred for this plan for the three and nine months ended September 30 were as follows:

In millions	Three months ended		Nine months ended	
	2015	2014	2015	2014
EMEIA	\$0.6	\$—	\$4.4	\$—
Total	\$0.6	\$—	\$4.4	\$—
Cost of goods sold	\$0.1	\$—	\$3.6	\$—
Selling and administrative expenses	0.5	—	0.8	—
Total	\$0.6	\$—	\$4.4	\$—

The above expenses primarily relate to severance charges.

In October 2015, the Company reached an agreement to provide severance benefits to certain employees in Italy. As a result of the agreement, the Company will record additional severance charges of approximately \$8.4 million. This charge will result in cash expenditures, primarily in 2016.

The Company incurred other non-qualified restructuring charges of \$0.6 million during the three and nine months ended September 30, 2015 in conjunction with the other restructuring plans, which represent costs that are directly attributable to restructuring activities, but do not fall into the severance, exit or disposal category.

#### 2014 EMEIA Restructuring Plan

In the second quarter of 2014, management committed to a plan to restructure the EMEIA segment to improve efficiencies and regional cost structure. Expenses incurred for this plan for the three and nine months ended September 30 were as follows:

20

---

## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

In millions	Three months ended		Nine months ended	
	2015	2014	2015	2014
EMEIA	\$—	\$0.2	\$—	\$4.6
Total	\$—	\$0.2	\$—	\$4.6
Cost of goods sold	\$—	\$0.1	\$—	\$1.1
Selling and administrative expenses	—	0.1	—	3.5
Total	\$—	\$0.2	\$—	\$4.6

In addition, the Company incurred other non-qualified restructuring charges of \$0.4 million during the nine months ended September 30, 2014 in conjunction with the plan, which represents costs that are directly attributable to restructuring activities, but do not fall into the severance, exit or disposal category.

## Other Restructuring Plans

Other restructuring charges of \$0.8 million were recorded during the nine months ended September 30, 2014 as part of other restructuring plans. These charges primarily relate to workforce reductions in an effort to increase efficiencies across multiple lines of business.

## Note 15 – Other (Income) Expense, Net

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

In millions	Three months ended		Nine months ended	
	2015	2014	2015	2014
Interest income	\$(0.3)	\$(0.1)	\$(1.1)	\$(0.4)
Exchange (gain) loss	(0.2)	(1.7)	3.7	(2.3)
Other	(2.7)	(0.2)	(2.3)	(0.4)
Other (income) expense, net	\$(3.2)	\$(2.0)	\$0.3	\$(3.1)

In February 2015, the Venezuelan government announced changes to its exchange rate system that included the launch of a new, market-based system called the Marginal Currency System, or “SIMADI.” During the nine months ended September 30, 2015 the Company recorded a charge of \$2.8 million in order to remeasure net monetary assets at the SIMADI rate and other unfavorable currency impacts. These losses are within Exchange (gain) loss in the table above. These losses were offset by other investment income received during the three months ended September 30, 2015 included within Other in the table above.

## Note 16 – Income Taxes

The effective income tax rates for the three months ended September 30, 2015 and 2014 were (285.3)% and 28.6%. The effective income tax rate for the three months ended September 30, 2015 was negatively impacted by \$106.7 million (\$110.5 million after-tax) of charges related to the divestiture for the Company’s business in Venezuela and the anticipated divestiture of the Company’s systems integration business in China. Excluding these charges the effective tax rate for the three months ended September 30, 2015 decreased primarily due to favorable changes in the mix of income earned in lower rate jurisdictions and the favorable resolution of uncertain tax positions in 2015.



The effective income tax rates for the nine months ended September 30, 2015 and 2014 were 38.1% and 29.3%. The effective income tax rate for the nine months ended September 30, 2015 was negatively impacted by \$113.6 million (\$117.0 million after-tax) of charges related to the devaluation of the Venezuelan bolivar, the divestiture of the Company's business in Venezuela and the anticipated divestiture of the Company's systems integration business in China. Excluding these charges the effective tax rate

for the nine months ended September 30, 2015 decreased primarily due to favorable changes in the mix of income earned in lower rate jurisdictions and the favorable resolution of uncertain tax positions in 2015.

#### Note 17 – Discontinued Operations

Discontinued operations recognized losses of \$0.2 million and \$2.0 million for the three months ended September 30, 2015 and 2014 and losses of \$0.4 million and \$10.8 million for the nine months ended September 30, 2015 and 2014. These losses were mainly related to the sale of the UK Door Business in the third quarter of 2014 and non-cancelable lease expense and other miscellaneous expenses from previously sold businesses

#### Note 18 – Earnings Per Share (EPS)

Basic EPS is calculated by dividing Net earnings attributable to Allegion plc by the weighted-average number of ordinary shares outstanding for the applicable period. Diluted EPS is calculated after adjusting the denominator of the basic EPS calculation for the effect of all potentially dilutive ordinary shares, which in the Company's case, includes shares issuable under share-based compensation plans.

The following table summarizes the weighted-average number of ordinary shares outstanding for basic and diluted earnings per share calculations for the three and nine months ended September 30:

In millions	Three months ended		Nine months ended	
	2015	2014	2015	2014
Weighted-average number of basic shares	95.9	95.9	95.8	96.2
Shares issuable under incentive stock plans	—	1.0	1.1	1.1
Weighted-average number of diluted shares	95.9	96.9	96.9	97.3

At September 30, 2015, 0.4 million stock options were excluded from the computation of weighted average diluted shares outstanding because the effect of including these shares would have been anti-dilutive. Additionally, for the three months ended September 30, 2015, 1.0 million shares were excluded from the calculation above due to the Company's net loss from continuing operations.

#### Note 19 – Business Segment Information

The Company classifies its businesses into the following three reportable segments based on industry and market focus: Americas, EMEIA and Asia Pacific.

Segment operating income is the measure of profit and loss that the Company's chief operating decision maker uses to evaluate the financial performance of the business and as the basis for resource allocation, performance reviews, and compensation. For these reasons, the Company believes that Segment operating income represents the most relevant measure of segment profit and loss. The Company's chief operating decision maker may exclude certain charges or gains, such as corporate charges and other special charges, from Operating income to arrive at a Segment operating income that is a more meaningful measure of profit and loss upon which to base its operating decisions. The Company defines Segment operating margin as Segment operating income as a percentage of Net revenues.

In the second quarter of 2014 management committed to a plan to sell a component of a business in the EMEIA region and reclassified historical results of the component to discontinued operations for all periods presented. The transaction closed in the third quarter of 2014.



## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Unaudited)

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

In millions	Three months ended		Nine months ended	
	2015	2014	2015	2014
Net revenues				
Americas	\$418.9	\$423.1	\$1,175.3	\$1,169.2
EMEIA	91.5	89.5	257.1	289.9
Asia Pacific	34.1	34.1	90.3	85.7
Total	\$544.5	\$546.7	\$1,522.7	\$1,544.8
Segment operating income (loss)				
Americas	\$121.7	\$123.3	\$317.8	\$320.6
EMEIA	5.0	0.4	8.1	(4.3)
Asia Pacific	0.3	(0.5)	(3.7)	(7.0)
Total	127.0	123.2	322.2	309.3
Reconciliation to Operating income				
Unallocated corporate expense	(16.6)	(17.1)	(45.1)	(46.1)
Operating income	\$110.4	\$106.1	\$277.1	\$263.2
Reconciliation to earnings (loss) before income taxes				
Interest expense	13.7	12.7	36.6	38.3
Loss on divestitures	106.7	—	106.7	—
Other (income) expense, net	(3.2)	(2.0)	0.3	(3.1)
Earnings (loss) before income taxes	\$(6.8)	\$95.4	\$133.5	\$228.0

## Note 20 – Commitments and Contingencies

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

## Environmental Matters

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

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

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

## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

During the three months ended September 30, 2015 and 2014, the Company incurred \$0.9 million and \$0.6 million of expenses for environmental remediation at sites presently or formerly owned or leased by us. During the nine months ended September 30, 2015 and 2014, the Company incurred \$3.2 million and \$1.8 million of expenses for environmental remediation at sites presently or formerly owned or leased by us. As of September 30, 2015 and December 31, 2014, the Company has recorded reserves for environmental matters of \$15.1 million and \$8.8 million. The increase in the reserve is primarily due to estimated environmental liabilities assumed in the acquisition of AXA. Of the total reserve, \$2.8 million and \$2.4 million relate to remediation of sites previously disposed by the Company. Environmental reserves are classified as Accrued expenses and other current liabilities or Other noncurrent liabilities based on their expected term. The Company's total current environmental reserve at September 30, 2015 and December 31, 2014 was \$3.7 million and \$2.2 million, and the remainder is classified as non-current. Given the evolving nature of environmental laws, regulations and technology, the ultimate cost of future compliance is uncertain.

## Warranty Liability

Standard product warranty accruals are recorded at the time of sale and are estimated based upon product warranty terms and historical experience. The Company assesses the adequacy of its liabilities and will make adjustments as necessary based on known or anticipated warranty claims, or as new information becomes available.

The changes in the standard product warranty liability for the nine months ended September 30 were as follows:

In millions	2015	2014
Balance at beginning of period	\$9.8	\$9.4
Reductions for payments	(3.7	) (3.8
Accruals for warranties issued during the current period	4.4	5.0
Changes to accruals related to preexisting warranties	0.7	(0.7
Translation	(0.2	) (0.1
Balance at end of period	\$11.0	\$9.8

Standard product warranty liabilities are classified as Accrued expenses and other current liabilities.

## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Unaudited)

## Note 21 – Guarantor Financial Information

Allegion US Holding Company, Inc. ("Allegion US Holding") is the issuer of the 2021 Senior Notes and a guarantor of the 2023 Senior Notes. Allegion plc is the issuer of the 2023 Senior Notes and a guarantor of the 2023 Senior Notes. Schlage Lock Company LLC and Von Duprin LLC (together, the "Other Subsidiary Guarantors") are all guarantors of the 2021 Senior Notes and the 2023 Senior Notes. The following condensed and consolidated financial information of Allegion plc, Allegion US Holding, the Subsidiary Guarantors and the other Allegion subsidiaries that are not guarantors (the "Other Subsidiaries") on a combined basis as of September 30, 2015 and for the nine months ended September 30, 2015 and 2014, is being presented in order to meet the reporting requirements under the 2021 Senior Notes and 2023 Senior Notes indentures and Rule 3-10 of Regulation S-X. In accordance with Rule 3-10(d) of Regulation S-X, separate financial statements for Allegion plc, Allegion US Holding and the Subsidiary Guarantors are not required to be filed with the SEC as the subsidiary debt issuer and the guarantors are directly or indirectly 100% owned by the Parent and the guarantees are full and unconditional and joint and several.

Condensed and Consolidated Statement of Comprehensive Income  
For the three months ended September 30, 2015

In millions	Allegion plc	Allegion US Holding	Other Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Net revenues	\$—	\$—	\$402.5	\$194.1	\$ (52.1 )	\$544.5
Cost of goods sold	—	—	225.6	131.0	(52.1 )	304.5
Selling and administrative expenses	1.1	—	79.3	49.2	—	129.6
Operating income (loss)	(1.1 )	—	97.6	13.9	—	110.4
Equity earnings (loss) in affiliates, net of tax	(18.2 )	30.1	1.4	109.4	(122.7 )	—
Interest expense	8.0	5.4	—	0.3	—	13.7
Intercompany interest and fees	—	23.5	(80.1 )	56.6	—	—
Loss on divestitures	—	—	—	106.7	—	106.7
Other (income) expense, net	—	0.2	0.1	(3.5 )	—	(3.2 )
Earnings (loss) before income taxes	(27.3 )	1.0	179.0	(36.8 )	(122.7 )	(6.8 )
Provision (benefit) for income taxes	—	(11.3 )	68.3	(37.6 )	—	19.4
Earnings (loss) from continuing operations	(27.3 )	12.3	110.7	0.8	(122.7 )	(26.2 )
Discontinued operations, net of tax	—	—	—	(0.2 )	—	(0.2 )
Net earnings (loss)	(27.3 )	12.3	110.7	0.6	(122.7 )	(26.4 )
Less: Net loss attributable to noncontrolling interests	—	—	—	0.9	—	0.9
Net earnings (loss) attributable to Allegion plc	\$(27.3 )	\$12.3	\$110.7	\$(0.3 )	\$(122.7 )	\$(27.3 )
Total comprehensive income (loss)	\$(28.8 )	\$11.2	\$111.4	\$(0.5 )	\$(122.4 )	\$(29.1 )
	—	—	—	(0.3 )	—	(0.3 )

Less: Total comprehensive income  
attributable to noncontrolling interests  
Total comprehensive income (loss)  
attributable to Allegion plc

\$(28.8 ) \$11.2 \$111.4 \$(0.2 ) \$ (122.4 ) \$(28.8 )



## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Condensed and Consolidated Statement of Comprehensive Income

For the nine months ended September 30, 2015

In millions	Allegion plc	Allegion US Holding	Other Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Net revenues	\$—	\$—	\$ 1,131.8	\$ 538.0	\$ (147.1 )	\$ 1,522.7
Cost of goods sold	—	—	643.2	377.7	(147.1 )	873.8
Selling and administrative expenses	3.2	(0.1 )	230.5	138.2	—	371.8
Operating income (loss)	(3.2 )	0.1	258.1	22.1	—	277.1
Equity earnings (loss) in affiliates, net of tax	105.7	67.2	2.8	219.1	(394.8 )	—
Interest expense	20.4	15.8	—	0.4	—	36.6
Intercompany interest and fees	0.2	69.7	(98.8 )	28.9	—	—
Loss on divestitures	—	—	—	106.7	—	106.7
Other (income) expense, net	(0.1 )	—	0.5	(0.1 )	—	0.3
Earnings (loss) before income taxes	82.0	(18.2 )	359.2	105.3	(394.8 )	133.5
Provision (benefit) for income taxes	—	(33.0 )	137.3	(53.5 )	—	50.8
Earnings (loss) from continuing operations	82.0	14.8	221.9	158.8	(394.8 )	82.7
Discontinued operations, net of tax	—	—	(0.1 )	(0.3 )	—	(0.4 )
Net earnings (loss)	82.0	14.8	221.8	158.5	(394.8 )	82.3
Less: Net earnings attributable to noncontrolling interests	—	—	—	0.3	—	0.3
Net earnings (loss) attributable to Allegion plc	\$ 82.0	\$ 14.8	\$ 221.8	\$ 158.2	\$ (394.8 )	\$ 82.0
Total comprehensive income (loss)	\$ 55.6	\$ 12.5	\$ 223.0	\$ 133.1	\$ (369.5 )	\$ 54.7
Less: Total comprehensive income attributable to noncontrolling interests	—	—	—	(0.9 )	—	(0.9 )
Total comprehensive income (loss) attributable to Allegion plc	\$ 55.6	\$ 12.5	\$ 223.0	\$ 134.0	\$ (369.5 )	\$ 55.6

ALLEGION PLC  
 NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)  
 (Unaudited)

Condensed and Consolidated Statement of Comprehensive Income  
 For the three months ended September 30, 2014

In millions	Allegion plc	Allegion US Holding	Other Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Net revenues	\$—	\$—	\$ 375.5	\$ 222.6	\$ (51.4 )	\$ 546.7
Cost of goods sold	—	—	212.4	149.1	(51.4 )	310.1
Selling and administrative expenses	1.4	—	77.1	52.0	—	130.5
Operating income (loss)	(1.4 )	—	86.0	21.5	—	106.1
Equity earnings (loss) in affiliates, net of tax	62.5	80.9	2.3	101.4	(247.1 )	—
Interest expense	—	12.7	—	—	—	12.7
Intercompany interest and fees	—	12.7	(75.4 )	62.7	—	—
Other (income) expense, net	—	—	(0.2 )	(1.8 )	—	(2.0 )
Earnings (loss) before income taxes	61.1	55.5	163.9	62.0	(247.1 )	95.4
Provision (benefit) for income taxes	0.3	9.5	60.2	(42.7 )	—	27.3
Earnings (loss) from continuing operations	60.8	46.0	103.7	104.7	(247.1 )	68.1
Discontinued operations, net of tax	—	—	—	(2.0 )	—	(2.0 )
Net earnings (loss)	60.8	46.0	103.7	102.7	(247.1 )	66.1
Less: Net earnings attributable to noncontrolling interests	—	—	—	5.3	—	5.3
Net earnings (loss) attributable to Allegion plc	\$ 60.8	\$ 46.0	\$ 103.7	\$ 97.4	\$ (247.1 )	\$ 60.8
Total comprehensive income (loss)	\$ 35.3	\$ 46.0	\$ 103.7	\$ 103.0	\$ (247.1 )	\$ 40.9
Less: Total comprehensive income attributable to noncontrolling interests	—	—	—	5.6	—	5.6
Total comprehensive income (loss) attributable to Allegion plc	\$ 35.3	\$ 46.0	\$ 103.7	\$ 97.4	\$ (247.1 )	\$ 35.3

## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Condensed and Consolidated Statement of Comprehensive Income

For the nine months ended September 30, 2014

In millions	Allegion plc	Allegion US Holding	Other Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Net revenues	\$ —	\$ —	\$ 1,054.2	\$ 637.9	\$ (147.3 )	\$ 1,544.8
Cost of goods sold	—	—	600.6	436.7	(147.3 )	890.0
Selling and administrative expenses	3.4	—	220.9	167.3	—	391.6
Operating income (loss)	(3.4 )	—	232.7	33.9	—	263.2
Equity earnings (loss) in affiliates, net of tax	143.2	156.6	4.6	288.0	(592.4 )	—
Interest expense	—	37.4	—	0.9	—	38.3
Intercompany interest and fees	—	37.6	(226.6 )	189.0	—	—
Other (income) expense, net	—	—	(0.1 )	(3.0 )	—	(3.1 )
Earnings (loss) before income taxes	139.8	81.6	464.0	135.0	(592.4 )	228.0
Provision (benefit) for income taxes	—	(28.1 )	171.3	(76.4 )	—	66.8
Earnings (loss) from continuing operations	139.8	109.7	292.7	211.4	(592.4 )	161.2
Discontinued operations, net of tax	—	—	—	(10.8 )	—	(10.8 )
Net earnings (loss)	139.8	109.7	292.7	200.6	(592.4 )	150.4
Less: Net earnings attributable to noncontrolling interests	—	—	—	10.6	—	10.6
Net earnings (loss) attributable to Allegion plc	\$ 139.8	\$ 109.7	\$ 292.7	\$ 190.0	\$ (592.4 )	\$ 139.8
Total comprehensive income (loss)	\$ 106.9	\$ 109.8	\$ 292.6	\$ 200.2	\$ (592.5 )	\$ 117.0
Less: Total comprehensive income attributable to noncontrolling interests	—	—	—	10.1	—	10.1
Total comprehensive income (loss) attributable to Allegion plc	\$ 106.9	\$ 109.8	\$ 292.6	\$ 190.1	\$ (592.5 )	\$ 106.9

ALLEGION PLC  
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(Unaudited)

Condensed and Consolidated Balance Sheet  
September 30, 2015

In millions	Allegion plc	Allegion US Holding	Other Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Current assets:						
Cash and cash equivalents	\$ 10.6	\$ 8.8	\$ 61.5	\$ 94.3	\$ —	\$ 175.2
Accounts and notes receivable, net	—	—	146.1	127.0	—	273.1
Inventories	—	—	110.3	106.0	—	216.3
Other current assets	0.7	33.0	30.5	(7.4	) —	56.8
Assets held for sale	—	—	—	154.3	—	154.3
Accounts and notes receivable affiliates	348.0	341.2	599.4	471.7	(1,760.3	) —
Total current assets	359.3	383.0	947.8	945.9	(1,760.3	) 875.7
Investment in affiliates	954.7	2,985.7	192.1	4,432.9	(8,565.4	) —
Property, plant and equipment, net	—	—	149.6	78.3	—	227.9
Intangible assets, net	—	—	181.7	902.0	—	1,083.7
Notes receivable affiliates	—	1,191.9	3,734.4	1,726.3	(6,652.6	) —
Other noncurrent assets	23.2	9.8	71.2	117.5	—	221.7
Total assets	\$ 1,337.2	\$ 4,570.4	\$ 5,276.8	\$ 8,202.9	\$ (16,978.3	) \$ 2,409.0
Current liabilities:						
Accounts payable and accruals	\$ 4.2	\$ 8.6	\$ 308.3	\$ 55.4	\$ —	\$ 376.5
Short-term borrowings and current maturities of long-term debt	46.9	—	0.1	12.0	—	59.0
Liabilities held for sale	—	—	—	81.7	—	81.7
Accounts and note payable affiliates	0.1	139.2	714.1	906.9	(1,760.3	) —
Total current liabilities	51.2	147.8	1,022.5	1,056.0	(1,760.3	) 517.2
Long-term debt	1,271.5	300.0	—	4.4	—	1,575.9
Note payable affiliate	—	2,745.2	—	3,907.4	(6,652.6	) —
Other noncurrent liabilities	—	9.8	214.4	63.7	—	287.9
Total liabilities	1,322.7	3,202.8	1,236.9	5,031.5	(8,412.9	) 2,381.0
Equity:						
Total shareholders equity (deficit)	14.5	1,367.6	4,039.9	3,157.9	(8,565.4	) 14.5
Noncontrolling interests	—	—	—	13.5	—	13.5
Total equity (deficit)	14.5	1,367.6	4,039.9	3,171.4	(8,565.4	) 28.0
Total liabilities and equity	\$ 1,337.2	\$ 4,570.4	\$ 5,276.8	\$ 8,202.9	\$ (16,978.3	) \$ 2,409.0

## ALLEGION PLC

## NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

(Unaudited)

## Condensed and Consolidated Balance Sheet

December 31, 2014

In millions	Allegion plc	Allegion US Holding	Other Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
<b>Current assets:</b>						
Cash and cash equivalents	\$27.1	\$0.5	\$126.3	\$136.6	\$ —	\$290.5
Accounts and notes receivable, net	—	—	115.7	114.7	—	230.4
Inventories	—	—	101.1	68.2	—	169.3
Other current assets	0.4	46.6	15.6	(7.0)	) —	55.6
Assets held for sale	—	—	—	255.9	—	255.9
Accounts receivable affiliates	0.1	15.2	256.4	259.4	(531.1)	) —
<b>Total current assets</b>	<b>27.6</b>	<b>62.3</b>	<b>615.1</b>	<b>827.8</b>	<b>(531.1)</b>	<b>) 1,001.7</b>
Investment in affiliates	917.4	2,336.7	90.6	4,774.7	(8,119.4)	) —
Property, plant and equipment, net	—	—	147.3	59.9	—	207.2
Intangible assets, net	—	—	161.1	448.7	—	609.8
Notes receivable affiliates	—	1,191.9	3,731.2	1,762.9	(6,686.0)	) —
Other noncurrent assets	16.3	10.6	62.3	108.0	—	197.2
<b>Total assets</b>	<b>\$961.3</b>	<b>\$3,601.5</b>	<b>\$4,807.6</b>	<b>\$7,982.0</b>	<b>\$ (15,336.5)</b>	<b>) \$2,015.9</b>
<b>Current liabilities:</b>						
Accounts payable and accruals	\$2.8	\$51.3	\$380.8	\$(55.5)	) \$ —	\$379.4
Short-term borrowings and current maturities of long-term debt	48.8	—	0.1	0.7	—	49.6
Liabilities held for sale	—	—	—	103.5	—	103.5
Accounts and note payable affiliates	0.4	101.1	245.0	184.6	(531.1)	) —
<b>Total current liabilities</b>	<b>52.0</b>	<b>152.4</b>	<b>625.9</b>	<b>233.3</b>	<b>(531.1)</b>	<b>) 532.5</b>
Long-term debt	914.1	300.0	0.1	0.8	—	1,215.0
Note payable affiliate	—	2,778.4	—	3,907.6	(6,686.0)	) —
Other noncurrent liabilities	—	5.8	206.2	37.9	—	249.9
<b>Total liabilities</b>	<b>966.1</b>	<b>3,236.6</b>	<b>832.2</b>	<b>4,179.6</b>	<b>(7,217.1)</b>	<b>) 1,997.4</b>
<b>Equity:</b>						
Total shareholders equity (deficit)	(4.8)	) 364.9	3,975.4	3,779.1	(8,119.4)	) (4.8)
Noncontrolling interests	—	—	—	23.3	—	23.3
<b>Total equity (deficit)</b>	<b>(4.8)</b>	<b>) 364.9</b>	<b>3,975.4</b>	<b>3,802.4</b>	<b>(8,119.4)</b>	<b>) 18.5</b>
<b>Total liabilities and equity</b>	<b>\$961.3</b>	<b>\$3,601.5</b>	<b>\$4,807.6</b>	<b>\$7,982.0</b>	<b>\$ (15,336.5)</b>	<b>) \$2,015.9</b>

ALLEGION PLC  
 NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)  
 (Unaudited)

Condensed and Consolidated Statement of Cash Flows  
 For the nine months ended September 30, 2015

In millions	Allegion plc	Allegion US Holding	Other Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Net cash provided by (used in) continuing operating activities	\$ 31.8	\$ 37.9	\$ 282.8	\$ 207.0	\$ (433.5 )	\$ 126.0
Net cash provided by (used in) discontinued operating activities	—	—	(0.1 )	(0.4 )	—	(0.5 )
Net cash provided by (used in) operating activities	31.8	37.9	282.7	206.6	(433.5 )	125.5
Cash flows from investing activities:						
Capital expenditures	—	—	(22.1 )	(5.2 )	—	(27.3 )
Acquisition of businesses, net of cash acquired	—	—	(31.3 )	(480.1 )	—	(511.4 )
Other investing activities, net	—	—	3.9	0.4	—	4.3
Net cash provided by (used in) investing activities	—	—	(49.5 )	(484.9 )	—	(534.4 )
Cash flows from financing activities:						
Debt repayments, net	355.6	—	—	11.8	—	367.4
Net inter-company proceeds (payments)	(348.0 )	(29.6 )	(55.9 )	433.5	—	—
Dividends paid	—	—	(242.1 )	(191.4 )	433.5	—
Dividends paid to shareholders	(28.7 )	—	—	—	—	(28.7 )
Repurchase of ordinary shares	(30.0 )	—	—	—	—	(30.0 )
Other financing activities, net	2.8	—	—	(10.6 )	—	(7.8 )
Net cash provided by (used in) financing activities	(48.3 )	(29.6 )	(298.0 )	243.3	433.5	300.9
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(7.3 )	—	(7.3 )
Net increase (decrease) in cash and cash equivalents	(16.5 )	8.3	(64.8 )	(42.3 )	—	(115.3 )
Cash and cash equivalents - beginning of period	27.1	0.5	126.3	136.6	—	290.5
Cash and cash equivalents - end of period	\$ 10.6	\$ 8.8	\$ 61.5	\$ 94.3	\$ —	\$ 175.2

ALLEGION PLC  
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS--(Continued)  
(Unaudited)

Condensed and Consolidated Statement of Cash Flows  
For the nine months ended September 30, 2014

In millions	Allegion plc	Allegion US Holding	Other Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Total
Net cash provided by (used in) continuing operating activities	\$ 56.5	\$(13.2 )	\$ 84.3	\$ 132.5	\$ (85.3 )	\$ 174.8
Net cash provided by (used in) discontinued operating activities	—	—	—	(2.8 )	—	(2.8 )
Net cash provided by (used in) operating activities	56.5	(13.2 )	84.3	129.7	(85.3 )	172.0
Cash flows from investing activities:						
Capital expenditures	—	—	(35.1 )	(4.7 )	—	(39.8 )
Acquisition of businesses, net of cash acquired	—	—	—	(23.0 )	—	(23.0 )
Other investing activities, net	(0.1 )	—	0.6	41.4	—	41.9
Net cash provided by (used in) investing activities	(0.1 )	—	(34.5 )	13.7	—	(20.9 )
Cash flows from financing activities:						
Debt repayments, net	—	(22.5 )	—	(40.6 )	—	(63.1 )
Net inter-company proceeds (payments)	—	35.7	14.4	(50.1 )	—	—
Dividends paid	—	—	(23.7 )	(61.6 )	85.3	—
Dividends paid to shareholders	(22.6 )	—	—	—	—	(22.6 )
Repurchase of ordinary shares	(50.3 )	—	—	—	—	(50.3 )
Other, net	16.5	—	—	(1.1 )	—	15.4
Net cash provided by (used in) financing activities	(56.4 )	13.2	(9.3 )	(153.4 )	85.3	(120.6 )
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(6.5 )	—	(6.5 )
Net increase (decrease) in cash and cash equivalents	—	—	40.5	(16.5 )	—	24.0
Cash and cash equivalents - beginning of period	1.4	—	78.8	147.2	—	227.4
Cash and cash equivalents - end of period	\$ 1.4	\$—	\$ 119.3	\$ 130.7	\$—	\$ 251.4

Note 22 – Subsequent Events

In October 2015, the Company reached an agreement to provide severance benefits to certain employees in Italy as part of our previously announced 2015 Italy Restructuring Plan. As a result of the agreement, the Company will record additional severance charges of approximately \$8.4 million. These charges will result in cash expenditures, primarily in 2016.





Table of Contents

## Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause a difference include, but are not limited to, those discussed under Part I, Item 1A – Risk Factors in the Annual Report on Form 10-K for the fiscal year ended December 31, 2014. The following section is qualified in its entirety by the more detailed information, including our condensed and consolidated financial statements and the notes thereto, which appears elsewhere in this Quarterly Report.

## Overview

## Organizational

Allegion plc ("Allegion," "we," "us" or the "Company") is a leading global provider of security products and solutions that keep people safe, secure and productive. We make the world safer as a company of experts, securing the places where people thrive and we create peace of mind by pioneering safety and security. We offer an extensive and versatile portfolio of mechanical and electronic security products across a range of market-leading brands. Our experts across the globe deliver high-quality security products, services and systems and we use our deep expertise to serve as trusted partners to end-users who seek customized solutions to their security needs.

## Recent Developments

## Acquisitions

Through the nine months ended September 30, 2015, we completed six acquisitions or investments:

Business	Month acquired	Primary business segment	Description of business
iDevices	February	Americas	A brand and development partner in the Internet of Things industry. The investment is accounted for using the equity method.
Zero	April	Americas	Manufactures door and window products for commercial spaces and products include sealing systems, such as sound control, fire and smoke protection, threshold applications, lites, door louvers, intumescent products, photo-luminescent and flood barrier for doors.
Brio	May	Asia-Pacific	Designs and manufactures sliding and folding door hardware for commercial and residential spaces.
Milre	July	Asia-Pacific	Produces high-quality and innovative electronic door locks.
SimonsVoss	September	EMEIA	Designs and manufactures electronic locks,
AXA	September	EMEIA	Manufactures and sells a branded portfolio of portable locks and lights as well as a wide variety of window and door hardware.

Total consideration paid for these acquisitions was \$511.4 million (net of cash acquired), paid through cash on hand and borrowings under our Revolver.

For the three and nine months ended September 30, 2015, we incurred \$5.1 million and \$7.1 million of costs related to these acquisitions.

## Divestitures

In the third quarter of 2015 we sold our majority ownership in our Venezuelan operation to Venezuelan investors. As a result of the sale, we recorded a non-cash charge of \$26.1 million, which primarily represents cumulative currency translation adjustments that were deferred in equity and were reclassified to a loss in our Condensed and Consolidated Statement of Comprehensive Income. In the first quarter of 2015 we recorded charges totaling \$7.0 million (before tax and non-controlling interest) related to the adoption of a new exchange rate in Venezuela. As a result of the divestiture, we no longer have significant foreign currency exposures in Venezuela. The assets and liabilities of the Venezuela operation were reclassified to assets and liabilities held for sale within the Condensed and Consolidated Balance Sheets for all periods presented.

In the third quarter of 2015 we entered into an agreement to sell a majority stake of our security system integration business in China ("Bocom"). Under the terms of the transaction, we may receive up to \$75 million based on the future performance of Bocom

## Table of Contents

and we will retain 15% of the shares of Bocom. We currently estimate the fair value of the consideration to be \$70.4 million. The transaction is expected to close in the fourth quarter of this year, subject to regulatory approvals and other customary closing conditions.

We recorded a pre-tax charge of \$80.6 million (\$84.4 million after-tax) in the third quarter of 2015 to write the carrying value of Bocom's assets and liabilities down to their estimated fair value less costs to complete the transaction. Bocom's assets and liabilities were reclassified to assets and liabilities held for sale within the Condensed and Consolidated Balance Sheets for all periods presented.

### Restructuring charges

In the second quarter of 2015, management committed to a restructuring plan in Italy to improve competitive position, ensure long-term viability and enhance customer experience. In conjunction with this plan, we incurred severance and other charges of \$0.6 million and \$4.4 million for the three and nine months ended September 30, 2015.

In October 2015, we reached an agreement to provide severance benefits to certain employees in Italy as part of the restructuring plan. As a result of the agreement, we will record additional severance charges of approximately \$8.4 million. These charges will result in cash expenditures, primarily in 2016.

### 2015 Dividends

Through September 30, 2015, we paid quarterly dividends totaling \$0.30 per ordinary share to shareholders.

### Financing activities

In September 2015, we issued the \$300.0 million 2023 Senior Notes. We used the net proceeds of the offering to repay a portion of the borrowings under our Revolver that were used to fund the acquisitions of SimonsVoss and AXA. The 2023 Senior Notes accrue interest at the rate of 5.875% per annum, payable semi-annually on March 15 and September 15 of each year, beginning March 15, 2016. The 2023 Senior Notes mature on September 15, 2023.

In September 2015, we completed the Second Amendment and Restatement Agreement to our Credit Agreement. The Second Amendment and Restatement, among other things, reduced the applicable margin for LIBOR rate borrowings to range from 1.375% to 1.875% (from 1.50% to 2.00%) and the applicable margin for base rate borrowings to range from 0.375% to 0.875% (from 0.50% to 1.00%) and extended the maturity date of the Revolver and the Term Loan Facility from October 15, 2019 to October 15, 2020.

Table of Contents

## Results of Operations – Three months ended September 30

In millions, except per share amounts	2015	% of revenues	2014	% of revenues
Net revenues	\$544.5		\$546.7	
Cost of goods sold	304.5	55.9	% 310.1	56.7 %
Selling and administrative expenses	129.6	23.8	% 130.5	23.9 %
Operating income	110.4	20.3	% 106.1	19.4 %
Interest expense	13.7		12.7	
Loss on divestitures	106.7		—	
Other (income) expense, net	(3.2 )		(2.0 )	
Earnings (loss) before income taxes	(6.8 )		95.4	
Provision for income taxes	19.4		27.3	
Earnings (loss) from continuing operations	(26.2 )		68.1	
Discontinued operations, net of tax	(0.2 )		(2.0 )	
Net earnings (loss)	(26.4 )		66.1	
Less: Net earnings attributable to noncontrolling interests	0.9		5.3	
Net earnings (loss) attributable to Allegion plc	\$(27.3 )		\$60.8	
Diluted net earnings (loss) per ordinary share attributable to Allegion plc ordinary shareholders:				
Continuing operations	\$(0.28 )		\$0.65	
Discontinued operations	—		(0.02 )	
Net earnings (loss)	\$(0.28 )		\$0.63	

The discussions that follow describe the significant factors contributing to the changes in our results of operations for the periods presented.

## Net Revenues

Net revenues for the three months ended September 30, 2015 decreased by 0.4%, or \$2.2 million, compared with the same period in 2014, which resulted from the following:

Pricing	1.2 %
Volume/product mix	3.9 %
Acquisitions/divestitures	2.0 %
Currency exchange rates	(7.5 )%
Total	(0.4 )%

The decrease in net revenues was primarily driven by unfavorable foreign currency exchange rate movements due to the strengthening of the US dollar against currencies in EMEA and Asia-Pacific as well as the devaluation of the Venezuelan bolivar. These decreases were partially offset by higher volumes, the acquisitions discussed above and improved pricing.

## Operating Income/Margin

Operating income for the three months ended September 30, 2015 increased \$4.3 million compared to the same period in 2014 primarily due to pricing improvements and productivity in excess of inflation (\$14.3 million) and favorable volume/product mix (\$8.9 million). These increases were partially offset by unfavorable foreign currency exchange rate movements (\$12.7 million), increased investment spending (\$4.7 million) primarily for new product development and channel development and costs incurred related to acquisitions in the current year offset by lower restructuring costs compared to the prior year and spin-related costs in the prior year that did not recur in the current year (\$1.5 million).

Operating margin for the three months ended September 30, 2015 increased to 20.3% from 19.4% for the same period in 2014 primarily due to pricing improvements and productivity in excess of inflation (2.6%) and favorable volume/product mix (0.4%).



Table of Contents

These increases were partially offset by unfavorable foreign currency exchange rate movements (0.9%), increased investment spending (0.9%) and costs incurred related to acquisitions in the current year offset by lower restructuring costs compared to the prior year and spin-related costs in the prior year that did not recur in the current year (0.3%).

**Interest Expense**

Interest expense for the three months ended September 30, 2015 increased \$1.0 million compared with the same period of 2014 primarily due to a non-cash charge of approximately \$0.6 million to write-off a portion of unamortized debt issue costs.

**Loss on divestitures**

During the three months ended September 30, 2015 we recorded a non-cash charge of \$26.1 million related to the sale of our majority ownership in our Venezuelan operation to Venezuelan investors, which primarily represents cumulative currency translation adjustments that were deferred in equity and were reclassified to a loss in our Condensed and Consolidated Statement of Comprehensive Income. Additionally, we recorded a pre-tax charge of \$80.6 million (\$84.4 million after-tax) to write the carrying value of Bocom's assets and liabilities down to their estimated fair value less costs to complete the transaction.

**Other (Income) Expense, Net**

The components of Other (income) expense, net for the three months ended September 30, 2015 and 2014 were as follows:

In millions	2015		2014	
Interest income	\$(0.3	)	\$(0.1	)
Exchange gain	(0.2	)	(1.7	)
Other	(2.7	)	(0.2	)
Other (income) expense, net	\$(3.2	)	\$(2.0	)

Other (income) expense, net for the three months ended September 30, 2015 increased \$1.2 million compared to the same period in 2014 primarily due to other investment income received during the quarter.

**Provision for Income Taxes**

The effective income tax rates for the three months ended September 30, 2015 and 2014 were (285.3)% and 28.6%. The effective income tax rate for the three months ended September 30, 2015 was negatively impacted by \$106.7 million (\$110.5 million after-tax) of charges related to the divestiture for our business in Venezuela and the anticipated divestiture of our systems integration business in China. Excluding these charges the effective tax rate for the three months ended September 30, 2015 decreased primarily due to favorable changes in the mix of income earned in lower rate jurisdictions and the favorable resolution of uncertain tax positions in 2015.

**Discontinued Operations**

Other discontinued operations recognized losses of \$0.2 million and \$2.0 million for the three months ended September 30, 2015 and 2014. These were mainly related to the sale of the UK Door Business in the third quarter of 2014 and non-cancelable lease expense and other miscellaneous expenses from previously sold businesses.

Table of Contents

## Results of Operations – Nine months ended September 30

In millions, except per share amounts	2015	% of revenues	2014	% of revenues
Net revenues	\$1,522.7		\$1,544.8	
Cost of goods sold	873.8	57.4	% 890.0	57.6 %
Selling and administrative expenses	371.8	24.4	% 391.6	25.3 %
Operating income	277.1	18.2	% 263.2	17.0 %
Interest expense	36.6		38.3	
Loss on divestitures	106.7		—	
Other (income) expense, net	0.3		(3.1 )	
Earnings before income taxes	133.5		228.0	
Provision for income taxes	50.8		66.8	
Earnings from continuing operations	82.7		161.2	
Discontinued operations, net of tax	(0.4 )		(10.8 )	
Net earnings	82.3		150.4	
Less: Net earnings attributable to noncontrolling interests	0.3		10.6	
Net earnings attributable to Allegion plc	\$82.0		\$139.8	
Diluted net earnings (loss) per ordinary share attributable to Allegion plc ordinary shareholders:				
Continuing operations	\$0.85		\$1.55	
Discontinued operations	—		(0.11 )	
Net earnings	\$0.85		\$1.44	

The discussions that follow describe the significant factors contributing to the changes in our results of operations for the periods presented.

## Net Revenues

Net revenues for the nine months ended September 30, 2015 decreased by 1.4%, or \$22.1 million, compared with the same period in 2014, which resulted from the following:

Pricing	0.8	%
Volume/product mix	4.8	%
Acquisitions/divestitures	1.1	%
Currency exchange rates	(8.1)	)%
Total	(1.4)	)%

The decrease in net revenues was primarily driven by unfavorable foreign currency exchange rate movements due to the strengthening of the US dollar against currencies in EMEIA and Asia-Pacific as well as the devaluation of the Venezuelan bolivar in the fourth quarter of 2014 and first quarter of 2015. These decreases were partially offset by higher volumes and improved pricing primarily in our Americas segment and the acquisitions discussed above.

## Operating Income/Margin

Operating income for the nine months ended September 30, 2015 increased \$13.9 million compared to the same period in 2014 primarily due to favorable volume/product mix (\$29.8 million), pricing improvements and productivity in excess of inflation (\$21.2 million) and lower restructuring costs compared to the prior year and spin-related costs in the prior year that did not recur in the current year offset by costs incurred related to acquisitions in the current year (\$14.3 million). These increases were also partially offset by unfavorable foreign currency exchange rate movements (\$27.2 million), increased investment spending (\$20.0 million) primarily for new product development and channel development and a \$4.2 million non-cash inventory impairment related to the devaluation of the bolivar discussed above.

Table of Contents

Operating margin for the nine months ended September 30, 2015 increased to 18.2% from 17.0% for the same period in 2014 primarily due to pricing improvements and productivity in excess of inflation (1.4%), favorable volume/product mix (0.9%) and lower spin-related and restructuring costs compared to the prior year offset by costs incurred related to acquisitions in the current year (0.9%). These increases were also partially offset by increased investment spending (1.3%), unfavorable foreign currency exchange rate movements (0.4%) and the non-cash inventory impairment related to the devaluation of the Venezuelan bolivar discussed above (0.3%).

**Interest Expense**

Interest expense for the nine months ended September 30, 2015 decreased \$1.7 million compared with the same period of 2014 as a result of refinancing the Senior Secured Credit Facilities in the fourth quarter of 2014.

**Loss on divestitures**

During the nine months ended September 30, 2015 we recorded a non-cash charge of \$26.1 million related to the sale of our majority ownership in our Venezuelan operation to Venezuelan investors, which primarily represents cumulative currency translation adjustments that were deferred in equity and were reclassified to a loss in our Condensed and Consolidated Statement of Comprehensive Income. Additionally, we recorded a pre-tax charge of \$80.6 million (\$84.4 million after-tax) to write the carrying value of Bocom's assets and liabilities down to their estimated fair value less costs to complete the transaction.

**Other (Income) Expense, Net**

The components of Other (income) expense, net for the nine months ended September 30, 2015 and 2014 were as follows:

In millions	2015		2014	
Interest income	\$(1.1	)	\$(0.4	)
Exchange (gain) loss	3.7		(2.3	)
Other	(2.3	)	(0.4	)
Other (income) expense, net	\$0.3		\$(3.1	)

Other (income) expense, net for the nine months ended September 30, 2015 decreased \$3.4 million compared to the same period in 2014. As discussed above, in the first quarter of 2015 we recorded a \$2.8 million loss related to the write down of our Venezuelan bolivar-denominated net monetary assets to reflect the SIMADI rate. This loss is within Exchange (gain) loss in the table above. The remaining decrease in Other (income) expense, net was primarily due to unfavorable currency impacts.

**Provision for Income Taxes**

The effective income tax rates for the nine months ended September 30, 2015 and 2014 were 38.1% and 29.3%. The effective income tax rate for the nine months ended September 30, 2015 was negatively impacted by \$113.6 million (\$117.0 million after-tax) of charges related to the devaluation of the Venezuelan bolivar, the divestiture of the Company's business in Venezuela and the anticipated divestiture of the Company's systems integration business in China. Excluding these charges the effective tax rate for the nine months ended September 30, 2015 decreased primarily due to favorable changes in the mix of income earned in lower rate jurisdictions and the favorable resolution of uncertain tax positions in 2015.

**Discontinued Operations**

Discontinued operations recognized losses of \$0.4 million and \$10.8 million for the nine months ended September 30, 2015 and 2014. These were mainly related to the sale of the UK Door Business in the third quarter of 2014 and non-cancelable lease expense and other miscellaneous expenses from previously sold businesses.

**Review of Business Segments**



We operate in and report financial results for three segments: Americas, EMEIA, and Asia Pacific. These segments represent the level at which our chief operating decision maker reviews company financial performance and makes operating decisions.

Segment operating income is the measure of profit and loss that our chief operating decision maker uses to evaluate the financial performance of the business and as the basis for resource allocation, performance reviews, and compensation. For these reasons,

38

---

Table of Contents

we believe that Segment operating income represents the most relevant measure of segment profit and loss. Our chief operating decision maker may exclude certain charges or gains, such as corporate charges and other special charges from Operating income, to arrive at a Segment operating income that is a more meaningful measure of profit and loss upon which to base our operating decisions. We define Segment operating margin as Segment operating income as a percentage of Net revenues.

The segment discussions that follow describe the significant factors contributing to the changes in results for each segment included in continuing operations.

## Americas

Our Americas segment is a leading provider of security products and solutions in approximately 30 countries throughout North America, Latin America and parts of South America. The segment sells a broad range of products and solutions including, locks, locksets, key systems, door closers, exit devices, doors and door frames, electronic product and access control systems for use in commercial, institutional and residential facilities, including into the education, healthcare, government, commercial office and single and multi-family residential markets. This segment's strategic brands are Schlage, Von Duprin and LCN.

Segment results for the three and nine months ended September 30 were as follows:

Dollar amounts in millions	Three months ended			Nine months ended		
	2015	2014	% change	2015	2014	% change
Net revenues	\$418.9	\$423.1	(1.0)%	\$1,175.3	\$1,169.2	0.5%
Segment operating income	121.7	123.3	(1.3)%	317.8	320.6	(0.9)%
Segment operating margin	29.1	% 29.1	%	27.0	% 27.4	%

Net revenues for the three months ended September 30, 2015 decreased by 1.0%, or \$4.2 million, compared with the same period in 2014, primarily due to unfavorable foreign currency exchange rate movements primarily related to the devaluation of the Venezuelan bolivar as well as a weaker Canadian dollar (6.0%) and the divestiture of our Venezuelan operation offset by revenue from the acquisitions described above (2.0%). These decreases were partially offset by higher volumes (5.9%) and improved pricing (1.1%).

Segment operating income decreased \$1.6 million for the three months ended September 30, 2015 compared to the same period in 2014. The decrease was primarily due to unfavorable foreign currency exchange rate movements (\$10.8 million), increased investment spending (\$3.1 million) primarily on new product development and channel development and costs incurred related to acquisitions in the current year (\$0.4 million). These decreases were partially offset by pricing improvements and productivity in excess of inflation (\$6.4 million) and favorable volume/product mix (\$6.3 million).

Segment operating margin was flat for the three months ended September 30, 2015 compared to the same period of 2014. Unfavorable foreign currency exchange rate movements (0.9%), increased investment spending (0.7%) primarily on new product development and channel development and costs incurred related to acquisitions in the current year (0.1%) were offset by pricing improvements and productivity in excess of inflation (1.4%) and favorable volume/product mix (0.3%).

Net revenues for the nine months ended September 30, 2015 increased by 0.5%, or \$6.1 million, compared with the same period in 2014, primarily due to higher volumes (6.5%) and improved pricing (0.7%) partially offset by unfavorable foreign currency exchange rate movements primarily related to the devaluation of the Venezuelan bolivar as well as a weaker Canadian dollar (6.2%) and the divestiture of our Venezuelan operation offset by revenue from the acquisitions described above (0.5%).

Segment operating income decreased \$2.8 million for the nine months ended September 30, 2015 compared to the same period in 2014. The decrease was primarily due to unfavorable foreign currency exchange rate movements (\$21.3 million), increased investment spending (\$11.1 million) primarily on new product development and channel development, a \$4.2 million non-cash inventory impairment related to the devaluation of the bolivar discussed above and costs incurred related to acquisitions in the current year (\$0.1 million). These decreases were partially offset by favorable volume/product mix (\$26.8 million) and pricing improvements and productivity in excess of inflation (\$7.1 million).

Segment operating margin decreased to 27.0% for the nine months ended September 30, 2015, compared to 27.4% for the same period of 2014. The decrease was primarily due to increased investment spending (1.0%) primarily on new product development and channel development, the non-cash inventory impairment related to the devaluation of the Venezuelan bolivar discussed above

Table of Contents

(0.4%) and unfavorable foreign currency exchange rate movements (0.1%). These decreases were partially offset by favorable volume/product mix (0.6%) and pricing improvements and productivity in excess of inflation (0.5%).

## EMEIA

Our EMEIA segment provides security products and solutions in approximately 85 countries throughout Europe, the Middle East, India and Africa. The segment offers a broad range of products, services and solutions including, locks, locksets, key systems, door closers, exit devices, doors and door frames, electronic product and access control systems, as well as time and attendance and workforce productivity solutions. This segment's strategic brands are CISA and Interflex. This segment also resells Schlage, Von Duprin and LCN products, primarily in the Middle East.

Segment results for the three and nine months ended September 30 were as follows:

Dollar amounts in millions	Three months ended			Nine months ended			
	2015	2014	% change	2015	2014	% change	
Net revenues	\$91.5	\$89.5	2.2	% \$257.1	\$289.9	(11.3)	%
Segment operating income (loss)	5.0	0.4	1,150.0	% 8.1	(4.3)	)	288.4
Segment operating margin	5.5	% 0.4	%	3.2	% (1.5)	)	%

Net revenues for the three months ended September 30, 2015 increased by 2.2%, or \$2.0 million, compared to the same period of 2014, primarily due to revenue from the acquisitions discussed above (14.9%), improved pricing (1.7%) and higher volumes (0.5%). These increases were partially offset by unfavorable foreign currency exchange rate movements (14.9%).

Segment operating income increased \$4.6 million for the three months ended September 30, 2015 compared to the same period in 2014. The increase was primarily due to pricing improvements and productivity resulting from 2014 restructuring actions in excess of inflation (\$4.5 million) and favorable volume/product mix and the impact of acquisitions (\$1.8 million). These increases were partially offset by unfavorable foreign currency exchange rate movements (\$1.2 million) and increased investment spending (\$0.5 million).

Segment operating margin increased to 5.5% for the three months ended September 30, 2015, compared to 0.4% for the same period of 2014. The increase in operating margin was primarily due to pricing improvements and productivity in excess of inflation (5.3%) and favorable volume/product mix and the impact of acquisitions (1.7%). These increases were partially offset by unfavorable foreign currency exchange rate movements (1.4%) and increased investment spending (0.5%).

Net revenues for the nine months ended September 30, 2015 decreased by 11.3%, or \$32.8 million, compared to the same period of 2014, primarily due to unfavorable foreign currency exchange rate movements (16.3%) and lower volumes (0.5%). These decreases were partially offset by revenue from the acquisitions discussed above (4.1%) and improved pricing (1.4%).

Segment operating income increased \$12.4 million for the nine months ended September 30, 2015 compared to the same period in 2014. The increase was primarily due to pricing improvements and productivity resulting from 2014 restructuring actions in excess of inflation (\$13.8 million), lower restructuring costs compared to the prior year and spin-related costs in the prior year that did not recur in the current year (\$4.1 million) and favorable volume/product mix and the impact of acquisitions (\$0.8 million). These increases were partially offset by unfavorable foreign currency exchange rate movements (\$4.3 million) and increased investment spending (\$2.0 million).

Segment operating margin increased to 3.2% for the nine months ended September 30, 2015, compared to (1.5)% for the same period of 2014. The increase in operating margin was primarily due to pricing improvements and

productivity in excess of inflation (5.6%), lower restructuring costs compared to the prior year and spin-related costs in the prior year that did not recur in the current year (1.4%) and favorable volume/product mix and the impact of acquisitions (0.4%). These increases were partially offset by unfavorable foreign currency exchange rate movements (2.0%) and increased investment spending (0.7%).

#### Asia Pacific

Our Asia Pacific segment provides security products and solutions in approximately 14 countries throughout the Asia Pacific region. The segment offers a broad range of products, services and solutions including, locks, locksets, key systems, door closers, exit devices, electronic product and access control systems, and as well as video analytics solutions. This segment's strategic brands are Schlage, CISA, Von Duprin and LCN.

Table of Contents

Segment results for the three and nine months ended September 30 were as follows:

Dollar amounts in millions	Three months ended			Nine months ended						
	2015	2014	% change	2015	2014	% change				
Net revenues	\$34.1	\$34.1	—	% \$90.3	\$85.7	5.4	%			
Segment operating income (loss)	0.3	(0.5	)	160.0	% (3.7	)	(7.0	)	47.1	%
Segment operating margin	0.9	% (1.5	)	%	(4.1	)	% (8.2	)	%	

Net revenues for the three months ended September 30, 2015 were flat compared to the same period of 2014 primarily due to revenue provided by the acquisitions discussed above (17.8%) and improved pricing (0.3%) offset by decreased volume primarily in our systems integration business (10.5%) and unfavorable foreign currency exchange rate movements (7.6%).

Segment operating income increased \$0.8 million for the three months ended September 30, 2015 compared to the same period in 2014. The increase was primarily related to pricing improvements and productivity in excess of inflation (\$1.0 million) and favorable volume/product mix mainly due to the acquisitions discussed above (\$1.0 million). These increases were partially offset by unfavorable foreign currency exchange rate movements (\$0.7 million), costs incurred related to acquisitions in the current year (\$0.4 million) and increased investment spending (\$0.1 million).

Segment operating margin increased to 0.9% for the three months ended September 30, 2015, compared to (1.5)% for the same period of 2014. The increase was primarily related to pricing improvements and productivity in excess of inflation (3.4%) and favorable volume/product mix mainly due to the acquisitions discussed above (2.7%). These increases were partially offset by unfavorable foreign currency exchange rate movements (2.4%), costs incurred related to acquisitions in the current year (1.0%) and increased investment spending (0.3%).

Net revenues for the nine months ended September 30, 2015 increased by 5.4%, or \$4.6 million, compared to the same period of 2014, primarily due to revenue provided by the acquisitions discussed above (12.3%) and improved pricing (0.3%) offset by unfavorable foreign currency exchange rate movements (5.9%) and decreased volume primarily in our systems integration business(1.3%).

Segment operating loss decreased \$3.3 million for the nine months ended September 30, 2015 compared to the same period in 2014. The decrease was primarily related to favorable volume/product mix mainly due to the acquisitions discussed above (\$2.1 million) and pricing improvements and productivity in excess of inflation (\$1.9 million). Additionally, operating loss in the prior year included a \$2.5 million charge to increase the allowance for doubtful accounts and operating loss for the current year included a \$1.3 million charge to increase the allowance for doubtful accounts. These decreases were partially offset by unfavorable foreign currency exchange rate movements (\$1.7 million) and increased investment spending (\$0.2 million).

Segment operating margin increased to (4.1)% for the nine months ended September 30, 2015, compared to (8.2)% for the same period of 2014. The increase was primarily related to favorable volume/product mix mainly due to the acquisitions discussed above (3.0%) and pricing improvements and productivity in excess of inflation (2.5%). Additionally, operating margin in the prior year included a \$2.5 million charge to increase the allowance for doubtful accounts and operating loss for the current year included a \$1.3 million charge to increase the allowance for doubtful accounts (1.4%). These increases were partially offset by unfavorable foreign currency exchange rate movements (2.6%) and increased investment spending (0.2%).

## Liquidity and Capital Resources

### Sources and uses of liquidity

Our primary source of liquidity is cash provided by operating activities. Cash provided by operating activities is used to invest in new product development and channel development, fund capital expenditures and fund working capital requirements and is expected to be adequate to service any future debt, pay any declared dividends and potentially fund some acquisitions and share repurchases. Our ability to fund these capital needs depends on our ongoing ability to generate cash provided by operating activities, and to access our borrowing facilities (including unused availability under our revolving line of credit) and capital markets. We believe that our future cash provided by operating activities, together with our access to cash on hand, unused availability under our revolving line of credit and access to capital markets will provide adequate resources to fund our operating and financing needs.

Table of Contents

The following table reflects the major categories of cash flows for the nine months ended September 30. For additional details, see the Condensed and Consolidated Statements of Cash Flows in the condensed and consolidated financial statements.

In millions	2015	2014
Operating cash flow provided by continuing operations	\$126.0	\$174.8
Investing cash flow used in continuing operations	(534.4	) (20.9
Financing cash flow provided by (used in) continuing operations	300.9	(120.6
Operating Activities		)

Net cash provided by continuing operating activities during the nine months ended September 30, 2015 decreased \$48.8 million compared to the same period in 2014. The decrease in net cash provided by operating activities in 2015 compared to 2014 was primarily due to an increase in one-time cash taxes paid, an increased use of working capital in our systems integration business as well as an increase in other uses of working capital.

**Investing Activities**

Net cash used in continuing investing activities during the nine months ended September 30, 2015 increased \$513.5 million compared to the same period in 2014. The change in net cash used in investing activities is primarily due cash payments related to acquisitions and investments in 2015 of \$511.4 million offset by a decrease in capital expenditures during the nine months ended September 30, 2015. The nine months ended September 30, 2014 included the release of \$40.2 million of restricted cash to repay a short term note payable offset by a cash payment of \$23.0 million for the acquisition of Schlage de Colombia and Fire & Security Hardware Pty Limited.

**Financing Activities**

Net cash provided by continuing financing activities during the nine months ended September 30, 2015 increased \$421.5 million compared to the same period in 2014. The increase in cash provided by financing activities is primarily due to an increase in debt borrowings. We received \$300.0 million of proceeds from the issuance of the 2023 Senior Notes and borrowed \$80.0 million (net) on the Revolver to partially finance the purchases of Simons Voss and AXA in the third quarter of 2015. Net repayments of other debt totaled \$12.6 million for the nine months ended September 30, 2015. In the prior year we made \$63.1 million of debt repayments. Cash used in other financing activities increased \$9.1 million for the nine months ended September 30, 2015 compared to the same period in the prior year primarily due to \$9.0 million of debt issuance costs paid for the issuance of our 2023 Senior Notes and the Second Amendment and Restatement to our Senior Secured Credit Facility.

**Capitalization**

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

In millions	September 30, 2015	December 31, 2014
Term Loan Facility due 2020	\$938.4	\$962.8
Revolver Facility due 2020	80.0	—
5.75% Senior notes due 2021	300.0	300.0
5.875% Senior notes due 2023	300.0	—
Other debt, including capital leases, maturing in various amounts through 2028	16.5	1.8
Total debt	\$1,634.9	\$1,264.6
Less: current portion of long term debt	59.0	49.6
	\$1,575.9	\$1,215.0

The Term Loan Facility amortizes in quarterly installments, at the following rates per year: 1.25% in 2015; 5% in 2016, 5% in 2017, 5% in 2018, and 10% in each year thereafter, with the final installment due on October 15, 2020.



We repaid \$24.4 million on the Term Loan Facility as of the nine months ended September 30, 2015. The 2021 Senior Notes are due in full on October 1, 2021 and the 2023 Senior Notes are due in full on September 15, 2023.

## Table of Contents

We have a 5-year, \$500.0 million revolving credit facility maturing on October 15, 2020. During August 2015, we borrowed \$400.0 million under the Revolver in order to fund a portion of the acquisitions of SimonsVoss and AXA. We repaid \$320.0 million of the outstanding Revolver balance during September 2015. At September 30, 2015, we had \$80.0 million outstanding under the Revolver and had \$27.4 million of letters of credit outstanding.

We are required to comply with certain covenants under our Senior Secured Credit Facilities. We are required to comply with a maximum leverage ratio of 4.00 to 1.00 based on a ratio of total consolidated indebtedness, net of unrestricted cash up to \$150 million, to consolidated EBITDA. Additionally, we are required to have a minimum interest expense coverage ratio of 4.00 to 1.00 based on a ratio of consolidated EBITDA to consolidated interest expense, net of interest income. As of September 30, 2015, we were in compliance with these covenants. The indenture to our senior notes and the senior secured credit facilities contain affirmative and negative covenants that, among other things, limit or restrict our ability to enter into certain transactions.

## Pensions

Our investment objective in managing defined benefit plan assets is to ensure that all present and future benefit obligations are met as they come due. We seek to achieve this goal while trying to mitigate volatility in plan funded status, contribution and expense by better matching the characteristics of the plan assets to that of the plan liabilities. Global asset allocation decisions are based on a dynamic approach whereby a plan's allocation to fixed income assets increases progressively over time. We monitor plan funded status and asset allocation regularly in addition to investment manager performance.

We monitor the impact of market conditions on our defined benefit plans on a regular basis. None of our defined benefit pension plans have experienced a significant impact on their liquidity due to the volatility in the markets. For further details on pension plan activity, see Note 10 to the condensed and consolidated financial statements.

For a further discussion of Liquidity and Capital Resources, refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained in the Company's Annual Report on Form 10-K for the period ended December 31, 2014.

## Critical Accounting Policies

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our condensed and consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of financial statements in conformity with those accounting principles requires management to use judgments in making estimates and assumptions based on the relevant information available at the end of each period. These estimates and assumptions have a significant effect on reported amounts of assets and liabilities, revenue and expenses, as well as the disclosure of contingent assets and liabilities because they result primarily from the need to make estimates and assumptions on matters that are inherently uncertain. Actual results may differ from estimates.

Management believes there have been no significant changes during the nine months ended September 30, 2015, to the items that we disclosed as our critical accounting policies in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2014.

## Recent Accounting Pronouncements

See Note 2 to our Condensed and Consolidated Financial Statements for a discussion of recently issued and adopted accounting pronouncements.

Table of Contents

Safe Harbor Statement

Certain statements in this report, other than purely historical information, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements generally are identified by the words “believe,” “project,” “expect,” “anticipate,” “estimate,” “forecast,” “outlook,” “intend,” “strategy,” “plan,” “may,” “show,” “will be,” “will continue,” “will likely result,” or the negative thereof or variations thereon or similar terminology generally intended to identify forward-looking statements.

Forward-looking statements may relate to such matters as projections of revenue, margins, expenses, tax provisions, earnings, cash flows, benefit obligations, dividends, share purchases or other financial items; any statements of the plans, strategies and objectives of management for future operations, including those relating to any statements concerning expected development, performance or market share relating to our products and services; any statements regarding future economic conditions or our performance; any statements regarding pending investigations, claims or disputes; any statements of expectation or belief; and any statements of assumptions underlying any of the foregoing. These statements are based on currently available information and our current assumptions, expectations and projections about future events. While we believe that our assumptions, expectations and projections are reasonable in view of the currently available information, you are cautioned not to place undue reliance on our forward-looking statements. You are advised to review any further disclosures we make on related subjects in materials we file with or furnish to the SEC. Forward-looking statements speak only as of the date they are made and are not guarantees of future performance. They are subject to future events, risks and uncertainties - many of which are beyond our control - as well as potentially inaccurate assumptions, that could cause actual results to differ materially from those in our forward looking statements. We do not undertake to update any forward-looking statements.

Factors that might affect our forward-looking statements include, among other things:

- economic, political and business conditions in the markets in which we operate;
- the demand for our products and services;
- competitive factors in the industry in which we compete;
- the ability to protect and use intellectual property;
- fluctuations in currency exchange rates
- the ability to complete and integrate any acquisitions
- changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations);
- the outcome of any litigation, governmental investigations or proceedings;
- interest rate fluctuations and other changes in borrowing costs;
- other capital market conditions, including availability of funding sources and currency exchange rate fluctuations;
- availability of and fluctuations in the prices of key commodities and the impact of higher energy prices;
- the ability to achieve cost savings in connection with our productivity programs;
- potential further impairment of our goodwill, indefinite-lived intangible assets and/or our long-lived assets;
- the possible effects on us of future legislation in the U.S. that may limit or eliminate potential U.S. tax benefits resulting from our incorporation in a non-U.S. jurisdiction, such as Ireland, or deny U.S. government contracts to us based upon our incorporation in such non-U.S. jurisdiction; and
- our ability to fully realize the expected benefits of our spin-off from Ingersoll Rand.
- the impact of potential technology or data security breaches
- the impact our substantial leverage may have on our business and operations

Some of the significant risks and uncertainties that could cause actual results to differ materially from our expectations and projections are described more fully in the “Risk Factors” section of this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the fiscal year ended December 31, 2014. There may also be other factors that have not been anticipated or that are not described in our periodic filings with the SEC, generally because we did not

believe them to be significant at the time, which could cause results to differ materially from our expectations.

44

---

Table of Contents

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

Venezuela is treated as a highly inflationary economy under GAAP. As a result, the U.S. dollar is the functional currency for our consolidated joint venture in Venezuela. Any currency remeasurement adjustments for non-U.S. dollar denominated monetary assets and liabilities and other transactional foreign exchange gains and losses are reflected in earnings.

As of December 31, 2014, we began applying the SICAD II exchange rate of approximately 50 bolivars per US dollar to remeasure local currency transactions and balances into US dollars. In February 2015, the Venezuelan government announced changes to its exchange rate system that included the launch of a new, market-based system called the Marginal Currency System, or “SIMADI,” that replaced the SICAD II rate. We adopted the SIMADI rate after its introduction and recorded a charge of \$7.0 million (before tax and non-controlling interest). The charge includes remeasurement of net monetary assets (\$2.8 million) and a non-cash impairment charge to adjust Venezuelan inventory balances (\$4.2 million).

In August 2015, we sold our operation in Venezuela to Venezuelan investors. As a result of the sale, we no longer have any material foreign currency exposures in Venezuela.

There have been no other significant changes in our exposure to market risk during the third quarter of 2015. For a discussion of the Company’s exposure to market risk, refer to Part II, Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Item 4 – Controls and Procedures

The Company’s management, including its Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded as of September 30, 2015, that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this Quarterly Report on Form 10-Q has been recorded, processed, summarized and reported when required and the information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There has been no change in the Company’s internal control over financial reporting that occurred during the third quarter of 2015 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Table of Contents

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

In the normal course of business, we are involved in a variety of lawsuits, claims and legal proceedings, including commercial and contract disputes, employment matters, product liability claims, environmental liabilities, intellectual property disputes and tax-related matters. In our opinion, pending legal matters are not expected to have a material adverse impact on our results of operations, financial condition, liquidity or cash flows.

Item 1A – Risk Factors

There have been no material changes to our risk factors contained in our Annual Report on Form 10-K for the period ended December 31, 2014. For a further discussion of our Risk Factors, refer to the “Risk Factors” discussion contained in our Annual Report on Form 10-K for the period ended December 31, 2014.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

There have been no unregistered offerings nor any repurchases of our ordinary shares during the third quarter of 2015. In February 2014, our Board of Directors authorized the repurchase of up to \$200 million of our ordinary shares. Based on market conditions, share repurchases are made from time to time in the open market at the discretion of management. The repurchase program does not have a prescribed expiration date.

To preserve the tax-free treatment to Ingersoll Rand of the spin-off, under the Tax Matters Agreement, we are prohibited from taking or failing to take any action that prevents the spin-off and related transactions from being tax-free. We may not engage in privately negotiated transactions to acquire our outstanding shares or acquire more than 20% of our outstanding shares within two years after the spin-off. We believe that we will be able to execute the authorized share repurchases and preserve the tax-free treatment of the spin-off. However, if we are unable to preserve the tax-free treatment, any taxes imposed on us could be significant.

Table of Contents

## Item 6 – Exhibits

## (a) Exhibits

Exhibit No.	Description	Method of Filing
1.1	Underwriting Agreement, dated as of September 11, 2015, among Allegion plc, the guarantors party thereto and J.P. Morgan Securities LLC.	Incorporated by reference to Exhibit 1.1 to the Company's Form 8-K filed with the SEC on September 16, 2015 (File No. 001-35971).
4.1	Indenture, dated as of September 16, 2015, among Allegion plc, the guarantors party thereto and Wells Fargo Bank, National Association.	Incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed with the SEC on September 16, 2015 (File No. 001-35971).
4.2	Form of Global Note representing the Notes (included in Exhibit 4.1).	Incorporated by reference to Exhibit 4.2 to the Company's Form 8-K filed with the SEC on September 16, 2015 (File No. 001-35971).
10.1	Second Amendment and Restatement Agreement by and among Allegion plc, as the Borrower, Allegion US Holding Company Inc., as the Co-Borrower, the Lenders and Issuing Banks party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent, dated September 30, 2015.	Incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed with the SEC on September 30, 2015 (File No. 001-35971).
12.1	Ratio of Earnings to Fixed Charges	Filed herewith.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed and Consolidated Statements of Comprehensive Income, (ii) the Condensed and Consolidated Balance Sheets, (iii) the Condensed	Filed herewith.



and Consolidated Statement of Cash Flows, and  
(iv) Notes to Condensed and Consolidated  
Financial Statements.

Table of Contents

ALLEGION PLC

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ALLEGION PLC  
(Registrant)

Date: October 29, 2015

/s/ Patrick S. Shannon  
Patrick S. Shannon, Senior Vice President  
and Chief Financial Officer  
Principal Financial Officer

Date: October 29, 2015

/s/ Douglas P. Ranck  
Douglas P. Ranck Vice President and  
Corporate Controller  
Principal Accounting Officer

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
1.1	Underwriting Agreement, dated as of September 11, 2015, among Allegion plc, the guarantors party thereto and J.P. Morgan Securities LLC.
4.1	Indenture, dated as of September 16, 2015, among Allegion plc, the guarantors party thereto and Wells Fargo Bank, National Association.
4.2	Form of Global Note representing the Notes (included in Exhibit 4.1).
10.1	Second Amendment and Restatement Agreement by and among Allegion plc, as the Borrower, Allegion US Holding Company Inc., as the Co-Borrower, the Lenders and Issuing Banks party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent, dated September 30, 2015.
12.1	Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) or Rule 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed and Consolidated Statements of Comprehensive Income, (ii) the Condensed and Consolidated Balance Sheets, (iii) the Condensed and Consolidated Statement of Cash Flows, and (iv) Notes to Condensed and Consolidated Financial Statements.
49	