

ALLEGION PLC

FORM 10-Q (Quarterly Report)

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

FORM 10-Q

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

For the quarterly period ended June 30, 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

*(State or other jurisdiction of
incorporation or organization)*

98-1108930

*(I.R.S. Employer
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 Accelerated filer

Non-accelerated filer Smaller reporting company

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

The number of ordinary shares outstanding of Allegion plc as of July 27, 2015 was 95,812,288 .

ALLEGION PLC

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PART I-FINANCIAL INFORMATION
Item 1. Financial Statements
ALLEGION PLC
CONDENSED AND CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

<i>In millions, except per share amounts</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net revenues	\$ 519.5	\$ 531.5	\$ 978.2	\$ 998.1
Cost of goods sold	297.7	305.5	569.3	579.9
Selling and administrative expenses	126.1	136.7	242.2	261.1
Operating income	95.7	89.3	166.7	157.1
Interest expense	11.3	12.5	22.9	25.6
Other (income) expense, net	0.4	(1.0)	3.5	(1.1)
Earnings before income taxes	84.0	77.8	140.3	132.6
Provision for income taxes	19.0	23.1	31.4	39.5
Earnings from continuing operations	65.0	54.7	108.9	93.1
Discontinued operations, net of tax	—	(8.0)	(0.2)	(8.8)
Net earnings	65.0	46.7	108.7	84.3
Less: Net earnings (loss) attributable to noncontrolling interests	1.1	3.5	(0.6)	5.3
Net earnings attributable to Allegion plc	\$ 63.9	\$ 43.2	\$ 109.3	\$ 79.0
Amounts attributable to Allegion plc ordinary shareholders:				
Continuing operations	\$ 63.9	\$ 51.2	\$ 109.5	\$ 87.8
Discontinued operations	—	(8.0)	(0.2)	(8.8)
Net earnings	\$ 63.9	\$ 43.2	\$ 109.3	\$ 79.0
Earnings (loss) per share attributable to Allegion plc ordinary shareholders:				
Basic:				
Continuing operations	\$ 0.67	\$ 0.53	\$ 1.14	\$ 0.91
Discontinued operations	—	(0.08)	—	(0.09)
Net earnings	\$ 0.67	\$ 0.45	\$ 1.14	\$ 0.82
Diluted:				
Continuing operations	\$ 0.66	\$ 0.53	\$ 1.13	\$ 0.90
Discontinued operations	—	(0.09)	—	(0.09)
Net earnings	\$ 0.66	\$ 0.44	\$ 1.13	\$ 0.81
Weighted-average shares outstanding				
Basic	95.8	96.3	95.8	96.3
Diluted	96.7	97.3	96.9	97.4
Dividends declared per ordinary share	\$ 0.10	\$ 0.08	\$ 0.20	\$ 0.16
Total comprehensive income	\$ 70.5	\$ 52.5	\$ 83.8	\$ 76.1
Less: Total comprehensive income (loss) attributable to noncontrolling interests	1.1	3.5	(0.6)	4.5
Total comprehensive income attributable to Allegion plc	\$ 69.4	\$ 49.0	\$ 84.4	\$ 71.6

See accompanying notes to condensed and consolidated financial statements.

ALLEGION PLC
CONDENSED AND CONSOLIDATED BALANCE SHEETS
(Unaudited)

<i>In millions</i>	June 30, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 201.0	\$ 290.5
Accounts and notes receivable, net	274.7	259.9
Costs in excess of billings on uncompleted contracts	186.4	181.1
Inventories	205.9	179.5
Other current assets	55.2	62.8
Total current assets	923.2	973.8
Property, plant and equipment, net	207.8	211.2
Goodwill	527.5	506.0
Intangible assets, net	122.5	125.7
Other noncurrent assets	208.6	199.2
Total assets	<u>\$ 1,989.6</u>	<u>\$ 2,015.9</u>
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 233.8	\$ 249.5
Accrued expenses and other current liabilities	183.4	232.2
Short-term borrowings and current maturities of long-term debt	61.8	49.6
Total current liabilities	479.0	531.3
Long-term debt	1,190.5	1,215.0
Other noncurrent liabilities	247.4	251.1
Total liabilities	<u>1,916.9</u>	<u>1,997.4</u>
Equity:		
Allegion plc shareholders' equity (deficit):		
Ordinary shares	1.0	1.0
Capital in excess of par value	12.3	—
Retained earnings	207.1	142.4
Accumulated other comprehensive loss	(173.1)	(148.2)
Total Allegion plc shareholders' equity (deficit)	47.3	(4.8)
Noncontrolling interests	25.4	23.3
Total equity	<u>72.7</u>	<u>18.5</u>
Total liabilities and equity	<u>\$ 1,989.6</u>	<u>\$ 2,015.9</u>

See accompanying notes to condensed and consolidated financial statements.

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

<i>In millions</i>	Six months ended	
	June 30,	
	2015	2014
Cash flows from operating activities:		
Net earnings	108.7	84.3
Discontinued operations, net of tax	0.2	8.8
Adjustments to arrive at net cash provided by (used in) operating activities:		
Depreciation and amortization	24.8	24.4
Changes in assets and liabilities and other non-cash items	(100.3)	(52.1)
Net cash provided by continuing operating activities	33.4	65.4
Net cash used in discontinued operating activities	(0.2)	(1.6)
Net cash provided by operating activities	33.2	63.8
Cash flows from investing activities:		
Capital expenditures	(18.6)	(26.0)
Acquisition of and equity investments in businesses, net of cash acquired	(52.0)	(23.0)
Other investing activities, net	4.1	40.8
Net cash used in investing activities	(66.5)	(8.2)
Cash flows from financing activities:		
Short-term borrowings, net	12.2	(40.2)
Payments of long-term debt	(24.4)	(15.0)
Debt repayments, net	(12.2)	(55.2)
Dividends paid to ordinary shareholders	(19.1)	(14.9)
Repurchase of ordinary shares	(30.0)	(30.3)
Other financing activities, net	8.7	14.6
Net cash used in continuing financing activities	(52.6)	(85.8)
Effect of exchange rate changes on cash and cash equivalents	(3.6)	(4.0)
Net decrease in cash and cash equivalents	(89.5)	(34.2)
Cash and cash equivalents - beginning of period	290.5	227.4
Cash and cash equivalents - end of period	\$ 201.0	\$ 193.2

See accompanying notes to condensed and consolidated financial statements.

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. The adoption of ASU 2014-08 did not have a significant impact on the Condensed and Consolidated Financial Statements.

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. ASU 2014-15 will be effective in

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

the 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." This standard 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. It 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 June 30, 2015 the Company had \$22.3 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 standard 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.

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:

<i>In millions</i>	June 30, 2015	December 31, 2014
Raw materials	\$ 65.0	\$ 54.8
Work-in-process	45.4	32.1
Finished goods	95.5	92.6
Total	<u>\$ 205.9</u>	<u>\$ 179.5</u>

Note 4 – Goodwill

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

<i>In millions</i>	Americas	EMEIA	Asia Pacific	Total
December 31, 2014 (gross)	\$ 364.8	\$ 533.1	\$ 93.6	\$ 991.5
Accumulated impairment	—	(478.6)	(6.9)	(485.5)
December 31, 2014 (net)	<u>364.8</u>	<u>54.5</u>	<u>86.7</u>	<u>506.0</u>
Acquisitions	9.2	4.0	15.9	29.1
Currency translation	(0.1)	(3.4)	(4.1)	(7.6)
June 30, 2015 Goodwill (net)	<u>\$ 373.9</u>	<u>\$ 55.1</u>	<u>\$ 98.5</u>	<u>\$ 527.5</u>

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

Note 5 – Intangible Assets

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

<i>In millions</i>	June 30, 2015			December 31, 2014		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Completed technologies/patents	\$ 26.7	\$ (22.6)	\$ 4.1	\$ 27.8	\$ (23.2)	\$ 4.6
Customer relationships	95.3	(36.0)	59.3	94.7	(37.0)	57.7
Trademarks (finite-lived)	82.6	(34.9)	47.7	89.3	(36.0)	53.3
Other	10.2	(10.2)	—	10.8	(10.8)	—
Total finite-lived intangible assets	214.8	\$ (103.7)	111.1	222.6	\$ (107.0)	115.6
Trademarks (indefinite-lived)	11.4		11.4	10.1		10.1
Total	\$ 226.2		\$ 122.5	\$ 232.7		\$ 125.7

Intangible asset amortization expense was \$3.8 million and \$4.9 million for the six months ended June 30, 2015 and 2014, respectively. Future estimated amortization expense on existing intangible assets in each of the next five years amounts to approximately \$ 7.6 million for full year 2015, \$ 7.6 million for 2016, \$ 7.6 million for 2017, \$ 7.6 million for 2018, and \$ 7.6 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.

Total consideration paid for the acquisitions of Zero and Brio was \$43.0 million. These acquisitions were not material to the Company's condensed and consolidated financial statements, either individually or in the aggregate, and therefore actual and proforma disclosures under the applicable accounting guidance have not been presented. The summary of net tangible and intangible assets acquired is as follows:

	Total
Net tangible assets acquired	\$ 5.5
Intangible assets and goodwill acquired	37.5
Total cash consideration	\$ 43.0

The purchase price allocations for the Zero and Brio acquisitions are pending completion of valuations for certain acquired intangible assets, finalization of working capital adjustments and calculation of deferred tax balances. The Company expects these items to be completed in the second half of 2015. These acquisitions are accounted for as business combinations.

In June 2015, the Company signed a definitive agreement to acquire SimonsVoss Technologies GmbH ("SimonsVoss") for approximately \$236.0 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. The Company plans to fund the acquisition through existing cash on hand and borrowings under its Senior Secured Revolving Credit Facility. The Company expects the transaction to close in the third quarter of 2015, subject to regulatory approval.

Note 7 – Debt and Credit Facilities

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

<i>In millions</i>	June 30, 2015	December 31, 2014
Term Loan Facility due 2019	\$ 938.4	\$ 962.8
5.75% Senior notes due 2021	300.0	300.0
Other debt, including capital leases, maturing in various amounts through 2016	13.9	1.8
Total debt	1,252.3	1,264.6
Less: current portion of long term debt	61.8	49.6
	<u>\$ 1,190.5</u>	<u>\$ 1,215.0</u>

Senior Secured Credit Facilities

The Company has a credit agreement providing for (i) a \$975.0 million Senior Secured Term Loan Facility maturing on October 15, 2019 (the "Term Loan Facility") and (ii) a \$500.0 million Senior Secured Revolving Credit Facility (the "Revolver") maturing in 2018. 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.

Outstanding borrowings under the Senior Secured Credit Facilities currently accrue interest at LIBOR plus an applicable margin. The applicable margin for borrowings under the Revolver and the Term Loan Facility is subject to a credit facility rating-based pricing grid with the LIBOR ranging from 1.50% to 2.00% . The margin for the Term Loan Facility borrowings was 1.75% as of June 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 \$975.0 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.

The Company repaid \$24.4 million of principal on its Term Loan Facility during the six months ended June 30, 2015 in accordance with the terms of its senior secured credit facility. At June 30, 2015 , the Company did not have any borrowings outstanding under the Revolver and had \$27.3 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 "Senior Notes"). The 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 Senior Notes mature on October 1, 2021.

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

Note 8 – 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

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

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.

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 \$ 244.8 million and \$ 494.5 million at June 30, 2015 and December 31, 2014 , respectively. At June 30, 2015 and December 31, 2014 , gains of \$ 0.8 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 \$ 0.8 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 June 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 \$975.0 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 June 30, 2015 , \$2.0 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:

<i>In millions</i>	Asset derivatives		Liability derivatives	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Derivatives designated as hedges:				
Currency derivatives	\$ 1.4	\$ 2.1	\$ —	\$ —
Interest rate swaps	—	—	2.0	0.9
Derivatives not designated as hedges:				
Currency derivatives	0.3	2.2	3.2	13.9
Total derivatives	\$ 1.7	\$ 4.3	\$ 5.2	\$ 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 six months ended June 30 were as follows:

<i>In millions</i>	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	\$ 4.2	\$ (0.7)	Cost of goods sold	\$ 4.7	\$ 0.6
Interest rate swaps	(1.1)	(0.4)	Interest expense	—	—
Total	\$ 3.1	\$ (1.1)		\$ 4.7	\$ 0.6

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 9 – 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 six months ended June 30 were as follows:

<i>In millions</i>	U.S.			
	Three months ended		Six months ended	
	2015	2014	2015	2014
Service cost	\$ 2.3	\$ 1.8	\$ 4.7	\$ 3.6
Interest cost	2.8	2.8	5.5	5.6
Expected return on plan assets	(2.9)	(2.8)	(5.7)	(5.6)
Net amortization of:				
Prior service costs	0.2	0.2	0.4	0.4
Plan net actuarial losses	1.2	0.5	2.3	1.0
Net periodic pension benefit cost	\$ 3.6	\$ 2.5	\$ 7.2	\$ 5.0
Net settlement losses	—	—	0.6	—
Net periodic pension benefit cost after settlement losses	\$ 3.6	\$ 2.5	\$ 7.8	\$ 5.0

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

<i>In millions</i>	Non-U.S.			
	Three months ended		Six months ended	
	2015	2014	2015	2014
Service cost	\$ 0.9	\$ 1.1	\$ 1.7	\$ 2.3
Interest cost	3.5	4.4	6.9	8.7
Expected return on plan assets	(4.5)	(4.4)	(8.9)	(8.7)
Amortization of plan net actuarial losses	0.3	0.7	0.7	1.4
Net periodic pension benefit cost	\$ 0.2	\$ 1.8	\$ 0.4	\$ 3.7

The Company made employer contributions of \$0.2 million and \$ 0.5 million during the six months ended June 30, 2015 and 2014 to its defined benefit pension plans. Additional contributions of approximately \$5.0 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 six months ended June 30 were as follows:

<i>In millions</i>	Three months ended		Six months ended	
	2015	2014	2015	2014
Service cost	\$ 0.1	\$ —	\$ 0.1	\$ 0.1
Interest cost	0.1	0.2	0.2	0.3
Amortization of prior service gains	(0.4)	(0.4)	(0.8)	(0.8)
Net periodic postretirement benefit income	\$ (0.2)	\$ (0.2)	\$ (0.5)	\$ (0.4)

Note 10 – 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.

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

<i>In millions</i>	Fair value measurements			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total fair value
<u>Recurring fair value measurements</u>				
<i>Assets:</i>				
Marketable securities	\$ 23.2	\$ —	\$ —	\$ 23.2
Foreign currency contracts	—	1.7	—	1.7
Total asset recurring fair value measurements	\$ 23.2	\$ 1.7	\$ —	\$ 24.9
<i>Liabilities:</i>				
Foreign currency contracts	\$ —	\$ 3.2	\$ —	\$ 3.2
Interest rate swap	—	2.0	—	2.0
Deferred compensation plans	—	15.4	—	15.4
Total liability recurring fair value measurements	\$ —	\$ 20.6	\$ —	\$ 20.6
<u>Financial instruments not carried at fair value</u>				
Total debt	—	1,259.6	—	1,259.6
Total financial instruments not carried at fair value	\$ —	\$ 1,259.6	\$ —	\$ 1,259.6

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

<i>In millions</i>	Fair value measurements			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total fair value
<u>Recurring fair value measurements</u>				
<i>Assets:</i>				
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
<i>Liabilities:</i>				
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
<u>Financial instruments not carried at fair value</u>				
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.

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NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
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- *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.
- *Debt* – These securities are recorded at cost and include senior notes maturing through 2021 . 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 June 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 11 – Equity

The reconciliation of Ordinary shares is as follows:

<i>In millions</i>	Total
December 31, 2014	95.8
Shares issued under incentive plans, net	0.5
Repurchase of ordinary shares	(0.5)
June 30, 2015	95.8

During the six months ended June 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 six months ended June 30, 2015 were as follows:

<i>In millions</i>	Allegion plc shareholders' equity (deficit)	Noncontrolling interests	Total equity (deficit)
Balance at December 31, 2014	\$ (4.8)	\$ 23.3	\$ 18.5
Net earnings (loss)	109.3	(0.6)	108.7
Currency translation	(28.4)	0.0	(28.4)
Change in value of marketable securities and derivatives qualifying as cash flow hedges, net of tax	2.8	—	2.8
Pension and OPEB adjustments, net of tax	0.7	—	0.7
Total comprehensive income	84.4	(0.6)	83.8
Share-based compensation	6.9	—	6.9
Acquisition/divestiture of noncontrolling interests	—	3.0	3.0
Dividends to noncontrolling interests	—	(0.3)	(0.3)
Dividends to ordinary shareholders	(19.1)	—	(19.1)
Repurchase of ordinary shares	(30.0)	—	(30.0)
Shares issued under incentive plans, net	9.9	—	9.9
Balance at June 30, 2015	\$ 47.3	\$ 25.4	\$ 72.7

ALLEGION PLC
NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
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The components of Equity for the six months ended June 30, 2014 were as follows:

<i>In millions</i>	Allegion plc shareholders' equity (deficit)	Noncontrolling interests	Total equity (deficit)
Balance at December 31, 2013	\$ (66.1)	\$ 31.1	\$ (35.0)
Net earnings	79.0	5.3	84.3
Currency translation	(3.3)	(0.8)	(4.1)
Change in value of marketable securities and derivatives qualifying as cash flow hedges, net of tax	(2.7)	—	(2.7)
Pension and OPEB adjustments, net of tax	(1.4)	—	(1.4)
Total comprehensive income	71.6	4.5	76.1
Share-based compensation	6.5	—	6.5
Dividends to noncontrolling interests	—	(4.5)	(4.5)
Dividends to ordinary shareholders	(15.4)	—	(15.4)
Shares issued under incentive plans, net	15.4	—	15.4
Repurchase of ordinary shares	(30.3)	—	(30.3)
Other	(3.3)	—	(3.3)
Balance at June 30, 2014	\$ (21.6)	\$ 31.1	\$ 9.5

Other Comprehensive Income (Loss)

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

<i>In millions</i>	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	7.9	(1.5)	(28.4)	(22.0)
Amounts reclassified from accumulated other comprehensive income	(4.7)	2.6	—	(2.1)
Tax expense	(0.4)	(0.4)	—	(0.8)
June 30, 2015	\$ 18.5	\$ (115.4)	\$ (76.2)	\$ (173.1)

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

<i>In millions</i>	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	(2.5)	(3.4)	(3.3)	(9.2)
Amounts reclassified from accumulated other comprehensive income	(0.6)	2.0	—	1.4
Tax benefit	0.1	—	—	0.1
June 30, 2014	\$ 13.7	\$ (132.7)	\$ 14.6	\$ (104.4)

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

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

<i>In millions</i>	<u>Amount Reclassified from Accumulated Other Comprehensive Income</u>		Statement of Comprehensive Income Line Item
	Three months ended	Six months ended	
Reclasses below represent (Income) loss to the Statement of Comprehensive Income			
Gains losses on cash flow hedges:			
Foreign exchange contracts	\$ (3.0)	\$ (4.7)	Cost of goods sold
	<u>(3.0)</u>	<u>(4.7)</u>	Earnings before income taxes
	—	(0.4)	Provision for income taxes
	<u>\$ (3.0)</u>	<u>\$ (5.1)</u>	Earnings from continuing operations
Defined benefit pension items:			
Amortization of:			
Prior-service gains	\$ (0.2)	\$ (0.4)	(a)
Actuarial losses	<u>1.5</u>	<u>3.0</u>	(a)
	1.3	2.6	Earnings before income taxes
	<u>(0.3)</u>	<u>(0.4)</u>	Provision for income taxes
	<u>1.0</u>	<u>2.2</u>	Earnings from continuing operations
Total reclassifications for the period	<u>\$ (2.0)</u>	<u>\$ (2.9)</u>	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 9 for additional details).

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NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
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Reclassifications out of Accumulated other comprehensive income (loss) for the three and six months ended June 30, 2014 were as follows:

<i>In millions</i>	<u>Amount Reclassified from Accumulated Other Comprehensive Income</u>		<u>Statement of Comprehensive Income Line Item</u>
	<u>Three months ended</u>	<u>Six months ended</u>	
Reclasses below represent (Income) loss to the Statement of Comprehensive Income			
Gains on cash flow hedges:			
Foreign exchange contracts	\$ (0.2)	\$ (0.6)	Cost of goods sold
	(0.2)	(0.6)	Earnings before income taxes
	0.1	0.1	Provision for income taxes
	<u>\$ (0.1)</u>	<u>\$ (0.5)</u>	Earnings from continuing operations
Defined benefit pension items:			
Amortization of:			
Prior-service gains	\$ (0.2)	\$ (0.4)	(a)
Actuarial (gains) losses	1.2	2.4	(a)
	1.0	2.0	Earnings before income taxes
	—	—	Provision for income taxes
	<u>1.0</u>	<u>2.0</u>	Earnings from continuing operations
Total reclassifications for the period	<u>\$ 0.9</u>	<u>\$ 1.5</u>	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 9 for additional details).

Note 12 – 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 six months ended June 30 were as follows:

<i>In millions</i>	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Stock options	\$ 0.9	\$ 0.8	\$ 1.9	\$ 1.9
RSUs	1.3	1.3	2.9	3.2
PSUs	1.1	1.1	2.1	1.4
Deferred compensation	0.1	0.3	0.5	0.5
Pre-tax expense	3.4	3.5	7.4	7.0
Tax benefit	(1.2)	(1.0)	(2.5)	(2.3)
After-tax expense	<u>\$ 2.2</u>	<u>\$ 2.5</u>	<u>\$ 4.9</u>	<u>\$ 4.7</u>

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NOTES TO CONDENSED AND CONSOLIDATED FINANCIAL STATEMENTS-(Continued)
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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 six months ended June 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	96,387	\$ 58.45	82,076	\$ 53.96

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 six months ended June 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 six months ended June 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

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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 13 – Restructuring Activities

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

<i>In millions</i>	EMEIA	Total
December 31, 2014	\$ 1.9	\$ 1.9
Additions, net of reversals	3.8	3.8
Cash and non-cash uses	(1.4)	(1.4)
Currency translation	(0.2)	(0.2)
June 30, 2015	\$ 4.1	\$ 4.1

The majority of the costs accrued as of June 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 six months ended June 30 were as follows:

<i>In millions</i>	Three months ended		Six months ended	
	2015	2014	2015	2014
EMEIA	\$ 3.8	\$ —	\$ 3.8	\$ —
Total	\$ 3.8	\$ —	\$ 3.8	\$ —
Cost of goods sold	\$ 3.5	\$ —	\$ 3.5	\$ —
Selling and administrative expenses	0.3	—	0.3	—
Total	\$ 3.8	\$ —	\$ 3.8	\$ —

The above expenses primarily relate to severance charges.

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 six months ended June 30 were as follows:

<i>In millions</i>	Three months ended		Six months ended	
	2015	2014	2015	2014
EMEIA	\$ —	\$ 4.4	\$ —	\$ 4.4
Total	\$ —	\$ 4.4	\$ —	\$ 4.4
Cost of goods sold	\$ —	\$ 1.0	\$ —	\$ 1.0
Selling and administrative expenses	—	3.4	—	3.4
Total	\$ —	\$ 4.4	\$ —	\$ 4.4

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In addition, the Company incurred other non-qualified restructuring charges of \$0.4 million during the six months ended June 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 \$0.3 million and \$0.8 million were recorded during the three and six months ended June 30, 2014 as part of prior restructuring plans. These charges primarily relate to workforce reductions in an effort to increase efficiencies across multiple lines of business.

Note 14 – Other (Income) Expense, Net

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

<i>In millions</i>	Three months ended		Six months ended	
	2015	2014	2015	2014
Interest income	\$ (0.5)	\$ (0.1)	\$ (0.8)	\$ (0.3)
Exchange (gain) loss	0.6	(0.7)	3.9	(0.6)
Other	0.3	(0.2)	0.4	(0.2)
Other (income) expense, net	\$ 0.4	\$ (1.0)	\$ 3.5	\$ (1.1)

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 six months ended June 30, 2015 the Company recorded a charge of \$ 2.8 million in order to remeasure net monetary assets at the SIMADI rate. This loss is within Exchange (gain) loss in the table above.

Note 15 – Income Taxes

The effective income tax rates for the three months ended June 30, 2015 and 2014 were 22.6% and 29.7% . The decrease in the effective income tax rate compared to 2014 is primarily due to favorable changes in the mix of income earned in lower rate jurisdictions.

The effective income tax rates for the six months ended June 30, 2015 and 2014 were 22.4% and 29.8% . The decrease in the effective income tax rate compared to 2014 is primarily due to favorable changes in the mix of income earned in lower rate jurisdictions.

Note 16 – Discontinued Operations

EMEIA Divestiture

In the second quarter of 2014 the Company committed to a plan to sell its United Kingdom (UK) Door businesses to an unrelated third party. The transaction closed in the third quarter of 2014. The businesses sold include the Dor-o-Matic™ branded automatic door business, the Martin Roberts™ branded performance steel doorset business and the UK service organization. Historical results of the component have been reclassified to discontinued operations for all periods presented.

Net revenues and after-tax earnings of the component for the three and six months ended June 30 were as follows:

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<i>In millions</i>	Three months ended		Six months ended	
	2015	2014	2015	2014
Net revenues	\$ —	\$ 6.0	\$ —	\$ 11.8
After-tax gain (loss) from operations	\$ 0.1	\$ (1.1)	\$ —	\$ (1.7)
Loss on disposal	—	(6.6)	—	(6.6)
Discontinued operations, net of tax	\$ 0.1	\$ (7.7)	\$ —	\$ (8.3)

Other divestitures

Other discontinued operations recognized losses of \$0.1 million and \$0.3 million for the three months ended June 30, 2015 and 2014 and losses of \$0.2 million and \$0.5 million for the six months ended June 30, 2015 and 2014 . These losses were mainly related to lease expense and other miscellaneous expenses from previously sold businesses.

Note 17 – 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 six months ended June 30 :

<i>In millions</i>	Three months ended		Six months ended	
	2015	2014	2015	2014
Weighted-average number of basic shares	95.8	96.3	95.8	96.3
Shares issuable under incentive stock plans	0.9	1.0	1.1	1.1
Weighted-average number of diluted shares	96.7	97.3	96.9	97.4

At June 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.

Note 18 – 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.

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

<i>In millions</i>	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<u>Net revenues</u>				
Americas	\$ 402.1	\$ 400.7	\$ 756.4	\$ 746.1
EMEIA	83.9	101.2	165.6	200.4
Asia Pacific	33.5	29.6	56.2	51.6
Total	<u>\$ 519.5</u>	<u>\$ 531.5</u>	<u>\$ 978.2</u>	<u>\$ 998.1</u>
<u>Segment operating income (loss)</u>				
Americas	\$ 111.9	\$ 110.9	\$ 196.1	\$ 197.3
EMEIA	0.5	(4.1)	3.1	(4.7)
Asia Pacific	(1.4)	(3.5)	(4.0)	(6.5)
Total	<u>111.0</u>	<u>103.3</u>	<u>195.2</u>	<u>186.1</u>
<u>Reconciliation to Operating income</u>				
Unallocated corporate expense	(15.3)	(14.0)	(28.5)	(29.0)
Operating income	<u>\$ 95.7</u>	<u>\$ 89.3</u>	<u>\$ 166.7</u>	<u>\$ 157.1</u>
<u>Reconciliation to Earnings before income taxes</u>				
Interest expense	11.3	12.5	22.9	25.6
Other (income) expense, net	0.4	(1.0)	3.5	(1.1)
Earnings before income taxes	<u>\$ 84.0</u>	<u>\$ 77.8</u>	<u>\$ 140.3</u>	<u>\$ 132.6</u>

Note 19 – 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 June 30, 2015 and 2014 , the Company incurred \$ 0.5 million and \$ 0.4 million of expenses for environmental remediation at sites presently or formerly owned or leased by us. During the six months ended June 30, 2015 and 2014 , the Company incurred \$2.3 million and \$1.2 million of expenses for environmental remediation at sites presently or formerly owned or leased by us. As of June 30, 2015 and December 31, 2014 , the Company has recorded reserves for environmental matters of \$ 9.3 million and \$ 8.8 million . Of these amounts, \$ 2.6 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 June 30, 2015 and December 31, 2014 was \$ 2.6 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 six months ended June 30 were as follows:

<i>In millions</i>	<u>2015</u>	<u>2014</u>
Balance at beginning of period	\$ 10.3	\$ 9.7
Reductions for payments	(3.1)	(3.3)
Accruals for warranties issued during the current period	2.6	3.7
Changes to accruals related to preexisting warranties	0.1	(0.4)
Translation	(0.1)	—
Balance at end of period	<u>\$ 9.8</u>	<u>\$ 9.7</u>

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 20 – Guarantor Financial Information

Allegion US Holding Company, Inc. (the “Issuer”) as the issuer of the Senior Notes and Allegion plc (the “Parent”), Schlage Lock Company LLC and Von Duprin LLC (together, the “Subsidiary Guarantors”) are all guarantors of the Senior Notes. The following condensed and consolidated financial information of the Parent, the Issuer, the Subsidiary Guarantors and the other Allegion subsidiaries that are not guarantors (the “Other Subsidiaries”) on a combined basis as of June 30, 2015 and for the six months ended June 30, 2015 and 2014, is being presented in order to meet the reporting requirements under the Senior Notes indenture and Rule 3-10 of Regulation S-X. In accordance with Rule 3-10(d) of Regulation S-X, separate financial statements for the Issuer, the Parent 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 June 30, 2015

<i>In millions</i>	Parent	Issuer	Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Allegion plc
Net revenues	\$ —	\$ —	\$ 388.3	\$ 180.0	\$ (48.8)	\$ 519.5
Cost of goods sold	—	—	219.3	127.2	(48.8)	297.7
Selling and administrative expenses	1.1	—	78.4	46.6	—	126.1
Operating income (loss)	(1.1)	—	90.6	6.2	—	95.7
Equity earnings (loss) in affiliates, net of tax	71.1	27.1	0.8	61.5	(160.5)	—
Interest expense	5.9	5.4	—	—	—	11.3
Intercompany interest and fees	0.2	22.8	(9.6)	(13.4)	—	—
Other (income) expense, net	—	—	—	0.4	—	0.4
Earnings (loss) before income taxes	63.9	(1.1)	101.0	80.7	(160.5)	84.0
Provision (benefit) for income taxes	—	(10.8)	38.7	(8.9)	—	19.0
Earnings (loss) from continuing operations	63.9	9.7	62.3	89.6	(160.5)	65.0
Discontinued operations, net of tax	—	—	—	—	—	—
Net earnings (loss)	63.9	9.7	62.3	89.6	(160.5)	65.0
Less: Net loss attributable to noncontrolling interests	—	—	—	1.1	—	1.1
Net earnings (loss) attributable to Allegion plc	<u>\$ 63.9</u>	<u>\$ 9.7</u>	<u>\$ 62.3</u>	<u>\$ 88.5</u>	<u>\$ (160.5)</u>	<u>\$ 63.9</u>
Total comprehensive income (loss)	\$ 69.4	\$ 10.1	\$ 59.0	\$ 98.2	\$ (166.2)	\$ 70.5
Less: Total comprehensive income attributable to noncontrolling interests	—	—	—	1.1	—	1.1
Total comprehensive income (loss) attributable to Allegion plc	<u>\$ 69.4</u>	<u>\$ 10.1</u>	<u>\$ 59.0</u>	<u>\$ 97.1</u>	<u>\$ (166.2)</u>	<u>\$ 69.4</u>

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

Condensed and Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2015

<i>In millions</i>	<u>Parent</u>	<u>Issuer</u>	<u>Subsidiary Guarantors</u>	<u>Other Subsidiaries</u>	<u>Consolidating Adjustments</u>	<u>Allegion plc</u>
Net revenues	\$ —	\$ —	\$ 729.3	\$ 343.9	\$ (95.0)	\$ 978.2
Cost of goods sold	—	—	417.6	246.7	(95.0)	569.3
Selling and administrative expenses	2.0	(0.1)	151.2	89.1	—	242.2
Operating income (loss)	(2.0)	0.1	160.5	8.1	—	166.7
Equity earnings (loss) in affiliates, net of tax	123.8	37.1	1.4	109.7	(272.0)	—
Interest expense	12.4	10.4	—	0.1	—	22.9
Intercompany interest and fees	0.2	46.2	(18.7)	(27.7)	—	—
Other (income) expense, net	(0.1)	(0.2)	0.4	3.4	—	3.5
Earnings (loss) before income taxes	109.3	(19.2)	180.2	142.0	(272.0)	140.3
Provision (benefit) for income taxes	—	(21.7)	69.0	(15.9)	—	31.4
Earnings (loss) from continuing operations	109.3	2.5	111.2	157.9	(272.0)	108.9
Discontinued operations, net of tax	—	—	(0.1)	(0.1)	—	(0.2)
Net earnings (loss)	109.3	2.5	111.1	157.8	(272.0)	108.7
Less: Net earnings attributable to noncontrolling interests	—	—	—	(0.6)	—	(0.6)
Net earnings (loss) attributable to Allegion plc	<u>\$ 109.3</u>	<u>\$ 2.5</u>	<u>\$ 111.1</u>	<u>\$ 158.4</u>	<u>\$ (272.0)</u>	<u>\$ 109.3</u>
Total comprehensive income (loss)	\$ 84.4	\$ 1.3	\$ 111.6	\$ 133.6	\$ (247.1)	\$ 83.8
Less: Total comprehensive income attributable to noncontrolling interests	—	—	—	(0.6)	—	(0.6)
Total comprehensive income (loss) attributable to Allegion plc	<u>\$ 84.4</u>	<u>\$ 1.3</u>	<u>\$ 111.6</u>	<u>\$ 134.2</u>	<u>\$ (247.1)</u>	<u>\$ 84.4</u>

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

Condensed and Consolidated Statement of Comprehensive Income

For the three months ended June 30, 2014

<i>In millions</i>	Parent	Issuer	Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Allegion plc
Net revenues	\$ —	\$ —	\$ 360.2	\$ 221.1	\$ (49.8)	\$ 531.5
Cost of goods sold	—	—	204.0	151.3	(49.8)	305.5
Selling and administrative expenses	1.0	—	74.1	61.6	—	136.7
Operating income (loss)	(1.0)	—	82.1	8.2	—	89.3
Equity earnings (loss) in affiliates, net of tax	44.2	49.5	1.5	98.7	(193.9)	—
Interest expense	—	12.3	—	0.2	—	12.5
Intercompany interest and fees	—	12.5	(75.9)	63.4	—	—
Other (income) expense, net	—	—	0.3	(1.3)	—	(1.0)
Earnings (loss) before income taxes	43.2	24.7	159.2	44.6	(193.9)	77.8
Provision (benefit) for income taxes	—	(9.3)	59.2	(26.8)	—	23.1
Earnings (loss) from continuing operations	43.2	34.0	100.0	71.4	(193.9)	54.7
Discontinued operations, net of tax	—	—	—	(8.0)	—	(8.0)
Net earnings (loss)	43.2	34.0	100.0	63.4	(193.9)	46.7
Less: Net earnings attributable to noncontrolling interests	—	—	—	3.5	—	3.5
Net earnings (loss) attributable to Allegion plc	<u>\$ 43.2</u>	<u>\$ 34.0</u>	<u>\$ 100.0</u>	<u>\$ 59.9</u>	<u>\$ (193.9)</u>	<u>\$ 43.2</u>
Total comprehensive income (loss)	\$ 49.0	\$ 34.0	\$ 100.0	\$ 63.4	\$ (193.9)	\$ 52.5
Less: Total comprehensive income attributable to noncontrolling interests	—	—	—	3.5	—	3.5
Total comprehensive income (loss) attributable to Allegion plc	<u>\$ 49.0</u>	<u>\$ 34.0</u>	<u>\$ 100.0</u>	<u>\$ 59.9</u>	<u>\$ (193.9)</u>	<u>\$ 49.0</u>

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

Condensed and Consolidated Statement of Comprehensive Income

For the six months ended June 30, 2014

<i>In millions</i>	<u>Parent</u>	<u>Issuer</u>	<u>Subsidiary Guarantors</u>	<u>Other Subsidiaries</u>	<u>Consolidating Adjustments</u>	<u>Allegion plc</u>
Net revenues	\$ —	\$ —	\$ 678.7	\$ 415.2	\$ (95.8)	\$ 998.1
Cost of goods sold	—	—	388.2	287.5	(95.8)	579.9
Selling and administrative expenses	2.0	—	143.8	115.3	—	261.1
Operating income (loss)	(2.0)	—	146.7	12.4	—	157.1
Equity earnings (loss) in affiliates, net of tax	81.0	87.3	2.1	186.1	(356.5)	—
Interest expense	—	24.6	—	1.0	—	25.6
Intercompany interest and fees	—	24.9	(151.2)	126.3	—	—
Other (income) expense, net	—	—	0.1	(1.2)	—	(1.1)
Earnings (loss) before income taxes	79.0	37.8	299.9	72.4	(356.5)	132.6
Provision (benefit) for income taxes	—	(18.6)	111.7	(53.6)	—	39.5
Earnings (loss) from continuing operations	79.0	56.4	188.2	126.0	(356.5)	93.1
Discontinued operations, net of tax	—	—	—	(8.8)	—	(8.8)
Net earnings (loss)	79.0	56.4	188.2	117.2	(356.5)	84.3
Less: Net earnings attributable to noncontrolling interests	—	—	—	5.3	—	5.3
Net earnings (loss) attributable to Allegion plc	<u>\$ 79.0</u>	<u>\$ 56.4</u>	<u>\$ 188.2</u>	<u>\$ 111.9</u>	<u>\$ (356.5)</u>	<u>\$ 79.0</u>
Total comprehensive income (loss)	\$ 71.6	\$ 56.4	\$ 188.2	\$ 116.4	\$ (356.5)	\$ 76.1
Less: Total comprehensive income attributable to noncontrolling interests	—	—	—	4.5	—	4.5
Total comprehensive income (loss) attributable to Allegion plc	<u>\$ 71.6</u>	<u>\$ 56.4</u>	<u>\$ 188.2</u>	<u>\$ 111.9</u>	<u>\$ (356.5)</u>	<u>\$ 71.6</u>

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

Condensed and Consolidated Balance Sheet
June 30, 2015

<i>In millions</i>	<u>Parent</u>	<u>Issuer</u>	<u>Subsidiary Guarantors</u>	<u>Other Subsidiaries</u>	<u>Consolidating Adjustments</u>	<u>Allegion plc</u>
Current assets:						
Cash and cash equivalents	\$ 2.4	\$ 0.3	\$ 79.8	\$ 118.5	\$ —	\$ 201.0
Accounts and notes receivable, net	—	—	137.9	136.8	—	274.7
Inventories	—	—	111.1	94.8	—	205.9
Other current assets	0.2	21.7	29.0	190.7	—	241.6
Accounts and notes receivable affiliates	—	84.7	348.7	302.8	(736.2)	—
Total current assets	2.6	106.7	706.5	843.6	(736.2)	923.2
Investment in affiliates	970.8	3,250.7	190.7	4,445.8	(8,858.0)	—
Property, plant and equipment, net	—	—	149.2	58.6	—	207.8
Intangible assets, net	—	—	180.0	470.0	—	650.0
Notes receivable affiliates	—	1,191.9	3,727.4	1,750.6	(6,669.9)	—
Other noncurrent assets	14.7	9.8	70.4	113.7	—	208.6
Total assets	\$ 988.1	\$ 4,559.1	\$ 5,024.2	\$ 7,682.3	\$ (16,264.1)	\$ 1,989.6
Current liabilities:						
Accounts payable and accruals	\$ 1.8	\$ 4.3	\$ 233.5	\$ 177.6	\$ —	\$ 417.2
Short-term borrowings and current maturities of long-term debt	48.8	—	0.1	12.9	—	61.8
Accounts and note payable affiliates	0.5	94.3	331.4	310.0	(736.2)	—
Total current liabilities	51.1	98.6	565.0	500.5	(736.2)	479.0
Long-term debt	889.7	300.0	—	0.8	—	1,190.5
Note payable affiliate	—	2,762.5	—	3,907.4	(6,669.9)	—
Other noncurrent liabilities	—	6.9	212.6	27.9	—	247.4
Total liabilities	940.8	3,168.0	777.6	4,436.6	(7,406.1)	1,916.9
Equity:						
Total shareholders equity (deficit)	47.3	1,391.1	4,246.6	3,220.3	(8,858.0)	47.3
Noncontrolling interests	—	—	—	25.4	—	25.4
Total equity (deficit)	47.3	1,391.1	4,246.6	3,245.7	(8,858.0)	72.7
Total liabilities and equity	\$ 988.1	\$ 4,559.1	\$ 5,024.2	\$ 7,682.3	\$ (16,264.1)	\$ 1,989.6

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

Condensed and Consolidated Balance Sheet
December 31, 2014

<i>In millions</i>	Parent	Issuer	Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Allegion plc
Current assets:						
Cash and cash equivalents	\$ 27.1	\$ 0.5	\$ 126.3	\$ 136.6	\$ —	\$ 290.5
Accounts and notes receivable, net	—	—	115.7	144.2	—	259.9
Inventories	—	—	101.1	78.4	—	179.5
Other current assets	0.4	46.6	15.6	181.3	—	243.9
Accounts receivable affiliates	0.1	15.2	256.4	259.4	(531.1)	—
Total current assets	27.6	62.3	615.1	799.9	(531.1)	973.8
Investment in affiliates	917.4	2,336.7	90.6	4,774.7	(8,119.4)	—
Property, plant and equipment, net	—	—	147.3	63.9	—	211.2
Intangible assets, net	—	—	161.1	470.6	—	631.7
Notes receivable affiliates	—	1,191.9	3,731.2	1,762.9	(6,686.0)	—
Other noncurrent assets	16.3	10.6	62.3	110.0	—	199.2
Total assets	\$ 961.3	\$ 3,601.5	\$ 4,807.6	\$ 7,982.0	\$ (15,336.5)	\$ 2,015.9
Current liabilities:						
Accounts payable and accruals	\$ 2.8	\$ 51.3	\$ 380.8	\$ 46.8	\$ —	\$ 481.7
Short-term borrowings and current maturities of long-term debt	48.8	—	0.1	0.7	—	49.6
Accounts and note payable affiliates	0.4	101.1	245.0	184.6	(531.1)	—
Total current liabilities	52.0	152.4	625.9	232.1	(531.1)	531.3
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	39.1	—	251.1
Total liabilities	966.1	3,236.6	832.2	4,179.6	(7,217.1)	1,997.4
Equity:						
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
Total equity (deficit)	(4.8)	364.9	3,975.4	3,802.4	(8,119.4)	18.5
Total liabilities and equity	\$ 961.3	\$ 3,601.5	\$ 4,807.6	\$ 7,982.0	\$ (15,336.5)	\$ 2,015.9

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

Condensed and Consolidated Statement of Cash Flows
For the six months ended June 30, 2015

<i>In millions</i>	Parent	Issuer	Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Allegion plc
Net cash provided by (used in) continuing operating activities	\$ 40.0	\$ 24.2	\$ 112.8	\$ 92.2	\$ (235.8)	\$ 33.4
Net cash provided by (used in) discontinued operating activities	—	—	(0.1)	(0.1)	—	(0.2)
Net cash provided by (used in) operating activities	40.0	24.2	112.7	92.1	(235.8)	33.2
Cash flows from investing activities:						
Capital expenditures	—	—	(14.9)	(3.7)	—	(18.6)
Acquisition of businesses, net of cash acquired	—	—	(31.3)	(20.7)	—	(52.0)
Other investing activities, net	—	—	3.9	0.2	—	4.1
Net cash provided by (used in) investing activities	—	—	(42.3)	(24.2)	—	(66.5)
Cash flows from financing activities:						
Debt repayments, net	(24.4)	—	—	12.2	—	(12.2)
Net inter-company proceeds (payments)	—	(24.4)	(48.9)	73.3	—	—
Dividends paid	—	—	(68.0)	(167.8)	235.8	—
Dividends paid to shareholders	(19.1)	—	—	—	—	(19.1)
Repurchase of ordinary shares	(30.0)	—	—	—	—	(30.0)
Other financing activities, net	8.8	—	—	(0.1)	—	8.7
Net cash provided by (used in) financing activities	(64.7)	(24.4)	(116.9)	(82.4)	235.8	(52.6)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(3.6)	—	(3.6)
Net increase (decrease) in cash and cash equivalents	(24.7)	(0.2)	(46.5)	(18.1)	—	(89.5)
Cash and cash equivalents - beginning of period	27.1	0.5	126.3	136.6	—	290.5
Cash and cash equivalents - end of period	<u>\$ 2.4</u>	<u>\$ 0.3</u>	<u>\$ 79.8</u>	<u>\$ 118.5</u>	<u>\$ —</u>	<u>\$ 201.0</u>

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

Condensed and Consolidated Statement of Cash Flows

For the six months ended June 30, 2014

<i>In millions</i>	Parent	Issuer	Subsidiary Guarantors	Other Subsidiaries	Consolidating Adjustments	Allegion plc
Net cash provided by (used in) continuing operating activities	\$ (4.2)	\$ (20.7)	\$ 40.2	\$ 50.1	\$ —	\$ 65.4
Net cash provided by (used in) discontinued operating activities	—	—	—	(1.6)	—	(1.6)
Net cash provided by (used in) operating activities	(4.2)	(20.7)	40.2	48.5	—	63.8
Cash flows from investing activities:						
Capital expenditures	—	—	(20.4)	(5.6)	—	(26.0)
Acquisition of businesses, net of cash acquired	—	—	—	(23.0)	—	(23.0)
Other investing activities, net	—	—	0.6	40.2	—	40.8
Net cash provided by (used in) investing activities	—	—	(19.8)	11.6	—	(8.2)
Cash flows from financing activities:						
Debt repayments, net	—	(15.0)	—	(40.2)	—	(55.2)
Net inter-company proceeds (payments)	35.5	35.7	(18.0)	(53.2)	—	—
Dividends paid	(14.9)	—	—	—	—	(14.9)
Repurchase of ordinary shares	(30.3)	—	—	—	—	(30.3)
Other, net	15.6	—	—	(1.0)	—	14.6
Net cash provided by (used in) financing activities	5.9	20.7	(18.0)	(94.4)	—	(85.8)
Effect of exchange rate changes on cash and cash equivalents	—	—	—	(4.0)	—	(4.0)
Net increase (decrease) in cash and cash equivalents	1.7	—	2.4	(38.3)	—	(34.2)
Cash and cash equivalents - beginning of period	1.4	—	78.8	147.2	—	227.4
Cash and cash equivalents - end of period	<u>\$ 3.1</u>	<u>\$ —</u>	<u>\$ 81.2</u>	<u>\$ 108.9</u>	<u>\$ —</u>	<u>\$ 193.2</u>

Note 21 – Subsequent Events

On July 20, 2015, the Company signed a definitive agreement to acquire Milre Systek Co., Ltd. ("Milre"). Milre is a leading security solutions manufacturer in South Korea, focused on producing high-quality and innovative electronic door locks. The Company expects the transaction to close in the third quarter of 2015.

On July 23, 2015, the Company signed a definitive agreement to acquire AXA Stenman Holding ("AXA") for approximately \$208.0 million. AXA is a European residential and portable security provider headquartered in Veenendaal, Netherlands, with production facilities in the Netherlands, France and Poland. AXA manufactures and sells a branded portfolio of bicycle 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. The Company plans to fund the acquisition through existing cash on hand and borrowings under the Revolver. The Company expects the transaction to close in the third quarter of 2015, subject to regulatory approval.

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, and 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

In February 2015 we 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 we 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 we 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 June 2015 we signed a definitive agreement to acquire SimonsVoss Technologies GmbH ("SimonsVoss") for approximately \$236.0 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. We expect the transaction to close in the third quarter of 2015.

For the three months ended June 30, 2015, we incurred \$1.7 million of costs related to the acquisition of SimonsVoss and the recently announced acquisitions of Milre Systek Co., Ltd. and AXA Stenman Holding ("AXA").

Venezuela currency volatility

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 SIMADI rate was approximately 170 bolivars per US dollar as of the adoption date. 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). The SIMADI rate was approximately 198 bolivars per US dollar at June 30, 2015.

2015 Dividends

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Through June 30, 2015, we paid a quarterly dividends totaling \$0.20 per ordinary share to shareholders.

Restructuring charges

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. In conjunction with this plan, we incurred severance and other charges of \$3.8 million for the three months ended June 30, 2015.

Results of Operations – Three months ended June 30

<i>In millions, except per share amounts</i>	2015	% of revenues	2014	% of revenues
Net revenues	\$ 519.5		\$ 531.5	
Cost of goods sold	297.7	57.3%	305.5	57.5%
Selling and administrative expenses	126.1	24.3%	136.7	25.7%
Operating income	95.7	18.4%	89.3	16.8%
Interest expense	11.3		12.5	
Other (income) expense, net	0.4		(1.0)	
Earnings before income taxes	84.0		77.8	
Provision for income taxes	19.0		23.1	
Earnings from continuing operations	65.0		54.7	
Discontinued operations, net of tax	—		(8.0)	
Net earnings	65.0		46.7	
Less: Net earnings (loss) attributable to noncontrolling interests	1.1		3.5	
Net earnings attributable to Allegion plc	\$ 63.9		\$ 43.2	
Diluted net earnings per ordinary share attributable to Allegion plc ordinary shareholders:				
Continuing operations	\$ 0.66		\$ 0.53	
Discontinued operations	—		(0.09)	
Net earnings (loss)	\$ 0.66		\$ 0.44	

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 three months ended June 30, 2015 decreased by 2.3% , or \$12.0 million , compared with the same period in 2014 , which resulted from the following:

Pricing	0.7 %
Volume/product mix	5.1 %
Acquisitions/divestitures	1.2 %
Currency exchange rates	(9.3)%
Total	(2.3)%

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, the acquisitions of Zero in April 2015 and Brio in May 2015 and improved pricing.

Operating Income/Margin

Operating income for the three months ended June 30, 2015 increased \$6.4 million compared to the same period in 2014 primarily due to favorable volume/product mix (\$10.5 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 offset by costs incurred related to acquisitions in the current year (\$6.5 million) and pricing improvements and productivity in excess of inflation (\$6.1 million). These increases were partially offset by increased investment spending (\$7.4 million) primarily for new product development and channel development and unfavorable foreign currency exchange rate movements (\$9.3 million).

Operating margin for the three months ended June 30, 2015 increased to 18.4% from 16.8% for the same period in 2014 primarily due to lower spin-related and restructuring costs compared to the prior year offset by costs incurred related to acquisitions in the current year (1.2%), favorable volume/product mix (1.0%) and pricing improvements and productivity in excess of inflation

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(1.0%). These increases were partially offset by increased investment spending (1.4%) and unfavorable foreign currency exchange rate movements (0.2%).

Interest Expense

Interest expense for the three months ended June 30, 2015 decreased \$ 1.2 million compared with the same period of 2014 as a result of refinancing the Senior Secured Credit Facilities in the fourth quarter of 2014.

Other (Income) Expense, Net

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

<i>In millions</i>	2015	2014
Interest income	\$ (0.5)	\$ (0.1)
Exchange loss	0.6	(0.7)
Other	0.3	(0.2)
Other (income) expense, net	\$ 0.4	\$ (1.0)

Other (income) expense, net for the three months ended June 30, 2015 decreased \$1.4 million compared to the same period in 2014 primarily due to unfavorable currency impacts.

Provision for Income Taxes

The effective income tax rates for the three months ended June 30, 2015 and 2014 were 22.6% and 29.7% . The decrease in the effective income tax rate compared to 2014 is primarily due to favorable changes in the mix of income earned in lower rate jurisdictions.

Discontinued Operations**EMEIA Divestiture**

As discussed above, in the second quarter of 2014 management committed to a plan to sell its United Kingdom (UK) Door businesses to an unrelated third party. The transaction closed in the third quarter of 2014. Historical results of the component have been reclassified to discontinued operations for all periods presented.

Net revenues and after-tax earnings of the component for the three months ended June 30, 2015 and 2014 were as follows:

<i>In millions</i>	2015	2014
Net revenues	\$ —	\$ 6.0
After-tax (gain) loss from operations	\$ 0.1	\$ (1.1)
Loss on assets held for sale, net of tax	—	(6.6)
Discontinued operations, net of tax	\$ 0.1	\$ (7.7)

Other divestitures

Other discontinued operations recognized a losses of \$0.1 million and \$0.3 million for the three months ended June 30, 2015 and 2014 . These were mainly related to non-cancelable lease expense and other miscellaneous expenses from previously sold businesses.

Results of Operations – Six months ended June 30

<i>In millions, except per share amounts</i>	2015	% of revenues	2014	% of revenues
Net revenues	\$ 978.2		\$ 998.1	
Cost of goods sold	569.3	58.2%	579.9	58.1%
Selling and administrative expenses	242.2	24.8%	261.1	26.2%
Operating income	166.7	17.0%	157.1	15.7%
Interest expense	22.9		25.6	
Other (income) expense, net	3.5		(1.1)	
Earnings before income taxes	140.3		132.6	
Provision for income taxes	31.4		39.5	
Earnings from continuing operations	108.9		93.1	
Discontinued operations, net of tax	(0.2)		(8.8)	
Net earnings	108.7		84.3	
Less: Net earnings attributable to noncontrolling interests	(0.6)		5.3	
Net earnings attributable to Allegion plc	\$ 109.3		\$ 79.0	
Diluted net earnings (loss) per ordinary share attributable to Allegion plc ordinary shareholders:				
Continuing operations	\$ 1.13		\$ 0.90	
Discontinued operations	—		(0.09)	
Net earnings	\$ 1.13		\$ 0.81	

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 six months ended June 30, 2015 decreased by 2.0% , or \$19.9 million , compared with the same period in 2014 , which resulted from the following:

Pricing	0.6 %
Volume/product mix	5.3 %
Acquisitions/divestitures	0.5 %
Currency exchange rates	(8.4)%
Total	(2.0)%

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 of Zero in April 2015, Brio in May 2015 and Fire & Security Hardware Pty Limited ("FSH") in the second quarter of 2014.

Operating Income/Margin

Operating income for the six months ended June 30, 2015 increased \$9.6 million compared to the same period in 2014 primarily due to favorable volume/product mix (\$20.9 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 offset by costs incurred related to acquisitions in the current year (\$15.8 million) and pricing improvements and productivity in excess of inflation (\$6.9 million). These increases were partially offset by increased investment spending (\$15.3 million) primarily for new product development and channel development, unfavorable foreign currency exchange rate movements (\$14.5 million) and a \$4.2 million non-cash inventory impairment related to the devaluation of the bolivar discussed above.

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Operating margin for the six months ended June 30, 2015 increased to 17.0% from 15.7% for the same period in 2014 primarily due to lower spin-related and restructuring costs compared to the prior year offset by costs incurred related to acquisitions in the current year (1.6%), favorable volume/product mix (1.1%) and pricing improvements and productivity in excess of inflation (0.6%). These increases were partially offset by increased investment spending (1.5%), the non-cash inventory impairment related to the devaluation of the Venezuelan bolivar discussed above (0.4%) and unfavorable foreign currency exchange rate movements (0.1%).

Interest Expense

Interest expense for the six months ended June 30, 2015 decreased \$2.7 million compared with the same period of 2014 as a result of refinancing the Senior Secured Credit Facilities in the fourth quarter of 2014.

Other (Income) Expense, Net

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

<i>In millions</i>	2015	2014
Interest income	\$ (0.8)	\$ (0.3)
Exchange loss	3.9	(0.6)
Other	0.4	(0.2)
Other (income) expense, net	\$ 3.5	\$ (1.1)

Other (income) expense, net for the six months ended June 30, 2015 decreased \$4.6 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 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 six months ended June 30, 2015 and 2014 were 22.4% and 29.8% . The decrease in the effective income tax rate compared to 2014 is primarily due to favorable changes in the mix of income earned in lower rate jurisdictions.

Discontinued Operations

EMEA Divestiture

As discussed above, in the second quarter of 2014 management committed to a plan to sell its United Kingdom (UK) Door businesses to an unrelated third party. The transaction closed in the third quarter of 2014. Historical results of the component have been reclassified to discontinued operations for all periods presented.

Net revenues and after-tax earnings of the component for the six months ended June 30, 2015 and 2014 were as follows:

<i>In millions</i>	2015	2014
Net revenues	\$ —	\$ 11.8
After-tax loss from operations	\$ —	\$ (1.7)
Loss on assets held for sale, net of tax	—	(6.6)
Discontinued operations, net of tax	\$ —	\$ (8.3)

Other divestitures

Other discontinued operations recognized losses of \$0.2 million and \$0.5 million for the six months ended June 30, 2015 and 2014 . These were mainly related to non-cancelable lease expense and other miscellaneous expenses from previously sold businesses.

Review of Business Segments

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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, 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.

In the second quarter of 2014 management committed to a plan to sell a component of a business in our EMEIA segment and reclassified historical results of the component to discontinued operations for all periods presented.

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 six months ended June 30 were as follows:

<i>Dollar amounts in millions</i>	Three months ended			Six months ended		
	2015	2014	% change	2015	2014	% change
Net revenues	\$ 402.1	\$ 400.7	0.3%	\$ 756.4	\$ 746.1	1.4 %
Segment operating income	111.9	110.9	0.9%	196.1	197.3	(0.6)%
Segment operating margin	27.8%	27.7%		25.9%	26.4%	

Net revenues for the three months ended June 30, 2015 increased by 0.3% , or \$1.4 million , compared with the same period in 2014 , primarily due to higher volumes (6.6%), improved pricing (0.6%) and the acquisition of Zero in April 2015 (0.5%) partially offset by unfavorable foreign currency exchange rate movements (7.4%) primarily related to the devaluation of the Venezuelan bolivar as well as a weaker Canadian dollar.

Segment operating income increased \$1.0 million for the three months ended June 30, 2015 compared to the same period in 2014 . The increase was primarily due to favorable volume/product mix (\$10.0 million) and pricing improvements and productivity in excess of inflation (\$1.2 million). These increases were partially offset by unfavorable foreign currency exchange rate movements (\$7.3 million) and increased investment spending (\$2.9 million) primarily on new product development and channel development.

Segment operating margin increased to 27.8% for the three months ended June 30, 2015 , compared to 27.7% for the same period of 2014 . The increase was primarily due to favorable volume/product mix (0.4%), favorable foreign currency exchange rate movements (0.3%), and pricing improvements and productivity in excess of inflation (0.1%). These increases were partially offset by increased investment spending (0.7%).

Net revenues for the six months ended June 30, 2015 increased by 1.4% , or \$10.3 million , compared with the same period in 2014 , primarily due to higher volumes (6.9%), improved pricing (0.5%) and the acquisition of Zero in April 2015 (0.3%) partially offset by unfavorable foreign currency exchange rate movements (6.3%) primarily related to the devaluation of the Venezuelan bolivar as well as a weaker Canadian dollar.

Segment operating income decreased \$1.2 million for the six months ended June 30, 2015 compared to the same period in 2014 . The decrease was primarily due to unfavorable foreign currency exchange rate movements (\$10.4 million), increased investment spending (\$8.1 million) primarily on new product development and channel development and a \$4.2 million non-cash inventory impairment related to the devaluation of the bolivar discussed above. These decreases were partially offset by favorable volume/

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product mix (\$20.8 million), pricing improvements and productivity in excess of inflation (\$0.5 million) and lower spin-related costs in the current year (\$0.2 million).

Segment operating margin decreased to 25.9% for the six months ended June 30, 2015, compared to 26.4% 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 (0.6%) and inflation in excess of pricing improvements and productivity (0.1%). These decreases were partially offset by favorable volume/product mix (0.9%) and favorable foreign currency exchange rate movements (0.3%).

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 six months ended June 30 were as follows:

<i>Dollar amounts in millions</i>	Three months ended			Six months ended		
	2015	2014	% change	2015	2014	% change
Net revenues	\$ 83.9	\$ 101.2	(17.1)%	\$ 165.6	\$ 200.4	(17.4)%
Segment operating income (loss)	0.5	(4.1)	112.2 %	3.1	(4.7)	166.0 %
Segment operating margin	0.6%	(4.1)%		1.9%	(2.3)%	

Net revenues for the three months ended June 30, 2015 decreased by 17.1%, or \$17.3 million, compared to the same period of 2014, primarily due to unfavorable foreign currency exchange rate movements (17.8%) and lower volume (1.7%). These decreases were partially offset by improved pricing (1.4%) and the acquisition of Zero in April 2015 offset by lower revenue as a result of managements' actions to exit certain unprofitable market segments in 2014 (1.0%).

Segment operating income increased \$4.6 million for the three months ended June 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 (\$5.2 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 (\$2.4 million). These increases were partially offset by unfavorable foreign currency exchange rate movements (\$1.7 million), increased investment spending (\$0.9 million) and unfavorable volume/product mix (\$0.4 million).

Segment operating margin increased to 0.6% for the three months ended June 30, 2015, compared to (4.1)% for the same period of 2014. The increase in operating margin was primarily due to pricing improvements and productivity in excess of inflation (6.6%) 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 (2.3%). These increases were partially offset by unfavorable foreign currency exchange rate movements (2.9%), increased investment spending (0.9%) and unfavorable volume/product mix (0.4%).

Net revenues for the six months ended June 30, 2015 decreased by (17.4)%, or \$34.8 million, compared to the same period of 2014, primarily due to unfavorable foreign currency exchange rate movements (16.9%), lower revenue as a result of managements' actions to exit certain unprofitable market segments in 2014 offset by the acquisition of Zero in April 2015 (0.7%) and lower volume (0.9%). These decreases were partially offset by improved pricing (1.1%).

Segment operating income increased \$7.8 million for the six months ended June 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 (\$9.4 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 (\$4.1 million). These increases were partially offset by unfavorable foreign currency exchange rate movements (\$3.1 million), increased investment spending (\$1.6 million) and unfavorable volume/product mix (\$1.0 million).

Segment operating margin increased to 1.9% for the six months ended June 30, 2015, compared to (2.3)% for the same period of 2014. The increase in operating margin was primarily due to pricing improvements and productivity in excess of inflation (5.8%) and lower restructuring costs compared to the prior year and spin-related costs in the prior year that did not recur in the current

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year (2.1%). These increases were partially offset by unfavorable foreign currency exchange rate movements (2.3%), increased investment spending (0.8%) and unfavorable volume/product mix (0.6%).

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.

Segment results for the three and six months ended June 30 were as follows:

<i>Dollar amounts in millions</i>	Three months ended			Six months ended		
	2015	2014	% change	2015	2014	% change
Net revenues	\$ 33.5	\$ 29.6	13.2%	\$ 56.2	\$ 51.6	8.9%
Segment operating loss	(1.4)	(3.5)	60.0%	(4.0)	(6.5)	38.5%
Segment operating margin	(4.2)%	(11.8)%		(7.1)%	(12.6)%	

Net revenues for the three months ended June 30, 2015 increased by 13.2 %, or \$3.9 million , compared to the same period of 2014 , primarily due to revenue provided by the acquisitions of Brio in the second quarter of 2015 and FSH in the second quarter of 2014 (10.2%), increased volume (7.4%) and improved pricing (0.3%) offset by unfavorable foreign currency exchange rate movements (4.7%).

Segment operating loss decreased \$2.1 million for the three months ended June 30, 2015 compared to the same period in 2014 . 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. The remaining decrease was related to pricing improvements and productivity in excess of inflation (\$0.4 million), favorable volume/product mix mainly due to the acquisitions of Brio and FSH (\$0.8 million) and spin-related costs in the prior year that did not recur in 2015 (\$0.2 million). These decreases were partially offset by unfavorable foreign currency exchange rate movements (\$0.4 million) and increased investment spending (\$0.1 million).

Segment operating margin increased to (4.2) % for the three months ended June 30, 2015 , compared to (11.8)% for the same period of 2014 . 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 (3.9%). The remaining increase was primarily due to favorable volume/product mix mainly due to the acquisitions of Brio and FSH (4.3%), pricing improvements and productivity in excess of inflation (1.0%) and spin-related costs in the prior year that did not recur in 2015 (0.7%). These increases were partially offset by unfavorable foreign currency exchange rate movements (2.0%) and increased investment spending (0.3%).

Net revenues for the six months ended June 30, 2015 increased by 8.9% , or \$4.6 million , compared to the same period of 2014 , primarily due to revenue provided by the acquisitions of Brio in the second quarter of 2015 and FSH in the second quarter of 2014 (8.7%), increased volume (4.7%) and improved pricing (0.3%) offset by unfavorable foreign currency exchange rate movements (4.8%).

Segment operating loss decreased \$2.5 million for the six months ended June 30, 2015 compared to the same period in 2014 . 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. The remaining decrease was related to pricing improvements and productivity in excess of inflation (\$1.0 million), favorable volume/product mix mainly due to the acquisitions of Brio and FSH (\$1.1 million) and spin-related costs in the prior year that did not recur in 2015 (\$0.3 million). These decreases were partially offset by unfavorable foreign currency exchange rate movements (\$1.0 million) and increased investment spending (\$0.1 million).

Segment operating margin increased to (7.1)% for the six months ended June 30, 2015 , compared to (12.6)% for the same period of 2014 . 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 (2.2%). The remaining increase was primarily due to favorable volume/product mix mainly due to the acquisitions of Brio and FSH (3.6%), pricing improvements and productivity in excess of inflation (1.8%) and spin-related costs in the prior year that did not recur in

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2015 (0.7%). 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 including the recently announced acquisitions.

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

<i>In millions</i>	<u>2015</u>	<u>2014</u>
Operating cash flow provided by (used in) continuing operations	\$ 33.4	\$ 65.4
Investing cash flow used in continuing operations	(66.5)	(8.2)
Financing cash flow used in continuing operations	(52.6)	(85.8)

Operating Activities

Net cash provided by continuing operating activities during the six months ended June 30, 2015 decreased \$32.0 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 cash used for working capital due to the timing of payments for accounts payable and billings and collections of costs in excess of billings on uncompleted contracts and other working capital activity. These uses of cash were partially offset by higher earnings from continuing operations.

Investing Activities

Net cash used in continuing investing activities during the six months ended June 30, 2015 increased \$58.3 million compared to the same period in 2014. The change in investing activities is primarily due cash payments related to the acquisitions of Zero and Brio and the investment in iDevices of \$52.0 million offset by a decrease in capital expenditures during the six months ended June 30, 2015. The six months ended June 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.

Financing Activities

Net cash used in continuing financing activities during the six months ended June 30, 2015 decreased \$33.2 million compared to the same period in 2014. The change in net cash used in financing activities is primarily due to \$43.0 million of lower debt repayments, net, in the current year compared to the same period in the prior year, partially offset by a \$4.2 million increase in dividends paid in the current year and \$5.6 million of other items, primarily due to lower proceeds from shares issued under incentive plans.

[Table of Contents](#)**Capitalization**

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

<i>In millions</i>	June 30, 2015	December 31, 2014
Term Loan Facility due 2019	\$ 938.4	\$ 962.8
5.75% Senior notes due 2021	300.0	300.0
Other debt, including capital leases, maturing in various amounts through 2016	13.9	1.8
Total debt	\$ 1,252.3	\$ 1,264.6
Less: current portion of long term debt	61.8	49.6
	<u>\$ 1,190.5</u>	<u>\$ 1,215.0</u>

The Term Loan Facility amortizes in quarterly installments, at the following rates per year: 5% in 2015; 5% in 2016 and 10% in each year thereafter, with the final installment due on October 15, 2019. We repaid \$24.4 million in total on the Term Loan Facility as of the six months ended June 30, 2015. The Senior Notes are due in full on October 1, 2021.

We have a 5-year, \$ 500.0 million revolving credit facility maturing on September 27, 2018 (the "Revolver"). As of June 30, 2015, we did not have any borrowings outstanding under the Revolver and had \$27.3 million of letters of credit outstanding. We intend to fund a portion of the acquisitions of SimonsVoss and AXA with borrowings under the Revolver.

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 3.75 to 1.00 based on a ratio of total consolidated indebtedness, net of unrestricted cash up to \$125 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 June 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 9 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.

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Management believes there have been no significant changes during the six months ended June 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.

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," "should," "will," "would," "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

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- 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.

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).

There have been no other significant changes in our exposure to market risk during the second 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 June 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 second quarter of 2015 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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 second 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.

Item 6 – Exhibits

(a) Exhibits

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
10.1	Share Purchase Agreement dated June 26, 2015 between SimonsVoss Luxco S.à r.l., SimonsVoss Co-Invest GmbH & Co. KG, Mr Frank Rövekamp and Allegion Luxembourg Holding & Financing S.à r.l .	Filed herewith.
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 March 31, 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.	Filed herewith.

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: July 30, 2015

/s/ Patrick S. Shannon

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

Date: July 30, 2015

/s/ Douglas P. Ranck

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

SimonsVoss Luxco S.à r.l.

SimonsVoss Co-Invest GmbH & Co. KG

Mr Frank Rövekamp

and

Allegion Luxembourg Holding & Financing S.à r.l .

SHARE PURCHASE AGREEMENT

relating to the companies comprising the SimonsVoss Technologies Group

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Share Purchase Agreement

between:

- (1) **SimonsVoss Luxco S.à r.l.** , a private limited liability company (*société à responsabilité limitée*) incorporated and organised under the laws of Luxembourg, whose registered office is at 7A, rue Robert Stümper, L-2557 Luxembourg, Grand Duchy of Luxembourg, registered with the R.C.S. Luxembourg under B 153255 (“ **Seller 1** ”);
- (2) **SimonsVoss Co-Invest GmbH & Co. KG** , a partnership established under the laws of Germany, whose registered office is at Salvatorstraße 3, 80333 Munich, registered in the commercial register of the local court (*Amtsgericht*) of Munich under HRA 99415 (“ **Seller 2** ”);
- (3) **Mr Frank Rövekamp** , Reguliersgracht 7, 1017 Amsterdam, The Netherlands (“ **Mr Rövekamp** ”); and
- (4) **Allegion Luxembourg Holding & Financing S.à r.l.** , a private limited liability company (*société à responsabilité limitée*) incorporated and organised under the laws of Luxembourg, whose registered office is at 16, avenue, Pasteur, L-2310 Luxembourg, Grand Duchy of Luxembourg, registered with R.C.S. Luxembourg under B 178652 (the “ **Purchaser** ”).

Seller 1 and Seller 2 are also referred to collectively as the “ **Sellers** ” and each of them as a “ **Seller** ” and the Sellers, Mr Rövekamp, the Purchaser are also referred to collectively as the “ **Parties** ” and each of them as a “ **Party** ”.

Whereas :

- (A) SimonsVoss Technologies GmbH (the “ **Target Company** ”) is a limited liability company incorporated under German law. The Target Company is registered in the commercial register at the local court (*Amtsgericht*) of Munich under HRB 206574. The Target Company has a registered share capital of EUR 5,000,000, divided into the shares listed in column B. of Schedule (A) hereto (the “ **Shares** ”). The Sellers are the sole shareholders of the Target Company, each Seller holding those of the Shares set out against its name in column B. of Schedule (A).
- (B) The Target Company directly or indirectly holds shares in the entities further described in Schedule (B) (the “ **Subsidiaries** ”). Each of the Target Company and the Subsidiaries are herein referred to as a “ **Group Company** ” and collectively as the “ **Group Companies** ” or the “ **Group** ”.
- (C) The Group is active in the development, production, marketing and sale of active and passive electronic, battery-driven and wireless locking systems as an alternative to the existing classic mechanical locking systems in order to provide more secure, convenient and cost-effective access control systems for customers. These activities as carried out by the Group on the date of this Agreement are herein referred to as the “ **Business** ”.
- (D) The Sellers wish to sell the Shares, and Seller 1 and Mr Rövekamp wish to sell the Closing Intra-Group Payables (as defined in Clause 3.1) to the Purchaser as further set out in this Agreement and to assume the obligations imposed on the Sellers and Mr Rövekamp respectively under this Agreement. The Purchaser wishes to purchase the Shares and the Closing Intra-Group Payables and to assume the obligations imposed on the Purchaser under this Agreement.

It is agreed as follows:

1 Interpretation

In this Agreement including the Recitals, unless the context otherwise requires, the provisions of this Clause 1 apply:

1.1 Definitions

Defined terms shall have the meaning ascribed or referenced to them in Schedule 1.1.

1.2 Schedules etc.

References to this Agreement shall include reference to any Schedules to it as well as to any agreements entered into or to be entered into, pursuant to this Agreement. References to Clauses and Schedules are to Clauses and Schedules to this Agreement.

1.3 Headings

The headings in this Agreement shall not affect its interpretation.

1.4 German Terms

Where a German term has been added in parenthesis after an English term, only such German term shall be decisive for the interpretation of the relevant English term whenever such English term is used in this Agreement.

1.5 Legal Terms and Concepts

References to any German legal term or concept shall in relation to any jurisdiction other than Germany be construed as references to the term or concept which most nearly corresponds to it in that jurisdiction.

2 Sale and Assignment of the Shares

2.1 Sale

Subject to the terms of this Agreement, each Seller, as an individual obligor, hereby sells to the Purchaser all Shares held by it pursuant to Schedule (A) and the Purchaser hereby accepts such sales. Each of the Shares is sold together with all rights and obligations attaching to it as at the Closing Date with the right to receive profits including profits which have not yet been distributed on or prior to the Closing Date.

2.2 Assignment

At Closing, the Sellers and the Purchaser shall enter into a notarial share transfer agreement substantially in the form as attached in Schedule 2.2 under which each of the Sellers shall assign (*abtreten*) to the Purchaser all Shares held by it pursuant to Schedule (A), in each case subject to the condition precedent (*aufschiebende Bedingung*) of the Purchase Prices plus default interest pursuant to Clause 5.4.2, if any, being fully paid in accordance with the terms of this Agreement. Each of the Shares shall be assigned together with all rights and obligations attaching to it as at the Closing Date with the right to receive profits including profits which have not yet been distributed on or prior to the Closing Date. Neither the Purchaser nor the Sellers shall be obliged to complete the transfer of the Shares unless the sale and purchase of all of the Shares and all of the Closing Intra Group Payables is completed simultaneously.

2.3 Consents

The Sellers as sole shareholders of the Target Company hereby waive all requirements regarding form and notice of calling and holding a shareholders' meeting and hereby approve the contemplated assignment of

the Shares pursuant to Clause 2.2 as required under section 7.1 of the articles of association of the Target Company.

3 Sale and Assignment of the Closing Intra-Group Payables

3.1 Status

Seller 1 and Mr Rövekamp have made available to the Target Company financing loans. Schedule 3.1 lists the respective payables owed by the Target Company showing the relevant debtor and creditor, the outstanding principal amounts and accrued and unpaid interest thereon, each as per 31 December 2014, the applicable interest rates as well as the respective underlying agreement between the debtor and the creditor. All claims of Seller 1 and Mr Rövekamp for payment of the amounts of the payables described above including accrued and unpaid interest thereon, in either case outstanding as at Closing, are herein referred to as “ **Closing Intra-Group Payables** ”.

3.2 Sale

Subject to the terms of this Agreement, each of Seller 1 and Mr Rövekamp, as an individual obligor, hereby sells to the Purchaser the Closing Intra-Group Payables owed to it/him pursuant to Schedule 3.1 and the Purchaser hereby accepts such sales. The Closing Intra-Group Payables are, in each case, sold together with all underlying agreements and arrangements and with all rights and obligations in respect of and in connection with the respective Closing Intra-Group Payables.

3.3 Assignment

3.3.1 At Closing, each of Seller 1 and Mr Rövekamp shall, subject to the condition precedent (*aufschiebende Bedingung*) of the Purchase Prices plus default interest pursuant to Clause 5.4.2, if any, being fully paid in accordance with the terms of this Agreement,

- (i) assign or procure the assignment of the Closing Intra-Group Payables owed to it/him pursuant to Schedule 3.1, and
- (ii) transfer or procure the transfer of all agreements and arrangements (*Vertragsübernahme*) relating to the respective Closing Intra-Group Payables,

to the Purchaser on the basis of a transfer agreement substantially in the form as attached in Schedule 3.3.1. The Purchaser shall accept such assignments and transfers. Neither the Purchaser nor Seller 1 or Mr Rövekamp shall be obliged to complete the transfer of the Closing Intra-Group Payables unless the sale and purchase of all of the Shares and all of the Closing Intra Group Payables is completed simultaneously.

3.3.2 Seller 1, Mr Rövekamp and the Purchaser agree that upon such assignments and transfers Seller 1 and Mr Rövekamp shall be discharged from, and the Purchaser hereby indemnifies each of Seller 1 and Mr Rövekamp from, all obligations in respect of or in connection with the Closing Intra-Group Payables.

3.3.3 Seller 1 and Mr Rövekamp, each as an individual obligor, shall procure that prior to or at Closing the relevant Group Companies give their respective consents to the relevant assignments and transfers by the respective Seller as necessary to give effect to the agreements in this Clause 3.3.

3.4 Repayment of Loans and Equivalent Benefits

The Purchaser undertakes to procure that the Target Company does not become insolvent within one year from Closing. If Seller 1 and/or Mr Rövekamp are held liable for any liability or obligation arising from or in connection with the total or partial repayment and/or interest payment within the first year from Closing by the Target Company on any Closing Intra-Group Payables, in either case granted by Seller 1 or Mr Rövekamp, the Purchaser shall indemnify Seller 1 and/or Mr Rövekamp, as the case may be, and hold them harmless in respect of any such liability or obligation, including any costs and expenses unless and except to the extent that the payment made to Seller 1 or Mr Rövekamp qualifies as a Leakage within the meaning of Clause 6.2.1 which is not a Permitted Leakage within the meaning of Clause 6.2.2 and therefore constitutes a breach of the obligations under Clause 6.1.

4 Repayment of Bank Debt

4.1 Existing Finance Agreements

Certain Group Companies are party to the following financing arrangements with banks:

- 4.1.1 a facilities agreement dated 22 July 2011 (as amended from time to time, the "**Facilities Agreement**") entered into, amongst others, by the Target Company as borrower, Deutsche Bank AG Filiale Deutschlandgeschäft as arranger and lender, Deutsche Bank Luxembourg S.A. as lender and DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main as agent, arranger, lender and security agent and others as lenders (together, the "**Finance Parties**"). Pursuant to the Facilities Agreement, the lenders made available to the Target Company term and revolving facilities of overall EUR 38,000,000;
- 4.1.2 an ancillary facility agreement dated 9 August 2012 (as amended from time to time, the "**Ancillary Facility**") entered into by the Target Company as borrower and Deutsche Bank AG Filiale Deutschlandgeschäft as lender. Pursuant to the Ancillary Facility, the lender made available to the Target Company a facility in the amount of EUR 1,000,000;
- 4.1.3 several interest rate hedging transactions as set out in Schedule 4.1.3 under a master agreement (*Rahmenvertrag für Finanztermingeschäfte*) between the Target Company and DZ Bank AG Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main dated 25 August 2011 and under a master agreement (*Rahmenvertrag für Finanztermingeschäfte*) between the Target Company and Deutsche Bank AG dated 13 September 2011 (the "**Hedging Agreements**");
- 4.1.4 under or in connection with the Facilities Agreement, the Sellers and certain Group Companies entered into certain finance documents (e.g. security documents) including those documents set out in Schedule 4.1.4 (the "**Security Agreements**") (together with the Facilities Agreement, the Ancillary Facility, any further ancillary facility agreement, the Hedging Agreements and any other agreement in connection with any of the foregoing, the "**Finance Agreements**"), which have been listed for informational purposes only.

4.2 Discharge of Liabilities under Finance Agreements

At Closing, the Purchaser shall discharge all liabilities under the Finance Agreements outstanding as of the Closing Date on behalf of the Target Company by (re)paying all out-standing amounts (including accrued and unpaid interest as well as any late fees, prepayment and all other charges) including, for the avoidance of

doubt any outstanding amounts under any ancillary facility under the Finance Agreements (the aforementioned outstanding liabilities, the "**Bank Repayment Amount**").

4.3 Notification of Bank Repayment Amount

The Bank Repayment Amount shall be notified by Seller 1 to the Purchaser no later than three (3) Business Days prior to the Closing Date on the basis of (i) the notice provided by the Finance Parties (or the agents or security agent on their behalf) in connection with the Release Letter (as defined below) and (ii) as notified to the Seller 1 by the respective counter-parties under the Hedging Agreements. At Closing, the Purchaser shall (re)pay the Bank Repayment Amount as set out in Clause 10, as calculated and notified by the relevant facility agent and/or security agent and/or counter-parties under the Finance Agreements in accordance with their terms.

5 Purchase Prices

5.1 Share Purchase Prices

The total consideration for the sale of the Shares under this Agreement shall be the balance of

- (i) the agreed enterprise value of the Group Companies of EUR 210,000,000,
- (ii) minus the consolidated third-party net financial debt of the Group Companies as of the Accounts Date of EUR 18,634,895,
- (iii) minus certain other financial deduction items of the Group Companies in the total amount of EUR 1,533,382,
- (iv) minus the sum of the Closing Intra-Group Payables Purchase Prices at Closing

and shall be allocated to the Sellers in accordance with the percentage of their holding in the Target Company as set out in column D. of Schedule (A) against the name of each Seller. The portions of the total consideration for the sale of the Shares so allocated to each Seller shall be referred to herein as the "**Share Purchase Prices**".

5.2 Closing Intra-Group Payables Purchase Prices

The consideration for the sale of the Closing Intra-Group Payables under this Agreement by Seller 1 and by Mr Rövekamp (together the "**Closing Intra-Group Payables Purchase Prices**") shall in either case be equal to the amount of the respective Closing Intra-Group Payables.

5.3 Cash Compensation Payment

For the period from (and including) the Accounts Date until (and excluding) the Closing Date, Purchaser shall pay a cash compensation of EUR 2,250 for each calendar day (the "**Cash Compensation Amount**").

5.4 Due Date for Payment, Default Interest

5.4.1 The Share Purchase Prices and the Closing Intra-Group Payables Purchase Prices, together with the Cash Compensation Amount (collectively also referred to as the "**Purchase Prices**") shall be due for payment at Closing.

5.4.2. To the extent that the Purchase Prices are not paid when due, the outstanding amounts shall bear interest at a rate of eight per cent (8 %) p.a. (calculated on a 360 days-count basis) for the period from (and including) the due date until and excluding the date of actual payment.

5.5. Escrow

On the Closing Date, the Sellers and the Purchaser shall enter into an escrow agreement with the German notary public Dr. Marcus Emmer having its seat c/o Freshfields Bruckhaus Deringer LLP, Bockenheimer Landstraße 44, 60322 Frankfurt, Germany (“**Trustee**”), substantially in the form as attached hereto as Schedule 5.5, (“**Escrow Agreement**”). The Sellers as a whole and the Purchaser shall each bear 50 per cent of the costs for the escrow. The portion of the costs for the escrow to be borne by the Sellers shall be allocated to Seller 1 and Seller 2 on a pro rata basis according to their shareholding percentage as set out in Schedule A.

5.6 Value Added Tax

To the extent that the transactions contemplated in this Agreement are subject to VAT, the Purchaser shall pay such VAT in addition to the Purchase Prices. VAT on each of the Purchase Prices is due for payment as soon as the Purchaser has received from the relevant Seller an invoice which complies with the provisions of Secs. 14, 14a of the German VAT Code (*Umsatzsteuergesetz*) or a respective other applicable foreign tax provision. The Parties jointly assume that the sale and assignment of the Shares and sale and assignment of the Closing Intra-Group Payables are exempt from VAT. The Sellers hereby irrevocably exclude their right to opt for VAT pursuant to Sec. 9 of the German VAT Code or comparable provisions of non-German law.

5.7 Impact of Payments on the Purchase Price

If any payment or other performance is made by any of the Sellers or Mr Rövekamp to the Purchaser or by the Purchaser to any of the Sellers or Mr Rövekamp in respect of any claim under or in connection with this Agreement, the payment or in case of a non-financial performance its financial value shall be treated as a correction of the consideration paid by the Purchaser to the relevant Seller or Mr Rövekamp under this Agreement and such consideration shall be deemed to have been reduced or increased, as the case may be, by the amount of such payment.

5.8 No Netting

The Purchaser shall not be entitled to

5.8.1 set-off any rights and claims it may have against a Seller or Mr Rövekamp against any rights or claims which the relevant Seller or Mr Rövekamp may have under or in connection with this Agreement or otherwise, or

5.8.2 refuse to perform any obligation it may have under or in connection with this Agreement on the grounds that it has a right of retention (*Zurückbehaltungsrecht*),

unless the underlying rights or claims of the Purchaser have been acknowledged in writing by the relevant Seller Mr Rövekamp or have been confirmed by final decision of a competent court (*Gericht*) or arbitration panel (*Schiedsgericht*).

6 No Leakage

6.1 Sellers' Warranties and Undertakings

Each of the Sellers, as an individual obligor,

6.1.1 guarantees by way of an independent promise of warranty (*selbständiges Garantieverprechen*) pursuant to § 311 German Civil Code (*BGB*) that between the Accounts Date and the date hereof no Leakage other than a Permitted Leakage has occurred, and

6.1.2 undertakes to procure that between the date hereof and Closing, unless otherwise provided in this Agreement, no Leakage other than a Permitted Leakage will occur.

6.2 Leakage, Permitted Leakage

6.2.1 " **Leakage** " shall mean

- (i) any payment of dividend or similar distribution including any compensation for the redemption of shares,
- (ii) any sale, transfer or encumbrance of material assets save for security relating to debt under Finance Agreements,
- (iii) any assumption of liabilities owed by Seller or any Seller-Related Person,
- (iv) any repayment of debt incurred by a Group Company vis-à-vis the relevant Seller or any Seller-Related Person including the Closing Intra-Group Payables, the granting of any guarantee by a Group Company vis-à-vis a Seller or any Seller-Related Person,
- (v) any payment or commitment to pay any fees for, or costs of, the transactions contemplated in this Agreement or granting or payment of any transaction bonus or similar payment or benefit to any director/employee or consultant of any Group Company in connection with the transactions contemplated in this Agreement (for the avoidance of doubt, any payments contractually agreed upon prior to the date of this Agreement under the consultancy agreement between the Target Company and Mr Rövekamp dated 14/15 April 2015 (the " **Rövekamp Agreement** ") shall not be affected by this Clause 6.2.1(v)),
- (vi) any waiver of claims,
- (vii) any equivalent transfer of value, or
- (viii) agreeing or committing to effect any of the matters referred to in 6.2.1(i) to 6.2.1(vii),

in each case made by a Group Company to the relevant Seller or any Seller-Related Person, which is not permitted under this Agreement or fully remedied by Closing and excluding any Tax which arises or is incurred in respect of any of the actions envisaged in 6.2.1(i) to 6.2.1(vii).

6.2.2 " **Permitted Leakage** " shall mean

- (i) any payment or performance made at the written request or with the written consent of the Purchaser,
- (ii) any payment or performance for which the relevant Group Company is fully and adequately compensated before Closing, or
- (iii) any payment or performance which is specifically allowed by or which is required under this Agreement

in each case including any Tax arising in connection with the relevant payment or performance.

6.2.3 " **Seller-Related Person** " shall mean any Affiliate of a Seller, any director or officer of Seller or any Affiliate, Mr Rövekamp, any relative (*Angehörige* within the meaning of Section 15 of the German Fiscal Code (*Abgabenordnung*)) of any of the aforementioned individual persons or any of their Affiliates.

6.3 Legal Consequences

In the event of the incorrectness of a warranty pursuant to Clause 6.1.1 or a breach by any of the Sellers of an undertaking pursuant to Clause 6.1.2, the Seller in breach of such warranty or undertaking, as an individual obligor, shall remedy or procure full remediation of the respective Leakage as required in respect of the nature of such Leakage, i.e., by way of

- (i) repayment in the event the Leakage consist of a payment,
- (ii) restitution (*Herausgabe*) or, to the extent restitution cannot be effected, compensation (*Wertersatz*) in the event the Leakage consists in a delivery of assets,
- (iii) re-assumption of or, to the extent re-assumption cannot be effected, indemnification from, the relevant liabilities in the event that the Leakage consists in an assumption of liabilities,
- (iv) release of the relevant Group Companies from the commitments or similar liabilities constituting the Leakage, or
- (v) otherwise.

7 Conditions to Closing

7.2 Closing Conditions

The obligations of the Sellers, Mr Rövekamp and the Purchaser to perform the actions at Closing pursuant to Clause 10.2 shall be subject to the following condition precedent (*aufschiebende Bedingungen*) (the “ **Closing Conditions** ”):

The German Federal Cartel Office (*Bundeskartellamt*)

- 7.1.1** has notified the Sellers and the Purchaser, or any of them, in writing that it will not prohibit the proposed acquisition of the Shares, either unconditionally or subject to the fulfilment of certain conditions or obligations (*Auflagen oder Bedingungen*) accepted or, pursuant to Clause 7.2.1, to be accepted by the Purchaser, or
- 7.1.2** has failed to notify any of the Sellers or the Purchaser within one month after filing of the proposed acquisition of the Shares in accordance with § 39 German Act against Restraints on Competition (*Gesetz gegen Wettbewerbsbeschränkungen - GWB*) that it has initiated a formal investigation, or
- 7.1.3** has failed to issue an order pursuant to § 40 para. 2 sentence 1 GWB within the time periods required pursuant to § 40 para. 2 GWB.

7.2 Satisfaction of Closing Conditions

7.2.1 The Purchaser shall duly notify or pre-notify (as applicable) the competent merger control authorities of the transactions contemplated in this Agreement on its own behalf and on behalf of the Sellers no later than five Business Days after the date of this Agreement unless applicable law or regulations require an earlier notification. Such notification as well as all requests and enquiries from the merger control authorities which relate to the satisfaction of the Closing Condition shall be dealt with by the Purchaser in consultation with the Sellers provided, however, that the contents of any such communication requires prior written approval by the Sellers which shall not be unreasonably withheld. The Sellers and the Purchaser shall promptly and closely co-operate in preparing the notification and in any discussions or negotiations with the merger control authorities and the Purchaser shall without undue delay (*unverzüglich*) submit all necessary information required by the merger control authorities; in respect of this obligation each Seller shall, in relation to information concerning the respective Seller or its Affiliates, be obliged as an individual obligor. If the merger control authorities are prepared to grant their approval only subject to compliance with specific conditions or obligations imposed, the Purchaser shall offer and accept the imposition of such conditions and obligations without any adjustment of the Purchase Price.

7.2.2. The Purchaser shall (and shall cause its Affiliates to) refrain from taking any action or omission (including entering into any transaction, agreement or other arrangement) that might be expected to make it more difficult or onerous to fulfil any of the Closing Conditions or to result in any delay in satisfying any of the Closing Conditions.

7.2.3 The Purchaser shall give evidence to the Sellers and the Sellers, each as an individual obligor, shall give evidence to the Purchaser of the satisfaction of a Closing Condition or of the impossibility to satisfy such Closing Condition, in each case without undue delay (*unverzüglich*) after becoming aware of the same.

8 Period until Closing

8.1 Ordinary Course of Business

The Sellers, each as an individual obligor, shall (i) refrain from voting in favour of any shareholders resolutions by which the shareholders meeting of a Group Company would agree to any action outside the ordinary course of business of a Group Company and in particular any of the actions listed in Clause 8.1.2, and (ii) instruct the managing directors (*Geschäftsführer*) of the Target Company (a) to comply with this Clause 8.1 and (b) to instruct the managing directors of the Group Companies to comply with this Clause 8.1, as the case may be, and, if Sellers become aware (*positive Kenntnis*) of any non-compliance, interfere with appropriate action, that between the date of this Agreement and Closing, unless otherwise provided in this Agreement,

8.1.1. each Group Company shall carry on its business as a going concern in the ordinary course of business as carried on prior to the date of this Agreement, and

8.1.2 without prejudice to the generality of Clause 8.1.1, none of the following measures shall be carried out or resolved in relation to any Group Company without the prior consent of the Purchaser, such consent to be delivered by way of Notice and not to be unreasonably withheld or delayed,

- (i) amendment of the articles of association of a Group Company,
 - (ii) execution or approval of any transformation (*Umwandlung*) in the meaning of the German Reorganisation Act (*Umwandlungsgesetz*) or liquidation, dissolution or wind-down of any Group Company,
 - (iii) conclusion of any enterprise agreement (*Unternehmensvertrag*) or silent partnership agreement,
 - (iv) disposal or pledge of, or commitment to dispose of or pledge, shares in a Group Company by way of divestiture or encumbrance,
 - (v) creation or issuance of, or granting any option to subscribe for, any share capital of a Group Company,
 - (vi) acquisition of any share or other interest in any company or partnership,
 - (vii) acquisition or disposal of, or commitment to acquire or dispose of pledge, assignment or creation of security interests of/over any material asset (excluding manufacturing materials) involving consideration, expenditure or liabilities in excess of EUR 30,000 (exclusive of VAT) outside the course of ordinary business,
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- (viii) entering into any guarantee, indemnity or other agreement to secure any obligation of a third party or creation of any encumbrance over any material assets excluding bank guarantees for customers, e.g. performance bonds, in the ordinary course of business,
 - (ix) waiver or settlement of any liability towards a Group Company in excess of EUR 100,000 in the individual case,
 - (x) enter into any other loan or credit facility agreement (the "**Loan Agreement**") in excess of EUR 200,000 in the individual case or amending Finance Agreements (the "**Amendment Finance Agreement**") and thereby increasing the debt of the relevant Group Company by more than EUR 200,000 in the individual case or a series of Loan Agreements or Amendment Finance Agreements, as the case may be, with an aggregate debt in excess of EUR 500,000 or an aggregate increase of the debt of the Group by more than EUR 500,000,
 - (xi) enter into any new real estate or facility lease agreement outside the ordinary course of business,
 - (xii) enter into, amend or terminate any employment agreement with an annual fixed salary exceeding EUR 150,000 by any of the Group Companies, except for terminations for cause (*Kündigung aus wichtigem Grund*) (for the avoidance of doubt, this Clause 8.1.2(xii) shall not apply, if an employment agreement is terminated by the employee),
 - (xiii) entering into, or material amendments of, any collective bargaining agreement,
- provided that prior to the Closing Date the Purchaser's consent shall not be required with respect to any of the actions listed in this Clause 8.1.2 to the extent that such actions are
- (i) specifically allowed by or are required under this Agreement,
 - (ii) the acquisition of the minority stake in SimonsVoss Security Technologies Pte.Ltd.,
 - (iii) in accordance with existing facility agreements,
 - (iv) reflected in the Annual Budget,
 - (v) required to prevent any losses or mitigate damage in a case of emergency or comparably urgent situation provided that the Sellers shall use good faith efforts to notify the Purchaser about such action prior to or in a timely manner after such action, or
 - (vi) required to comply with applicable law or regulation.

8.2 Release of Security

- 8.2.1** Seller 1 shall deliver to the Purchaser no later than two (2) Business Days prior to the Closing Date a letter from or an agreement with the Finance Parties and/or the security agent under the Finance Agreements releasing to the relevant security provider at Closing, or, if and to the extent such release is legally or technically not possible at Closing, as soon as it is legally and technically possible thereafter, as the case may be, all security rights and guarantees created or existing in favour of the Finance Parties (and/or in each case, the security agent under the Facilities Agreement) under or in connection with the Finance Agreements, subject only to payment of the Bank Repayment Amount to a bank account of the Finance Parties (or the relevant agents or security agents on behalf of the Finance Parties (such letter or agreement, the "**Release Letter**").
- 8.2.2** With regard to any security, guarantees or indemnities given by or binding upon any of the Sellers or any of their Affiliates in respect of any liability of the Group Companies (the "**Sellers' Security**") including
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the Sellers' Security listed in Schedule 4.1.4, the Purchaser shall procure that the Sellers are, subject to Clause 8.1.3, by Closing completely released from any Sellers' Security, and shall for this purpose, subject to Clause 8.1.3, replace the Sellers' Security prior to or at Closing, but in any event only after having received the Release Letter. The Sellers shall give to the Purchaser such assistance and information as the Purchaser may reasonably request in writing to facilitate the Purchaser's respective negotiations with the beneficiaries of the respective Sellers' Security.

8.2.3 To the extent that any of the Sellers and/or its Affiliates are by Closing not released from the relevant Sellers' Security in accordance with Clause 8.2.1, the Purchaser

(i) shall provide prior to or at Closing an unconditional bank guarantee for the benefit of the Sellers issued by a Standard & Poor's A or better rated bank of international standing and payable upon first demand, substantially in the form as attached as Schedule 8.2.3, in an aggregate amount equal to the aggregate amount of the outstanding obligations secured by those of the Sellers' Security, listed in Schedule 4.1.4 from which the respective Seller and/or the relevant of its Affiliates are not released by Closing, and shall provide that no such outstanding obligation will be increased in a way that further liabilities of the respective Seller and/or the relevant of its Affiliates result, and

(iii) shall use its reasonable best endeavours to procure a release of the respective Seller and/or the relevant of its Affiliates from such Sellers' Security as soon as reasonably practical after Closing.

8.2.4 Each Seller, as an individual obligor and only in relation to its own liabilities and/or liabilities of its Affiliates, shall procure that the Group Companies are by Closing completely released from any security, guarantees or indemnities given by or binding upon any Group Company in respect of any liability of the respective Seller and/or any of its Affiliates (all security, guarantees and indemnities in respect of liabilities of all Sellers and/or their Affiliates referred to as the "**Group Companies' Security**") including the Group Companies' Security under finance agreements listed in Schedule 4.1.4. Pending such release, the respective Seller shall indemnify the Group Companies from any amounts payable in respect of the Group Companies' Security.

8.3 Obligation to inform

8.3.1 The Sellers, each as an individual obligor, shall (i) inform Purchaser without undue delay in reasonable detail, if between the date of this Agreement and Closing Sellers become aware of any Leakage, any breach of any of the obligations provided for in Clause 8.1, or any event or fact, which would constitute a Breach, if such event or fact had happened before signing of this Agreement, and (ii) instruct the managing directors (*Geschäftsführer*) of the Group Companies to comply with this Clause 8.3.1, or shall procure that the managing directors of the Group Companies are so instructed, as the case may be, provided that any breach of this Clause 8.3.1 shall only lead to a liability of the Sellers if such breach was grossly negligent (*grob fahrlässig*) or wilful (*vorsätzlich*).

8.3.2 The Purchaser shall inform the Sellers without undue delay and with reasonable detail about any events or facts that could potentially have detrimental impact on the Closing, provided that any breach of this Clause 8.3.2 shall only lead to a liability of the Purchaser if such breach was grossly negligent (*grob fahrlässig*) or wilful (*vorsätzlich*).

9 Right to Withdraw

9.1 Non-fulfilment of Closing Conditions

- 9.1.1 If the Closing Conditions are not satisfied within five months of the date of this Agreement (the “ **Longstop Date** ”), the Sellers and the Purchaser may prior to the fulfilment of the Closing Condition, withdraw from this Agreement (*Rücktritt*) without prior notice (*ohne Einhaltung einer Frist*), whereby the Purchaser's right to withdraw from this Agreement shall be subject to (i) the Purchaser providing documentary evidence to the Sellers that the Purchaser has fully complied with its obligations under Clause 7.2.1 and (ii) the non-fulfilment of the Closing Condition not being the result of the Purchaser's failure to accept, or comply with, conditions or obligations on which the merger control authorities have made their approval of the acquisition of the Shares contingent even if such acceptance would cause unreasonable commercial hardship (*wirtschaftliche Unzumutbarkeit*) for the Purchaser.
- 9.1.2 The Sellers shall at any time be entitled to withdraw from this Agreement without prior notice in the event that the Purchase Prices plus default interest pursuant to Clause 5.4.2 are not or not fully paid within five Business Days from the due date specified in Clause 5.4.1.
- 9.1.3 The Sellers shall at any time prior to Closing be entitled to withdraw from this Agreement without prior notice in the event of a disposal of any claim of the Purchaser arising from or in connection with this Agreement resulting from a breach by the Purchaser of its obligations under Clause 17.8.
- 9.1.4 The right to withdraw may be exercised by the Purchaser by sending a Notice of withdrawal to the Sellers and by the Sellers by sending a Notice of withdrawal to the Purchaser. The Sellers' right to withdraw may only be exercised jointly.

9.2 Consequences of Withdrawal

- 9.2.1 In the event of a withdrawal, the provisions set out in Clauses 1, 9.2.1, 9.2.2, 15, 16 and 17 shall continue to be effective. All other provisions and obligations of the Parties shall cease to have effect.
- 9.2.2 In the event of a withdrawal pursuant to Clause 9.1.1 until Clause 9.1.3 the Purchaser shall pay to each Seller such amount as is necessary to (i) put the respective Seller in monetary terms in the same position such Seller would have been in had this Agreement been duly consummated (*positives Interesse*) or, as each Seller may request at its sole discretion, (ii) to compensate the respective Seller for all costs and damages incurred by such Seller and its Affiliates in result of relying on the consummation of this Agreement (*negatives Interesse*); the amount so payable to the Sellers jointly shall in no event be less than EUR 10,500,000 and shall be allocated to the Sellers in accordance with the percentage of their holding in the Target Company as set out in column (D) of Schedule (A).. The respective Seller remains free to prove higher damages.
- 9.2.3 Any failure to exercise a right to withdraw from this Agreement shall under no circumstances be deemed to constitute a waiver of any other right the Party entitled to such withdrawal may have under or in connection with this Agreement.

10 Closing

10.1 Closing Place and Date

Closing shall take place at the offices of Baker&McKenzie, Frankfurt am Main, Germany, seven Business Days after the day on which the last Closing Condition has been fulfilled. Closing may also take place at such other location, time or date as may be agreed in writing between the Sellers and the Purchaser.

10.2 Closing Actions

At Closing, the Sellers, Mr Rövekamp and the Purchaser shall take the following actions (“ **Closing Actions** ”) simultaneously (*Zug um Zug*):

- 10.2.1 The Sellers and the Purchaser shall execute the Escrow Agreement.
- 10.2.2 The Purchaser shall pay the Purchase Prices to the Sellers and Mr Rövekamp in accordance with Clause 5.4 minus an amount of EUR 1,500,000 (“ **Escrow Amount** ”).
- 10.2.3 The Purchaser shall pay the Escrow Amount to the account designated by the Trustee pursuant to the Escrow Agreement.
- 10.2.4 The Purchaser shall pay the Bank Repayment Amount in accordance with and to the bank accounts set out in the Release Letter.
- 10.2.5 The Seller shall deliver the Release Letter as set out in Clause 8.2.1.
- 10.2.6 The Purchaser shall deliver evidence of the release of the Sellers and their Affiliates from their obligations under the Sellers’ Security in accordance with Clause 8.2.1 and/or, to the extent this has not been done, a bank guarantee in accordance with Clause 8.2.3.
- 10.2.7 Each of Seller 1 and Mr Rövekamp, as an individual obligor, shall deliver copies of the declarations of consent by the relevant Group Companies to the assignments and transfers in respect of the Closing Intra-Group Payables sold by it under this Agreement as is provided in Clause 3.3.3.
- 10.2.8 The Sellers and the Purchaser shall execute the Transfer Agreement regarding the Shares as specified in Clause 2.2.
- 10.2.9 The Purchaser, Seller 1 and Mr Rövekamp shall execute the transfer agreement regarding the Closing Intra-Group Payables as specified in Clause 3.3.
- 10.2.10 By way of signing appropriate closing minutes, the Sellers, Mr Rövekamp and the Purchaser shall confirm to each other that the Closing Conditions have been fulfilled and the Closing Actions have been taken in accordance with this Agreement. As a matter of precaution, the Sellers, Mr Rövekamp and the Purchaser shall waive, to the extent legally permissible, the fulfilment of the Closing Conditions in such minutes.
- 10.2.11 Sellers shall deliver evidence of the release of the Group Companies from any Group Company Security as provided in Clause 8.2.4.

10.3 Sellers’ Right to Defer Closing Actions

If the Purchase Prices are not paid in full at Closing as provided in Clause 10.2.1, the Sellers shall have the right to defer all or individual Closing Actions by a period to be determined by the Sellers, such right to be exercised by the Sellers jointly. If the Sellers exercise such right, the Sellers’ right to withdraw pursuant to Clause 9.1.2 shall be suspended for the period by which Closing is deferred.

11 Warranties

The Sellers guarantee by way of an independent promise of warranty (*selbständiges Garantieverprechen*) pursuant to § 311 German Civil Code (*BGB*), and exclusively with the remedies pursuant to Clause 12 which form an integral part and define the scope of this promise of warranty, that the statements set forth in this Clause 11 (the “ **Sellers’ Warranties** ”) are true and correct as of the date of this Agreement or as of such other date as is expressly stated in the respective Seller’s Warranty. The Sellers’ Warranties pursuant to Clauses 11.1,

11.2.1, 11.2.2, 11.2.3 and 11.5 are given by each Seller as an individual obligor and only in relation to itself and to those of the Shares and, if applicable, of the Closing Intra-Group Payables sold by it under this Agreement.

Mr Rövekamp guarantees by way of an independent promise of warranty (*selbständiges Garantieverprechen*) pursuant to § 311 German Civil Code (*BGB*), and exclusively with the remedies pursuant to Clause 12 (which shall apply to *mutatis mutandis* to Mr Rövekamp) which form an integral part and define the scope of this promise of warranty, that the statements set forth in Clauses 11.1 and 11.5 (the “ **Rövekamp Warranties** ”) are true and correct as of the date of this Agreement. The Rövekamp Warranties are given by Mr Rövekamp as an individual obligor and only in relation to himself and to those of the Closing Intra-Group Payables sold by him under this Agreement.

11.1 Sellers' Capacity

Each Seller is a duly existing company or partnership and each Seller and Mr Rövekamp is entitled to enter into the transactions contemplated by this Agreement. Each Seller has the the capacity and authority to enter into this Agreement, sell and transfer to the Purchaser the Shares as sold hereunder and to perform all of the other undertakings under this Agreement. No court order to open insolvency proceedings over the assets of a Seller has been served on such Seller as of the Signing Date. To Sellers' Knowledge, (i) no request for the opening of such proceedings has been filed, and (ii) no circumstances exist which would require a Seller to apply for the opening of such proceedings.

As of the Signing Date there is (i) no lawsuit pending or threatened in writing against any Seller, and (ii) to the Sellers' Knowledge, no action, suit, investigation or proceeding pending or threatened in writing, each of item (i) or (ii) affecting a Seller, which in any manner seeks to prevent, enjoin or delay the Closing, other than, for the avoidance of doubt, the merger control proceedings referred to in Clause 7.1.

11.2 Legal Situation of the Shares

- 11.2.1 As at Closing, each Seller is the sole owner of the Shares sold by it under this Agreement.
- 11.2.2 As at Closing, the Shares are free of encumbrances and other third party rights, including expectancy rights, or pending transfers or other dispositions (*Verfügungen*), and not subject to any restrictions in respect of the sale or assignment pursuant to Clause 2, except as set forth in this Agreement.
- 11.2.3 As at Closing, the Shares are fully paid in and free of additional payment obligations (*Nachschusspflichten*).
- 11.2.4 As at Closing, except for security granted to the Finance Parties no third party has any right in or to any shares in the Target Company.

11.3 Corporate Status of the Target Company

- 11.3.1 The statements in Recital (A) in respect of the Target Company are accurate.
- 11.3.2 As of Closing, no insolvency proceedings have been commenced or, to Sellers' Knowledge, as at the date of the signing of this Agreement applied for in respect of the Target Company and the Target Company is, to Sellers' Knowledge, not unable to pay its due debts (*zahlungsunfähig*), and, to Sellers' Knowledge, there are no circumstances which would require the institution of insolvency proceedings in respect of the Target Company. The Target Company has not been dissolved (*aufgelöst*).
- 11.3.3 As at Closing, the Target Company has not entered into any enterprise agreements within the meaning of §§ 291 and 292 of the Stock Corporation Act (AktG) under which the Target Company is obliged to transfer its profits (or parts thereof) or to subordinate its management (or parts thereof) to a third party.
- 11.3.4 Except for its shares in the Subsidiaries, the Target Company does neither directly nor indirectly hold any shares, partnership interest or equivalent participation in any entity which exceeds five per cent of the total shares or interest in such entity.

11.4 Corporate Status of the Subsidiaries

- 11.4.1 As at Closing, the information in Schedule (B) regarding the Target Company's direct or indirect ownership of the shares in the Subsidiaries is complete and accurate except for measures specifically allowed under this Agreement or approved by the Purchaser.
- 11.4.2 As at Closing, except as disclosed in Schedule 11.4.2, the shares in the Subsidiaries which are directly or indirectly owned by the Target Company are free of encumbrances and other rights of third parties or pending transfers or other dispositions other than a Group Company.
- 11.4.3 As at Closing, no insolvency proceedings have been commenced or, to Sellers' Knowledge, as at the date of the signing of this Agreement, applied for in respect of a Subsidiary and, to Sellers' Knowledge, no Subsidiary is unable to pay its due debts (*zahlungsunfähig*). To Sellers' Knowledge, no Subsidiary has been dissolved (*aufgelöst*).
- 11.4.4 As at Closing, no Subsidiary has entered into any enterprise agreements within the meaning of §§ 291 and 292 of the Stock Corporation Act (AktG) under which such Subsidiary is obliged to transfer its profits (or parts thereof) or to subordinate its management (or parts thereof) to a third party other than a Group Company.

11.5 Closing Intra-Group Payables

As at Closing, the Closing Intra-Group Payables and the Rövekamp Agreement will be the sole financial entitlements of Sellers and Mr Rövekamp against the Group Companies and are exclusively owned by Seller 1 or Mr Rövekamp as shown in Schedule 3.1 and are free of encumbrances and other third party rights or

pending transfers or other dispositions. The Sellers and Mr Rövekamp do not assume any liability with respect to the recoverability (*Werthaltigkeit*) of the Closing Intra-Group Payables or of any claims in connection with the Closing Intra-Group Payables including claims for the payment of interest thereon.

11.6 Annual Accounts

11.6.1 The Sellers have delivered to the Purchaser

- (i) in respect of each Group Company, the audited individual annual accounts (respectively regarding SimonsVoss Technologies Ltd, Hong Kong and SimonsVoss Technologies BV, The Netherlands the unaudited individual accounts) including the audit reports for the financial year ending on the Accounts Date, and
- (ii) in respect of the Group, the audited consolidated annual accounts including the audit reports for the financial year ending on the Accounts Date (the annual accounts specified in (i) and (ii) collectively the “ **Annual Accounts** ”).

11.6.2 The Annual Accounts have been set up with the diligence of a prudent business person (*Sorgfalt eines ordentlichen Kaufmanns*) in accordance with applicable accounting principles generally accepted in the respective jurisdiction they have been prepared for. The foregoing accounting principles were applied unchanged and consistently as in previous years unless otherwise required by such accounting principles or disclosed or noted in the Annual Accounts. The annual accounts of the Target Company for the financial year ending on the Accounts Date provide in all respects a true and fair view of the assets and liabilities, the financial conditions and earnings position of the Target Company taking into account the principles of proper accounting in compliance with German GAAP (*der Jahresabschluss vermittelt unter Beachtung der Grundsätze ordnungsgemäßer Buchführung gemäß HGB im Wesentlichen ein den tatsächlichen Verhältnissen entsprechendes Bild der Vermögens-, Finanz- und Ertragslage der Gesellschaft*).

11.7 Ordinary Course of Business

Between the Accounts Date and the date of this Agreement each Group Company has carried on its business as a going concern in the ordinary course of business.

11.8 Fixed Assets

Except as disclosed in Schedule 11.8, the Group Companies have title to, and/or lawful possession (*rechtmäßiger Besitz*) of, all fixed assets (*Anlagevermögen*) (other than the shares in the Subsidiaries in respect of which solely the Sellers' Warranties in Clause 11.2 shall apply, the Owned Real Property in respect of which solely the Sellers' Warranties in Clause 11.9 shall apply and the Intellectual Property in respect of which solely the Sellers' Warranties in Clause 11.11 shall apply) which are material to the Business and either included in the audited individual annual accounts of the Group Companies as per the Accounts Date or acquired by the Group Companies since the Accounts Date except for such assets which have been disposed of in the ordinary course of business. Fixed assets shall be considered material to the Business only if any impediment to, or impossibility of, its use by the Group Companies would have a material adverse effect on the Business of the Group taken as a whole.

11.9 Owned Real Property

- 11.9.1** Schedule 11.9.1 contains a list of all real property (*Grundstücke*), rights equivalent to real property (*grundstücksgleiche Rechte*) and buildings owned by the Group Companies and material to the Business (the “ **Owned Real Property** ”). Real property, rights equivalent to real property or buildings shall be considered material to the Business only if any impediment to, or impossibility of, its use by the relevant Group Company would have an adverse material effect on the Business of such Group Company.
- 11.9.2** The Group Companies have title to and possession of the Owned Real Property and have not agreed to dispose of the Owned Real Property.
- 11.9.3** Except as set forth in Schedule 11.9.1, (i) the Owned Real Property is not subject to any land charges, easements or equivalent encumbrances in favour of third parties (other than statutory pre-emption rights or similar restrictions) which are not registered in the land register or hereditary building rights register and (ii) no Group Company has agreed to concede such encumbrances.

11.10 Leased Real Property

- 11.10.1** Schedule 11.10.1 contains a list of all real property (*Grundstücke*) and buildings used, but not owned, by the Group Companies and material to the Business (the “ **Leased Real Property** ”). Real property or buildings shall be considered material to the Business only if any impediment to, or impossibility of, its use by the relevant Group Company would have an adverse material effect on the Business of such Group Company.
- 11.10.2** To Sellers' Knowledge (i) the Group Companies have concluded valid lease agreements in relation to the Leased Real Property, and (ii) the Group Companies are not in breach of material obligations under such lease agreements which would entitle the landlord to terminate the relevant lease for cause (*aus wichtigem Grund*).

11.11 Intellectual Property

- 11.11.1** Schedule 11.11.1-1 contains in all material aspects an accurate and a complete list of all patents, trademarks, utility patents, design patents, trade names, domain names and equivalent intellectual property rights (*gewerbliche Schutzrechte*), including applications to the foregoing (“ **Intellectual Property Rights** ”), which are owned by the Group Companies, provided that the representation of accuracy is qualified by Sellers' Knowledge except for (i) nature and description of relevant intellectual property right, (ii) owner, (iii) countries in which the respective intellectual property right is registered, (iv) classes for which the respective intellectual property right is protected, (collectively the “ **Owned Intellectual Property Rights** ”) indicating the Group Company or Group Companies by which the respective Material Intellectual Property Right is owned and, to the extent applicable, the countries and classifications for which the respective Owned Intellectual Property Right enjoys protection. Except as disclosed in Schedule 11.11.1-2, the Target Company is the unrestricted legal and beneficial owner of the respective Owned Intellectual Property Rights and no Owned Intellectual Property Right is (i) encumbered with any rights or licenses of any third party, including any of Sellers, Sellers' Affiliates but except for any encumbrance under the Finance Agreements and any non-exclusive license for the use (but, for the avoidance of doubt, not for the manufacturing) of products to customers granted in the ordinary course of business or (ii) subject to any non-registered or otherwise pending transfer
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or other disposition or any sale, contribution or other contractual arrangement creating an obligation to transfer or to create, change or abolish any encumbrances.

11.11.2 To Sellers' Knowledge the Group Companies have properly maintained and are continuing until the Closing to properly maintain the Owned Intellectual Property Rights, in particular in relation to applications in a timely manner for renewals and the payment when due of all registration and renewal fees as well as all annuities.

11.11.3 To Sellers' Knowledge all agreements providing for a license to a Group Company of any rights to use any Intellectual Property Right not being an Owned Intellectual Property Right (the "**Licensed Intellectual Property Right**") are in full force and effect and enforceable against the licensor in accordance with their terms.

11.11.4 To Sellers' Knowledge no Intellectual Property Rights other than the Owned Intellectual Property Rights and the Licensed Intellectual Property Rights are currently used by or necessary for any Group Company to conduct its Business as currently conducted.

11.11.5 Except as disclosed in Schedule 11.11.5,

- (i) the Owned Intellectual Property Rights are not subject to any pending proceedings for opposition, cancellation or revocation;
- (ii) there are no restrictions that would prevent any Group Company from the use of the Owned Intellectual Property Rights and the Licensed Intellectual Property Rights as required for continuing the Business in substantially the same manner as at the date of this Agreement except, to the extent that a Licensed Intellectual Property Right is used on the basis of a license or similar agreement, if such license or similar agreement (a) is concluded for a fixed term and such term expires, or (b) is terminable for the contractual partner of the relevant Group Company in accordance with its terms,
- (iii) no Group Company is, and there is no pending or, to Sellers' Knowledge, threatened litigation by any third party on the grounds that a Group Company is, infringing any Intellectual Property Right of a third party;
- (iv) to Sellers' Knowledge each Group Company has duly complied with, to the extent required by law, contract or otherwise, the provisions of the German Act on Employee Inventions (*Arbeitnehmererfindungsgesetz* , "**ArbEG** ") or similar foreign law or has achieved a commercially equal result in whatsoever form. To Sellers' Knowledge all Group Entities have claimed the rights in any invention of current or former employees in accordance with the ArbEG and have paid all remuneration to persons entitled to any compensation under the ArbEG, or a foreign equivalent or agreements entered into under such Act up to and including the Closing Date or have achieved a commercially equal result in whatsoever form.

11.12 Material Agreements

11.12.1 Except as disclosed in Schedule 11.12.1, no Group Company is bound by any of the following types of agreements which have not yet been completely fulfilled ("**Material Agreements** "):

- (i) joint venture, consortium, partnership or equivalent co-operation agreements with third parties;
 - (ii) agreements in respect of the acquisition or disposal of shares or participations in other entities (including other Group Companies) or businesses other than relating to an investment of five per cent or less of the total shares or interest in such other enterprise;
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- (iii) agreements in respect of the acquisition or disposal of real estate (*Grundstücke*), rights equivalent to real estate (*grundstücksgleiche Rechte*) or buildings;
- (iv) guarantees (*Garantien*), suretyships (*Bürgschaften*), comfort letters (*Patronatserklärungen*) or equivalent securities for obligations of any third party other than a Group Company which could result in a liability of one or more Group Companies in excess of EUR 150,000 in total;
- (v) other long term agreements (excluding purchase orders) with a consideration of more than EUR 50,000 (exclusive of VAT) per year which are material to the Business and which cannot be terminated by either party with a notice period of twelve months or less except for cause (*wichtiger Grund*); or
- (vi) agreements restricting the Business as a whole materially to conduct business activities.

11.12.2 Except as disclosed in Schedule 11.12.1, (i) all Material Agreements are in full force and effect, (ii) no notice of termination has been (a) served, or (b) threatened in relation to a Material Agreement, (iii), to Sellers' Knowledge, the relevant Group Company is not in breach of any material obligation under a Material Agreement which would entitle the other party to terminate the relevant Material Agreement for cause (*wichtiger Grund*) and (iv), to Sellers' Knowledge, the execution or consummation of this Agreement will not entitle the respective other party to terminate a Material Agreement within twelve months from the date of this Agreement.

11.13 Employees

11.13.1 Schedule 11.13.1 contains a list of all employees who, to Sellers' Knowledge, are (i) currently appointed managing directors or board members of a Group Company or (ii) have a fixed annual gross salary in excess of EUR 100,000, (" **Senior Employees** ").

11.13.2 No Senior Employee has given or received notice of termination of his/her employment or has entered into a termination agreement with a Group Company or has made or received an offer to enter into a termination agreement.

11.13.3 The list enclosed as Schedule 11.13.3 contains all material collective bargaining agreements (*Tarifverträge*), company bargaining agreements (*Firmentarifverträge*), shop agreements (*Betriebsvereinbarungen*) and social plans (*Sozialpläne*) applicable to the Group Companies or any of them which contain more than merely a repetition of statutory law. No Group Company has a works council, and the Target Company is not a member of an employer's association (*Arbeitgeberverband*).

11.13.4 Except as disclosed in Schedule 11.13.4, no Group Company operates any employer financed workplace pension scheme or other retirement benefit scheme under which the relevant Group Company is or may become obliged to provide retirement benefits to all or a group of its current or past employees, directors or dependants thereof. To Sellers' Knowledge, no Group Company has any liability to any actual or former employees under any such scheme.

11.13.5 To Sellers' Knowledge, the Group Companies are in all material respects in compliance with their obligations towards their employees.

11.14 Litigation

None of the Group Companies is involved as plaintiff or defendant in any pending court or administrative proceedings, including arbitration proceedings, having a litigation value (*Streitwert*) in excess of EUR 100,000 in the individual case and, to Seller's Knowledge, no such proceedings have been threatened.

11.15 Environmental

11.15.1 (i) The Group Companies hold in full force and effect all Environmental Permits material to the Business and (ii) to Sellers' Knowledge, there are no events or circumstances which will lead to a revocation, suspension or limitation, in whole or in part, of any such material Environmental Permit.

11.15.2 To Sellers' Knowledge, there is no contamination, pollution or presence of hazardous materials on any Owned Real Property that would result in an obligation of a Group Company to conduct any clean-up or remediation measures, safekeeping measures, protection measures or measures against immediately threatening dangers to life or health (*Sanierungsmaßnahmen, Sicherungsmaßnahmen, Schutzmaßnahmen oder Maßnahmen zur Abwehr von unmittelbar drohenden Gefahren für Leben oder Gesundheit*).

11.16 Compliance with Laws

Except as disclosed in Schedule 11.16, to Sellers' Knowledge, each Group Company is in material compliance with (i) all material laws, as well as any laws relating to anti-bribery, money laundering or corrupt practices applicable in any jurisdiction in which the Group Companies conduct the Business and (ii) any applicable export, embargo and sanctions laws and regulations. To Sellers' Knowledge, no written notice (which has not been resolved or formally withdrawn) has been received by any Group Company or Seller from any governmental authority or third party alleging that any Group Company is not in material compliance with any law or regulation applicable to the Business.

11.17 Insurance

Except as disclosed in Schedule 11.17, to Sellers' Knowledge, the Group Companies are appropriately insured against all relevant risks, against and for such amounts for which a prudent businessman, who is active in the same sector as the Group Companies, would usually be insured, including, but without limitation, business interruption and product liability insurance. To Sellers' Knowledge, the relevant insurance agreements are in full force and effect, have not been terminated or threatened to be terminated and will remain in force irrespective of the consummation of the transactions contemplated by this Agreement.

11.18 Products

To Sellers' Knowledge, all products and services currently designed, manufactured, sold or distributed are in compliance with all material applicable regulations, safety standards, technical norms applicable in the countries that are directly supplied by the Group Companies.

11.19 Conduct of Business

Except as set forth in Schedule 11.19, from the Accounts Date until the date hereof, no Group Company has performed any of the measures listed in Clauses 8.1.1 and 8.1.2, in each case unless provided for, permitted or disclosed elsewhere in this Agreement.

12 Legal Consequences

12.1 Exhaustive Provisions

Subject to mandatory law, in particular § 123 or § 276 para. 3 of the German Civil Code (*BGB*), and except as otherwise expressly provided in this Agreement,

- (i) the Sellers' Warranties and the Rövekamp Warranties are exhaustive and no further warranties shall be deemed to be given by the Sellers or Mr Rövekamp, and
- (ii) other than for any claims of the Purchaser under Clauses 6, 8.1 and 13.2 and in relation to primary obligations (*Primärleistungspflichten*) under this Agreement, the provisions set forth in this Clause 12 shall apply instead and to the exclusion of any and all remedies that would otherwise be available to the Purchaser under the law (a) in the event of any of the Sellers' Warranties or Rövekamp Warranties being incorrect, or (b) in the event of any other obligation of the Sellers or Mr Rövekamp arising from or relating to this Agreement being breached (collectively a " **Breach** "), and
- (iii) any further liability of the Sellers, Mr Rövekamp and of the Sellers' representatives, agents and/or advisors and any differing or further rights or claims of the Purchaser other than explicitly provided for in this Agreement, irrespective of their nature or legal basis, including, without limitation, any right to rescind (*anfechten*) or to withdraw from (*zurücktreten*) this Agreement, to claim remediation (*Nacherfüllung*), to reduce the Purchase Prices (*mindern*) and/or to claim damages (*Schadensersatz*) or reimbursement of futile expenditure (*Ersatz vergeblicher Aufwendungen*) are hereby expressly excluded and waived, in particular, without limitation, any rights and claims arising from or in connection with (a) defects in quality or title (*Sach- oder Rechtsmängel*), (b) incorrectness of any of the Sellers' Warranties or Rövekamp Warranties or other guarantees, warranties, indemnities or similar undertakings, (c) breach of any contractual or pre-contractual obligation, (d) tort, (e) interference with the contractual basis (*Störung der Geschäftsgrundlage*), or (f) any other basis.

12.2 Sellers' Knowledge

Where a Sellers' Warranty is restricted to " **Sellers' Knowledge** ", Sellers' Knowledge shall mean the actual positive knowledge of any Seller or of the individuals set out against each of the Sellers' names in Schedule 12.2.

12.3 Sellers' Liability

- 12.3.1** For a period of three months after having been duly notified in accordance with Clauses 12.7.1 and 12.7.2 of one or several Notified Claims exceeding (or pursuant to this Agreement exempted from) the thresholds defined in Clause 12.5.1 the Sellers or, as the case may be, the relevant Sellers shall be given the opportunity to factually remedy (restitution in kind; *Naturalrestitution*) the relevant Breach or Breaches.
 - 12.3.2** The Sellers shall at any time prior to the expiry of the period pursuant to Clause 12.3.1 be entitled to factually remedy a Breach in respect of which the Sellers have received notice of a Notified Claim, irrespective of whether or not the thresholds defined in Clause 12.5.1 are applicable and exceeded.
 - 12.3.3** If and to the extent that within the period pursuant to Clause 12.3.1, factual remediation of a Breach is not achieved or impossible or finally refused (*ernsthaft und endgültig verweigert*) by a Seller, the respective person(s) shall, subject to the limitations set forth in this Agreement, be obliged to compensate the Purchaser or, upon the Purchaser's written Notice the relevant Group Company, by way of monetary damages (*Schadensersatz in Geld*) in an amount equal to the actual loss (*Schaden*) suffered by the Purchaser as result of the relevant Breach; the obligations of the Sellers to compensate the Purchaser for losses shall not include any (i) indirect damages, (ii) consequential losses, in particular without limitation lost profit or revenue or lost opportunities, in each case to the extent that the indirect
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damage, consequential losses or lost profit, revenue or opportunity exceeds the reasonably foreseeable losses covered by the purpose of the breached obligation of Sellers (*den angemessenerweise vorhersehbaren und vom Schutzzweck der verletzen vertraglichen Verpflichtung umfassten Schaden übersteigen*), (iii) frustrated expenses (*vergebliche Aufwendungen*) within the meaning of § 284 German Civil Code (*BGB*) or (iv) internal costs. Any liability due to a recalculation (*Neuberechnung*) of the Purchase Prices upon a Breach is explicitly excluded.

12.4 Limitations on Sellers' Liability

12.4.1 Changes in Legislation

The Sellers shall not be liable under or in connection with this Agreement to the extent that such liability would not have occurred but for the passing of, or change in, any law, statute, ordinance, rule, regulation, or administrative practice of any governmental or regulatory body (including any changes in case-law except for singular rulings of instance courts (*Instanzgerichte*) and increase in the rates of Taxes) after the date of this Agreement.

12.4.2 Changes Attributable to the Purchaser

The Sellers shall not be liable under or in connection with this Agreement in respect of any damage or loss resulting from, or increased by,

- (i) any voluntary act or omission of the Purchaser or any of the Purchaser's Affiliates (including, after Closing, the Group Companies), or their respective directors, officers, employees, agents or other representatives, after the date of this Agreement including any changes in the accounting methods or principles (unless required by applicable generally accepted accounting principles as of the date of this Agreement), in each case in breach of Purchaser's obligations under this Agreement, or
- (ii) any act or omission agreed in, and in compliance with, this Agreement or otherwise explicitly requested or approved by the Purchaser.

12.4.3 Non-Compliance by Purchaser

- (i) The Sellers shall not be liable under or in connection with this Agreement in respect of a claim in relation to which the Purchaser does not fully comply with its obligations under Clause 12.7 and for with its statutory obligations to mitigate damages under Section 254 German Civil Code (BGB) and such non-compliance has caused or increased the Sellers' liability under this Agreement.
- (ii) The Sellers shall not be liable under or in connection with this Agreement in the event of a valid disposal of any claim of the Purchaser arising from or in connection with this Agreement resulting from a breach by the Purchaser of its obligations under Clause 17.8.

12.4.4 Purchaser's Knowledge

The Sellers shall not be liable under or in connection with this Agreement in respect of a claim if the Purchaser, any of the Purchaser's direct or indirect shareholders, or any director, officer, employee, agent, advisor or other representative of the Purchaser or of any of the Purchaser's direct or indirect

shareholders who has been involved in the negotiation or preparation of this Agreement (including without limitation the due diligence performed in relation to the Group and its Business), has on the date of this Agreement knowledge of the underlying facts constituting a Breach. In particular without limitation, the following facts shall be deemed known by the Purchaser on the date of this Agreement:

- (i) all matters disclosed, contained or referred to in this Agreement;
 - (ii) all matters Fairly Disclosed in the documents which have been made accessible to the Purchaser and any members of corporate bodies or any employees, advisors and/or any other representatives of the Purchaser during the period commencing on 12 June 2015 and ending on 23 June 2015, 3:00 am CET through a virtual data room operated by Merrill DataSite (the “ **Data Room** ”) for purposes of conducting a due diligence of the Group; for identification purposes these documents have been stored on an electronic data storage medium and handed over to the acting notary to be taken into custody until the expiry of the limitation periods pursuant to this Agreement pursuant to the terms and conditions set out in Schedule 12.4.4(ii) ;
 - (iii) all matters Fairly Disclosed in the documents which have been made accessible to the Purchaser and any members of corporate bodies or any employees, advisors and/or any other representative of the Purchaser during the period commencing on 23 June 2015, 3:01 am CET until 24 June 2015, 7 pm CET via emails for purposes of conducting a due diligence of the Group; for identification purposes these documents have been stored on an electronic data storage medium and handed over to the acting notary to be taken into custody until the expiry of the limitation periods pursuant to this Agreement pursuant to the terms and conditions set out in Schedule 12.4.4(ii) ;
 - (iv) all answers provided in the Q&A process during the period set out under Clause 12.4.4(ii);
 - (v) all information which is available in governmental records open to the public worldwide on the date of this Agreement including, without limitation, all matters contained or referred to (a) on the public files of the Group Companies at commercial registers, or (b) on public files at intellectual property registries or (c) on any website of the Group Companies;
 - (vi) all matters disclosed, provided for or noted (to the extent of such provision or note) in the Annual Accounts;
 - (vii) all matters Fairly Disclosed, contained or referred to in the Management Presentation, the Tax Fact Book and the Financial Fact Book prepared for the purpose of the acquisition contemplated by this Agreement;
 - (viii) all matters Fairly Disclosed to the Purchaser, its direct or indirect shareholders, any of its or their directors, employees or agents or any of its or their advisers or other representatives at the presentations by and meetings with management of the Target Company on 24 September 2014 (meeting at security trade fair), 4/5 May 2015 management presentation and expert sessions), 19 May 2015 (visit Osterfeld plant), 2 June 2015 (visit Osterfeld plant), 17 June 2015 (visit Osterfeld plant), 16 June 2015 (visit offices Unterföhring), 16 June 2015 (visit Unterföhring EHS, HR), 17 June 2015 (meeting in France), 18 June 2015 (visit offices
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Unterföhring), 18 June 2015 (meeting in UK, IFSEC), 8 July 2014 (visit office Unterföhring); and

- (ix) all matters otherwise Fairly Disclosed in writing by or on behalf of the Sellers, or their representatives or advisers, to the Purchaser, its direct or indirect shareholders, any of its or their directors, employees or agents or any of its or their advisers or other representatives in connection with the transactions contemplated in this Agreement.

" **Fairly Disclosed** " shall mean the disclosure of facts or circumstances in a manner to allow a diligent buyer of the Group being an industrial purchaser with experience in the line of the business of the Group to reasonably assess the nature and significance of the relevant matter.

12.4.5 Purchaser's Rights to Recover

The Sellers shall not be liable under or in connection with this Agreement in respect of any claim to the extent that

- (i) the damage giving rise to such claim (a) is covered by an insurance of any Group Company, the Purchaser or any of the Purchaser's Affiliates on the basis of the respective insurance terms, or (b) would have been covered by an insurance of any Group Company if the insurance cover of the Group existing at Closing had been continued in the same scope as prior to Closing, or
- (ii) either (a) the damage giving rise to such claim is recovered from a third party or (b) the Purchaser or a Group Company has a claim for compensation of, or indemnification from, the damage against a third party, and such claim - which must not be limited by any permanent defence (*dauerhafte Einrede oder Einwendung*) - has not been validly assigned to the Sellers against (*Zug um Zug*) payment of the relevant monetary damages by the Sellers to Purchaser.

12.4.6 Offsetting Benefits

The Sellers shall not be liable under or in connection with this Agreement in respect of any claim to the extent of any existing or reasonably certain and quantifiable future offsetting benefits, savings or other quantifiable financial advantages accruing or attributable to the Purchaser or a Group Company on account of the matters or circumstances giving rise to such claim, including any Tax Benefits.

12.4.7 Inclusion in the Annual Accounts

The Sellers shall not be liable under or in connection with this Agreement in respect of any claim to the extent that the matter giving rise to such claim has been taken into account in the Annual Accounts by way of a specific liability, reserve or accrual.

12.4.8 Ne bis in idem

The Purchaser shall not be entitled to recover from the Sellers more than once in respect of the same damage suffered. In particular, without limitation, the foregoing shall apply where one and the same set of facts (*Sachverhalt*) qualifies under more than one provision entitling the Purchaser to a claim or remedy under or in connection with this Agreement. In this case, only the more specific provision shall apply.

12.4.9 Overstatements/Understatements

If and to the extent that

- (i) the amount of any allowance, provision or reserve (including any allowance, provision or reserve taken into account in calculating the net value of an asset) made in the Annual Accounts or otherwise taken into account or reflected therein is found to be in excess of, or unnecessary in respect of, the matter for which such allowance, provision or reserve was made,
 - (ii) any sum is received by any Group Company in respect of any asset which has previously been written off as irrecoverable in the Annual Accounts, or
 - (iii) the value of any asset in the Annual Accounts is understated or any liability in the Annual Accounts is overstated,
- the amount of such excess, unnecessary allowance, provision or reserve, receipt, understatement or overstatement shall be credited against and applied in relieving the Sellers from any liability they would otherwise incur in respect of any claim under or in connection with this Agreement to which the excess, unnecessary allowance, provision or reserve, receipt, understatement or overstatement specifically relates. Each Seller shall be entitled such credit pro rata in proportion to its total shareholding in the Target Company as set out in column D. of Schedule (A).

12.5 De minimis, Basket, Cap

12.5.1 Claims against the Sellers under or in connection with this Agreement can only be made if

- (i) the relevant single claim exceeds an amount of EUR 25,000, and
- (ii) the aggregate amount of all such claims exceeds an amount of EUR 250,000.

If the threshold pursuant to Clause 12.5.1(i) is exceeded, the entire amount shall be taken into account. If the threshold pursuant to Clause 12.5.1(ii) is exceeded, only the exceeding amount shall be taken into account; if the threshold pursuant to Clause 12.5.1(ii) is exceeded, the amount of EUR 250,000 shall be allocated to each of the Sellers as a deduction amount at the discretion of Seller 1. The limitation of liability pursuant to Clause 12.5.1(ii) does not apply to Clause 11.19.

12.5.2 The Sellers' liability under this Agreement shall be limited to an aggregate maximum amount of EUR 2,100,000 allocated to the respective Seller in accordance with the percentage of their holding in the Target Company set out in column D. of Schedule (A). Such liability cap and Clause 12.5.1 shall not apply to Breaches of Clauses 2, 3.2, 3.3, 6, 8.1 or 11.2 provided, however, that the overall liability of each Seller under this Agreement shall be limited to an aggregate maximum amount corresponding to 100 % of the Purchase Prices allocated to the respective Seller in accordance with the percentage of their holding in the Target Company set out in column D. of Schedule (A).

12.6 Time Limitation

The claims of the Purchaser under this Agreement shall become time-barred as follows:

12.6.1 Claims arising from a Breach of Clauses 2, 3.2, 3.3, 6 or 11.2 shall become time-barred three years after the Closing Date.

12.6.2 All other claims (other than Tax claims, which shall be covered by Clauses 13.2.6 and 13.3.4) shall become time-barred twelve months after Closing Date.

Sec. 203 of the German Civil Code (*BGB*) shall not apply unless the Parties expressly agree in writing that the expiry period shall be suspended (*gehemmt*) because of pending settlement negotiations.

12.7 Conduct of Claims

12.7.1 Notification

The Purchaser shall give Notice to the relevant Sellers of any Breach within the time period defined in Clause 12.7.2. Such Notice shall, to the extent that this is known to the Purchaser, specify in reasonable detail for each individual Breach the underlying facts constituting the Breach, the legal basis for a potential claim and the amount or estimated amount of the damages suffered by the Purchaser as result of the Breach. To the extent and as soon as available to the Purchaser or its Affiliates, Sellers shall with or as soon as possible following the Notice be submitted with documents which a reasonable seller would expect in order to be able to assess the merits of any claims in respect of the relevant Breach and the amount or estimated amount of the damages arising from the Breach. The Purchaser's claims notified in accordance with the 1st sentence are herein referred to as " **Notified Claims** ".

12.7.2 Time Limit for Notification

The Purchaser shall make the notification in accordance with Clause 12.7.1 within one month after it has obtained knowledge of the underlying facts constituting the relevant Breach. This one month period shall be reduced as appropriate if any applicable deadline requires a swifter notification so as to enable the relevant Sellers to effectively exercise its or their rights under this Clause 12.7.

12.7.3 Time Limit for pursuing Notified Claims

To the extent a Notified Claim is not settled between the Parties, the Purchaser shall submit such Notified Claim for arbitration or decision by a court in accordance with Clause 17.7 within six months after notification of the claim to the Seller.

12.7.4 Investigation by the Sellers

In connection with any matter or circumstance that may give rise to a claim against any of the Sellers under this Agreement, the Purchaser shall allow, and shall procure that the relevant Group Company allows, the respective Seller or Sellers, and its or their financial, accounting, tax or legal advisers to investigate the matter or circumstance alleged to give rise to a claim and whether and to what extent any amount is payable in respect of such claim. In particular, all material and documents relating to the relevant claim which the Sellers reasonably request shall be disclosed without undue delay (*unverzüglich*), and all such information and assistance, including access to premises and personnel, and the right to examine and copy or photograph any assets, accounts, documents and records, as the respective Seller or Sellers, or any one of them, or its or their financial, accounting, tax or legal advisers may reasonably request shall be given without undue delay (*unverzüglich*). Each Seller, as an individual obligor, hereby undertakes to keep all such information confidential and to use it only for the purpose of investigating and defending the claim in question. All reasonable expenses of the Purchaser and the relevant Group Company caused by such disclosure or assistance, other than

internal costs such as labour or overhead costs, shall be borne by the Seller or Sellers requesting such disclosure and assistance.

12.7.5 Third Party Claims

In the event that a claim against the Purchaser or a Group Company is asserted, made, threatened or filed by a third party (including any Tax Authority or other governmental or regulatory body) which results, or which the Purchaser believes to result, from a Breach (a “ **Third Party Claim** ”) the following shall apply:

- (i) No admissions in relation to such Third Party Claim shall be made by or on behalf of the Purchaser or any of the Purchaser's Affiliates (including, after Closing, the Group Companies) and the Third Party Claim shall not be compromised, disposed of or settled without the prior written consent of the relevant Seller or Sellers, which shall not be unreasonably withheld.
 - (ii) If the relevant Seller or Sellers, or any one of them, wish to defend the Purchaser or the relevant Group Company against the Third Party Claim in its or their name and on its or their behalf, each of them shall give Notice to the Purchaser of such decision within a period of three weeks after having been duly notified of the Third Party Claim in accordance with Clauses 12.7.1 and 12.7.2. Upon such notification the respective Seller or Sellers shall be entitled to take any action they deem necessary to defend, appeal, compromise or settle the Third Party Claim (including the assertion and pursuit of counter-claims or other claims against any third parties) at its or their sole discretion in the name and on behalf of the Purchaser or the relevant Group Company. Notwithstanding the Purchaser's obligations pursuant to Clause 12.7.4, the Purchaser shall, and shall procure that the relevant Group Company shall, promptly give all assistance and information to the respective Seller or Sellers as may be reasonably required to defend the Third Party Claim and in particular promptly forward all notices, communications and filings (including court papers).
 - (iii) If none of the Sellers notifies the Purchaser in accordance with Clause 12.7.5(ii), the Purchaser shall, or shall procure that the relevant Group Company shall, conduct the defence of the Third Party Claim diligently and in good faith and take any such action as the Sellers, or any one of them, may reasonably request to defend, appeal, compromise or settle the Third Party Claim (including the assertion and pursuit of counter-claims or other claims against any third parties). The Purchaser shall, and shall procure that the relevant Group Company shall, (a) keep the relevant Seller or Sellers fully informed of the progress of the Third Party Claim and its defence, (b) promptly provide the relevant Seller or Sellers with copies of all material notices, communications and filings (including court papers), (c) ensure that the relevant Seller or Sellers and/or one or several of their representatives bound to secrecy by professional code will, to the extent legally permissible, be entitled to participate in any meetings or discussions and (d) consult with the relevant Seller or Sellers prior to taking any action in relation to the Third Party Claim and its defence so as to give the relevant Seller or Sellers the opportunity to comment and object.
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- (iv) In the defense against any Third Party Claim, whether governed by Subclause (ii) or (iii) above, each Party shall, and Purchaser shall procure that the relevant Group Company will, at all times and, in the case of Subclause (ii) above, in particular until the Sellers, or any one of them, have notified the Purchaser in accordance with Clause 12.7.5(ii), take into account the reasonable interest of the respective other Party and the Group Companies in relation to a Third Party Claim and shall consult with the relevant other Party in relation to the suitable manner of dealing with the Third Party Claim. In particular, the Purchaser shall, and shall procure that the relevant Group Company will, notify the relevant Sellers promptly upon a Third Party Claim being, or likely to be, asserted, made, threatened or filed, such Notice to be submitted together with all information in relation to the Third Party Claim which is available to the Purchaser and the relevant Group Company.
- (v) The costs and expenses incurred in relation to the defence against the Third Party Claim shall be borne as follows:
 - (a) All costs and expenses reasonably incurred by the Purchaser or the relevant Group Company (other than internal costs such as labour or overhead costs) shall, to the extent the Third Party Claim does result from a Breach for which the Sellers, or any one of them, are, subject to the limitations set forth in this Agreement, liable, be borne by the relevant Seller or Sellers, subject to the Purchaser having complied with its obligations under this Clause 12.7.
 - (b) All costs and expenses reasonably incurred by the Sellers, or any one of them, (other than internal costs such as labour or overhead costs) shall, to the extent the Third Party Claim does not result from a Breach for which the relevant Seller is, subject to the limitations set forth in this Agreement, liable, be borne by the Purchaser. The same shall apply if the Purchaser does not comply in all material aspects with its obligations under this Clause 12.7.
 - (c) In respect of all costs and expenses incurred by the Sellers, or any one of them, or costs and expenses of the Purchaser, the relevant Seller or Sellers and the Purchaser shall each bear its own costs and expenses.

13 Tax Matters

13.1 Tax Warranties

The Sellers guarantee by way of an independent promise of warranty (*selbständiges Garantieversprechen*) pursuant to § 311 German Civil Code (*BGB*), and exclusively with the remedies pursuant to this Clause 13.1 which form an integral part and define the scope of this promise of warranty, that except as set forth in Schedule 13.1 the statements set forth in this Clause 13.1 (the “ **Sellers’ Tax Warranties** ”) are true and correct as of the date of this Agreement or as of such other date as is expressly stated in the respective Seller’s Tax Warranty.

13.1.1 As of the date of this Agreement and as of the Closing Date the Group Companies have duly and timely filed all due Tax returns and notifications in relation to all Taxes (including applicable or agreed extension periods).

13.1.2 The Group Companies have duly and timely paid, withheld and declared all Taxes due pursuant to Tax filings or self-assessments made or Tax assessments received, as applicable (including applicable or agreed extension periods) before or on the Closing Date to the respective competent Tax Authority.

In case of a breach of the Tax Warranties under this Clause 13.1, the Sellers shall compensate the Purchaser with respect to the following items of damage, if and to the extent triggered by the breach of such Tax Warranties under this Clause 13.1: (i) *Verspätungszuschläge* within the meaning of Sec. 152 AO and comparable fines/penalties/surcharges of a non-German jurisdiction, (ii) *Säumniszuschläge* within the meaning of Sec. 240 AO and comparable fines/penalties of a non-German jurisdiction, and (iii) reasonable external costs required to be incurred in connection with the preparation of the tax declaration (*Steueranmeldung*), advance tax declaration (*Steuervoranmeldungen*) or tax return (*Steuererklärungen*) or other declaration in connection with Taxes which would not have arisen if the respective declaration or return had been duly or timely filed in accordance with Clause 13.1.1 of this Agreement. Clauses 13.2.1(iv), 13.2.1(vi) and 13.2.1(vii) as well as Clauses 13.2.3 to 13.2.6(i) shall apply and any damage that is recoverable pursuant to this Clause 13.1 cannot be recovered pursuant to Clause 13.2 (no double dip).

13.2 Tax Indemnity

13.2.1 The Sellers shall pay to the Purchaser the amount which is necessary to hold each Group Company harmless of any and all due and payable Taxes which relate to periods ending on or before the Accounts Date (each a " **Tax Indemnification Claim** "), but only if and to the extent the specific Tax giving rise to such an indemnification

- (i) does not relate to income that can be offset against Tax loss carry-backs or Tax loss carry-forwards that are or were available until the Accounts Date; for the avoidance of doubt, this Clause shall not apply with regard to any Tax losses arising with respect to periods after the Accounts Date;
 - (ii) does neither arise nor is increased as a result of the Purchaser or any of its Affiliates (including, after the Closing, the Group Companies) failing or omitting to duly make any claim or exercise any election right in each case in accordance with past practice unless in each case required by mandatory law or administrative guidelines as existing and in force as of the date of this Agreement or exercised with the prior consent of the Sellers;
 - (iii) together with all other Tax Indemnification Claims, i.e. the aggregate amount of all Tax Indemnification Claims of Purchaser, exceeds the aggregate amount of Tax liabilities (*Steuerverbindlichkeiten*) and Tax accruals (*Steuerrückstellungen*) and other accruals (*sonstige Rückstellungen*) for potential Tax liabilities, if any, shown or provided for in the Annual Accounts (for the avoidance of doubt, such amounts to be taken into consideration shall be reduced by the amount of any Tax Refunds actually paid to the Sellers pursuant to Clause 13.3.1(iii));
 - (iv) is not the direct result of a reorganisation or of other measures initiated by the Purchaser or any of its Affiliates (including, after the Closing, the Group Companies), or by their respective directors, officers, employees, agents or other representatives, including but not limited to a change of methods of Tax accounting or an amendment of any Tax returns of any Group Company, unless in each case required by mandatory law or administrative guidelines as
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existing and in force as of the date of this Agreement or exercised with the prior consent of the Sellers;

- (v) does not directly lead to a Tax Benefit of any of the Group Companies after the Accounts Date which is based on a circumstance having triggered the Tax Indemnification Claim, including, but not limited to reciprocal effects (*Wechselwirkungen*) resulting e.g. from the lengthening of depreciation periods or higher depreciation allowances (*Phasenverschiebung*) or from transfer of items relevant for Taxes (e.g. turnover, income, expenses, value added tax payable corresponding with a value added tax refund etc.) into another calendar year or transfer of Tax items from one entity to another entity;
- (vi) does not result from any retroactive changes in law; and
- (vii) was not actually reimbursed due to a claim for repayment, reimbursement or indemnification against a party other than a Group Company (such claim to be reduced by reasonable costs actually incurred by the Purchaser or the Group Companies in connection with the enforcement of such claim) and, in case a claim was not reimbursed, the Purchaser, its Affiliates or the Group Companies did use all reasonable best efforts to enforce such claim or have offered the assignment of the respective claim to Seller so that Seller can directly pursue such claim; the Purchaser shall inform the Sellers about potential claims to be pursued and, in case of an enforcement of such claims by the Purchaser or a Group Company, shall follow the instructions of the Sellers subject to prior agreement of the budget for the enforcement of such claims to be borne by the Sellers.

The Sellers shall subject to the limitations pursuant to Clauses 13.2.1(iii) to 13.2.1(vi) be obliged to pay to the Purchaser any amount by which the amount of Tax receivables provided for in the Annual Accounts exceed the amounts actually received in relation to such Tax receivables.

- 13.2.2** The Sellers shall further pay to the Purchaser (a) 100% of an amount up to EUR 1,000,000 and (b) 80% of any further amount which is necessary to hold each Group Company harmless of any and all due and payable Taxes which (i) result from the items specified and described in Schedule 13.2.2 and (ii) which relate to periods ending on or before the Accounts Date or with regard to the potential withholding tax related to interest for shareholder loans until and including the Closing Date (" **Specific Tax Indemnification Claim** "). Clauses 13.2.1(i) and 13.2.1(v) to 13.2.1(vii) shall apply accordingly to the specific Tax giving rise to such indemnification.
 - 13.2.3** The Sellers' indemnification obligations pursuant to this Clause 13.2 shall be applied on a pro rata basis corresponding to the (direct or indirect) participation quota of the respective Seller in the respective Group Company
 - 13.2.4** Payments by the Sellers to the Purchaser pursuant to this Clause 13.2 shall be due and payable within fifteen Business Days after receipt of the corresponding claim notification by the Sellers (which must include copies of the relevant administrative decision), however, not earlier than five Business Days prior to the due date of the relevant Tax.
 - 13.2.5** If the Tax for which an indemnification payment has been made is subsequently reduced, the Purchaser shall be obliged to reimburse the Sellers for the difference between the higher indemnification payment and the lower Tax amount, including all interests related thereto as assessed by the Tax Authorities
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to the extent not already reimbursed to the Sellers pursuant to Clause 13.3.1. The Purchaser shall, and shall procure that the Group Companies will, notify the Sellers in writing without undue delay about a subsequent reduction of Taxes together with all relevant material underlying documents and information. Clause 13.3.4 shall apply accordingly.

13.2.6 Time Limitations

- (i) Any claim under or arising from Clause 13.1 and 13.2.1 shall be time-barred upon the earlier of (i) expiration of six months after the tax assessment (*Steuerbescheid*) for the respective Tax has become final and binding (*bestandskräftig*) and unchangeable or (ii) three years after the Closing Date.
- (ii) Any claim under or arising from Clause 13.2.2 shall be time-barred upon the earlier of (i) expiration of six months after the tax assessment (*Steuerbescheid*) for the respective Tax has become final and binding (*bestandskräftig*) and unchangeable or (ii) two years after the Closing Date.

13.3 Tax Refunds

13.3.1 The Purchaser shall be obliged to reimburse the Sellers any Tax Refund actually received or realised by the Group Companies to the extent the aggregate amount of all Tax Refunds exceeds the aggregate amount reported in the Annual Accounts for all Tax refunds, if any, as a claim. A Tax Refund shall be deemed received or realised by a Group Company upon, as applicable,

- (i) the receipt of actual payment from a Tax Authority;
- (ii) the declaration of set-off with Tax liabilities actually owed to a Tax Authority; or
- (ii) the final release of such amount of the respective Tax liability, Tax accrual or other accrual for Tax liabilities by which such liability or accrual has been overstated in the Annual Accounts pursuant to the accounting principles as applied in the Annual Accounts.

13.3.2 The Purchaser shall, and shall procure that the Group Companies will, notify the Sellers in writing without undue delay, no later than fifteen Business Days after the receipt or realisation of any Tax Refund together with all material underlying documents and information.

13.3.3 Payments by the Purchaser to the Sellers pursuant to this Clause 13.3 shall be due twenty Business Days after receipt or realisation of the relevant Tax Refund pursuant to Clause 13.3.1 above.

13.3.4 Any claim for reimbursement of Tax refunds arising from this Clause 13.3 shall be time-barred upon expiration of six months after the Sellers have been notified in writing by the Purchaser or a Group Company of the relevant Tax Refund.

13.4 Indemnity Procedure

13.4.1 The Purchaser shall and shall procure that after the Closing Date any of the Group Companies prepare and file all Tax returns concerning periods until and including the Accounts Date (" **Relevant Tax Return** " or " **Relevant Tax Returns** ") in line with past practice and in accordance with applicable law. Any Relevant Tax Return shall be subject to the review and prior written consent of the Sellers which must not be unreasonably delayed or withheld. The Purchaser shall and shall procure that the Group Companies will (i) provide the Sellers with any draft Relevant Tax Return no later than 30 Business Days prior to the filing due date and (ii) the respective Relevant Tax Return will be filed in accordance with the written instructions of the Sellers. This shall apply accordingly with regard to any amendments of Relevant Tax Returns.

- 13.4.2** The Purchaser shall procure that the Sellers will be informed in writing by the respective Group Company of any notices in respect of a Tax audit and similar audits of Tax Authorities as well as on the issue of a Tax assessment and any other written communication between a Group Company and a Tax Authority for periods which relate to Taxes that might constitute the basis for a claim pursuant to Clauses 13.1, 13.2 or 13.3. Such Tax audits and similar audits of Tax Authorities are hereinafter referred to as “**Tax Audits**”; such tax assessments are hereinafter referred to as “**Tax Measures**”. The notification shall be made in writing and without undue delay after the Purchaser or the relevant Group Company has received written notifications or other documents from a Tax Authority of such event and shall contain full factual information describing the object of the Tax Audit or Tax Measure in reasonable detail and shall include copies of any assessment, notice or other relevant document received from any Tax Authority related to the respective Tax.
- 13.4.3** The Purchaser shall, and shall procure that the relevant Group Company shall, (i) give the Sellers the opportunity to participate at their own costs and expenses from the beginning in all Tax Audits and Tax Measures, (ii) upon Sellers' written request and at their costs and expenses, challenge and litigate any Tax assessment or other decision of any Tax Authority or Tax court and (iii) comply with any written instructions given by Sellers in relation to the conduct of the Tax proceedings referred to in (i) or (ii) above to the extent such instructions comply with applicable laws. In any case the Purchaser shall procure that after the Closing Date no Tax which might constitute the basis for a claim pursuant to Clause 13 is settled or accepted without the prior written consent of the Sellers.
- 13.4.4** Upon the Sellers' written request and at their costs and expenses, the Purchaser shall procure that the respective Group Company will, in accordance with the Sellers' written instructions which have to comply with applicable laws, file, withdraw or amend legal remedies in respect of Tax assessments for periods ending on or before the Accounts Date which have been amended due to Tax Audits or in respect of Tax Measures.
- 13.4.5** The aforementioned provisions pursuant to Clauses 13.4.1 to 13.4.4 shall not apply with regard to the items specified and described in Schedule 13.2.2 and to Tax returns, Tax proceedings, Tax Audits and Tax Measures, in each case if and to the extent they relate to such specific items which shall insofar be under the sole control of the Purchaser. However, the Purchaser shall also duly inform the Sellers about any of such Tax returns, Tax proceedings, Tax Audit or Tax Measures relating to such specific items. In addition, the Purchaser shall upon reasonable written request of the Sellers provide Sellers with any material information on the envisaged Tax treatment of such specific items and shall consult with the Sellers in good faith about the potential Tax treatment of such specific items in Tax filings and about potential written objections and challenges of Tax assessments aiming at a mitigation of the Tax to be incurred, it being understood that the final decision remains with the Purchaser.
- 13.4.6** The Sellers shall not be liable under or in connection with the Tax indemnity pursuant to this Clause 13 if and to the extent the Purchaser does not comply with its obligations under this Clause 13.4 provided that such violation has actually caused the respective claim under this Clause 13. In case the Purchaser fails (i) to observe a time limit set by law after a initial period of three (3) months after Closing Date or set by the Tax Authorities in accordance with the law, (ii) to change Tax returns, (iii) to challenge Tax assessments upon written request of Sellers or (iv) to timely inform the Sellers about material meetings with Tax Authorities, in each case to the extent required by the provisions of this
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Clause 13.4, it is rebuttably assumed (*widerlegbar vermutet*) that such violation has caused the respective claim under this Clause 13.

13.5 Exclusivity

13.5.1 Unless explicitly provided otherwise in this Clause 13, the claims of the Purchaser pursuant to Clauses 13.1 and 13.2 and of Sellers pursuant to Clauses 13.2.5 and 13.3 shall be exclusively governed by this Clause 13.

13.5.2 Clause 12.5.1(i) shall apply with regard to claims under Clauses 13.1 and 13.2.1. In addition, the overall cap pursuant to Clause 12.5.2, first sentence, shall apply to and include any claims of the Purchaser pursuant to Clauses 13.1 and 13.2.1. Further, the Sellers' liability under Clause 13.2.2 shall be limited to an aggregate maximum amount of EUR 3,000,000.

14 Period after Closing

14.1 Information and Documents

For a period of five years after Closing Date, each Seller and its representatives shall have reasonable access at the respective Seller's expense to the books and records of the Group with respect to periods prior to the Closing Date to the extent that such access may reasonably be required by the respective Seller in connection with matters relating to the operations of the Group Companies prior to Closing. The Purchaser shall afford such access upon receipt of reasonable advance notice and during normal business hours.

14.2 Indemnity for Claims after Closing

If, after Closing,

- (i) any of the Sellers or any of their Affiliates, Mr Rövekamp, Robert W. Baird GmbH, HgCapital LLP, or any of their Affiliates or any of the directors, employees, advisors or other representatives of the foregoing parties (collectively referred to as "**Beneficiaries** ") are held liable for any existing or future (known or unknown, actual or contingent, accrued or unaccrued) liability or obligation of any Group Company or any liability or obligation arising out of or in connection with the conduct of the business of any of the Group Companies, or
- (ii) any of the Group Companies asserts any claims against any Beneficiary, the Purchaser shall indemnify the Beneficiaries and hold them harmless in respect of the relevant liability or obligation unless the relevant liability or obligation relates to a matter in respect of which Purchaser has the right to be indemnified from a Seller under the terms of this Agreement.

15 Public Announcements and Confidentiality

15.1 Public Announcements

No press or other public announcement in connection with the existence or the subject matter of this Agreement shall be made or issued by or on behalf of any of the Parties or any of their Affiliates (including the Group Companies) without the prior written approval of the Sellers and the Purchaser. This shall not affect any announcement required by law or any regulatory body or the rules of any recognised stock exchange on which the shares of a Party, any of their Affiliates (including the Group Companies), or HgCapital Trust Plc are listed, but the Purchaser, if it or any of its Affiliates is under an obligation to make an announcement, shall consult with the Sellers, and the Sellers, if it or any of their Affiliates is under an obligation to make an announcement, shall consult with the Purchaser, in each case as soon as reasonably practicable before complying with such an obligation. Notwithstanding the above, any Party shall be allowed to repeat any announcement on which

it had already consulted the respective other Party. It is understood between the Parties that Purchaser will make a filing with the United States Securities and Exchange Commission (the “ **SEC** ”) immediately after signing of this Agreement substantially in the form as attached hereto as Schedule 15.1. It is further understood between the Parties that Purchaser will make a filing with the SEC immediately after Closing (the “ **Closing SEC Filing** ”). The Closing SEC Filing shall be subject to Sellers' prior approval which shall not be unreasonably withheld. Purchaser shall provide the Sellers with the draft Closing SEC Filing within a reasonable time prior to Closing but in any event by no later than the day of fulfilment of the Closing Conditions. Any comments Sellers may have or the approval, as the case may be, shall be provided to Purchaser within two Business Days after receipt of the draft Closing SEC Filing.

15.2 Confidentiality

- 15.2.1** The confidentiality agreement between Seller 1 and the Purchaser dated 24 March 2015 shall cease to have effect from Closing. Only to the extent that announcements pursuant to Clause 15.1 are concerned, Clause 15.1 shall prevail over the Confidentiality Agreement with effect from the date of this Agreement
- 15.2.2** Each of the Parties shall treat as strictly confidential and not disclose or use any information received or obtained as a result of, or in connection with, the entering into this Agreement which relates to this Agreement, its existence or its provisions or to any agreement to be entered into pursuant to this Agreement, or to the negotiations relating to this Agreement.
- 15.2.3** This Agreement shall not prohibit disclosure or use of any information if and to the extent that
- (i) the disclosure or use is required by law, any regulatory body or any recognised stock exchange on which the shares of a Party, any of its Affiliates, or HgCapital Trust Plc are listed,
 - (ii) the disclosure or use is required for the purpose of any judicial proceedings arising out of this Agreement or any other agreement entered into under or pursuant to this Agreement or the disclosure is made to a Tax Authority in connection with the Tax affairs of the disclosing Party,
 - (iii) the disclosure is made to professional advisers or actual or potential financiers of a Party, including the parties invested in the HgCapital 6 Funds, on a need to know basis and on terms that such professional advisers or actual or potential financiers, to the extent they are not bound to professional secrecy, undertake (also for the benefit of the other Parties) to comply with the confidentiality obligations set out in this Clause 15.2 in respect of such information as if they were a party to this Agreement,
 - (iv) the disclosure is made by a Seller prior to Closing or by the Purchaser after Closing to any Group Company or any statutory representative (*gesetzlicher Vertreter*) of a Group Company, provided that the relevant Seller or the Purchaser, as the case may be, procures compliance of the relevant Group Company or statutory representative with the confidentiality obligations set out in this Clause 15.2 in respect of such information as if it were a party to this Agreement,
 - (v) the information is or becomes publicly available (other than by breach of this Agreement or any other confidentiality agreement between the Parties or any of them),
 - (vi) the Sellers in case of a disclosure or use by the Purchaser or the Guarantor, or the Purchaser in case of a disclosure or use by the Sellers, has given prior written approval to the disclosure or use, or
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(vii) the information is independently developed after Closing.

16 No Liability of Sellers' Representatives

The Purchaser and the Guarantor acknowledge and agree that neither (i) HgCapital nor any of its Affiliates nor any of the directors, employees, advisors or other representatives of the foregoing nor (ii) Robert W. Baird GmbH nor any of its Affiliates nor any of the directors, employees and advisors of any of the foregoing nor (iii) any of the directors, employees, advisors or other representatives of the Sellers (collectively " **Sellers' Representatives** "), shall have any liability or obligation towards the Purchaser or the Guarantor, arising out of, connected with or resulting from the activities or any of the foregoing as advisor to, or any other representative of, the Sellers in connection with the preparation, negotiation and implementation of this Agreement and the transactions contemplated thereby (including but not limited to any information or advice given or supplied by the Sellers' Representatives) unless expressly agreed otherwise in writing between any of the foregoing representatives of the Sellers and the Purchaser or, as the case may be, the Guarantor.

17 Miscellaneous Provisions

17.1 Information of Sellers

Purchaser shall give Notice to the Sellers without undue delay and in reasonable detail, if Purchaser becomes aware of any regulatory investigation at any Group Company (the " **Investigation** ") which could potentially have detrimental effect to the Sellers. Purchaser shall consult with Sellers about the reaction with respect to the Investigation, provided that any breach of this Clause 17.1 shall only lead to a liability of the Sellers, if such breach was grossly negligent (*grob fahrlässig*) or wilful (*vorsätzlich*).

17.2 Account Details

All payments to be made under this Agreement shall be made

- (i) if to the Sellers or Mr Rövekamp, in Euro to the following bank account or to any account notified jointly by the Sellers to the Purchaser not later than five Business Days prior to the respective payment:

Account owner: SimonsVoss Luxco S.à r.l.

Bank: Redacted

SORT/ABA/SWIFT (BIC): Redacted

Account Name: Redacted

IBAN: Redacted

- (ii) if to the Purchaser, to any bank account notified by the Purchaser to the Sellers not later than five Business Days prior to the respective payment.

17.3 Costs

Each Party shall bear all costs incurred by it in connection with the preparation, negotiation and execution of this Agreement by itself. Unless explicitly set forth otherwise in this Agreement, the notarial fees and all registration, stamp and transfer taxes (including but not limited to German real estate transfer taxes) and duties as well as all fees of merger control authorities that are payable as a result of the transactions contemplated by this Agreement shall be borne by the Purchaser.

17.4 Individual and Several Liability, Joint Creditorship

- 17.4.1 To the extent that an obligation of a Seller under or in connection with this Agreement relates exclusively to matters concerning the respective Seller, the Seller shall be liable only individually (*einzelschuldnerisch*).
- 17.4.2 Unless where a Seller is obliged as an individual obligor (*Einzelschuldner*), each Seller shall, in respect of its obligations under or in connection with this Agreement, be liable only severally (*teilschuldnerisch*) in proportion to its total shareholding in the Target Company as set out in column D. of Schedule (A).
- 17.4.3 Any joint (*gesamtschuldnerische*) liability of the Sellers or any of them shall be excluded.
- 17.4.4 Unless to the extent that certain rights or claims are conveyed by this Agreement to the or several Sellers individually, the Sellers shall remain joint creditors of the rights and claims under or in connection with this Agreement.

17.5 Joint Co-ordination of Sellers' Conduct

Without affecting Sellers' liability under Clauses 17.4.1 to 17.4.3 in any way, Seller 2 and Mr Rövekamp hereby grant to Seller 1 an unconditional and unlimited power of attorney to co-ordinate their conduct under this Agreement and to act as Sellers' joint representative in relation to Purchaser with respect to all claims by or against the Purchaser and the exercising of all of Sellers' rights under or in connection with this Agreement and the servicing of any Notice to the Purchaser.

17.6 Notices to the Parties

- 17.6.1 To the extent that any communication shall in accordance with this Agreement be made by way of a " **Notice** " this shall mean that, in order to be valid, they have to be submitted to the recipient in compliance with this Clause 17.6.1, i.e.
 - (i) in the English or German language,
 - (ii) in written form by hand, registered post or an internationally renowned courier, or by fax or email, and
 - (iii) to the following persons and addresses:
 - (a) A Notice to any of the Sellers or to Mr Rövekamp shall be sent to Seller 1 as per the details set out below or such other person or address as the respective Seller may notify to the Purchaser from time to time.

To:	SimonsVoss Luxco S.a.r.l.
Attention:	Nadia Dziwinski
Address:	7A, rue Robert Stümper, L-2557 Luxembourg
Facsimile:	Redacted
Email:	Redacted
Telephone:	Redacted

and

To: SimonsVoss Luxco S.a.r.l.
Attention: Justin von Simson
7A, rue Robert Stümper, L-2557
Luxembourg
Address: Luxembourg
Facsimile: Redacted
Email: Redacted
Telephone: Redacted

with a courtesy copy to Seller 2

To: SimonsVoss Co-Invest GmbH & Co.
KG
Attention: Sascha Kaumann
Address: Salvatorstraße 3, 80333 Munich
Facsimile: Redacted
Email: Redacted
Telephone: Redacted

and

To: HgCapital
Attention: Andrew Jessop
Facsimile: Redacted
Email: Redacted

and

To: Linklaters LLP
Attention: Dr. Rainer Traugott
Address: Prinzregentenplatz 10, 81675 Munich
Facsimile: Redacted
Email: Redacted
Telephone: Redacted

- (b) A Notice to the Purchaser shall be sent to the following address, or such other person or address as the Purchaser may notify to the Sellers from time to time:

To: Allegion plc
c/o Schlage Lock Company LLC
Mr. Jeffrey Braun
Senior Vice President and General
Counsel
Attention: 11819 N Pennsylvania Street
Address: USA-Carmel, IN 46032
Facsimile: Redacted
Email: Redacted
Telephone: Redacted

with a courtesy copy to

To:	Baker & McKenzie
Attention:	Dr. Nikolaus Reinhuber
	Bethmannstrasse 50-54
Address:	D-60311 Frankfurt am Main
Facsimile:	Redacted
Email:	Redacted
Telephone:	Redacted

17.6.2 A Notice shall be effective upon receipt (*Zugang*) which shall be deemed to have occurred

- (i) at delivery, if delivered by hand, registered post or courier;
- (ii) at transmission, if delivered by facsimile, provided that the person sending the facsimile shall have received a transmission receipt confirming a successful transmission thereof;
- (iii) at transmission if delivered by email, provided that the person sending the email shall not have received an out-of-office reply and shall have received a transmission receipt confirming a successful transmission thereof.

17.6.3 Where this Agreement provides for a joint Notice by all or several Sellers congruent Notices by the respective Sellers concerned shall suffice.

17.6.4 To Notices and other declarations under or in connection with this Agreement the statutory rules on the representation by proxies shall apply. The persons listed in Schedule 17.6.4 are, amongst others, authorised to make any Notices and/or other declarations under or in connection with this Agreement on behalf of the respective Party against whose name their names are set out. Each of these persons is authorised to represent the respective Party alone and is released from the prohibition of self-contracting pursuant to sec. 181 German Civil Code (*BGB*). If and to the extent that any unilateral Notice or any other unilateral declaration under or in connection with this Agreement is made by any of these persons on behalf of his or her respective principal, such Notice or declaration cannot validly be rejected pursuant to sec. 174 German Civil Code (*BGB*) on the basis that no written power of attorney has been provided to the recipient.

17.7 Disputes

17.7.1 Any contractual and non-contractual dispute arising from or in connection with this Agreement and its consummation, including disputes about its validity, shall be finally settled by three arbitrators in accordance with the arbitration rules of the German Institution of Arbitration (*Deutsche Institution für Schiedsgerichtsbarkeit e.V.*) without recourse to the courts of law. The venue of the arbitration shall be Munich, Germany. The language of the arbitral proceedings shall be English, provided however, that the Parties shall be entitled to submit written evidence in the German language.

17.7.2 In the event mandatory applicable law requires any matter arising from or in connection with this Agreement and its consummation, including disputes about its validity, to be decided upon by a court of law, the competent courts in and for the City of Munich, Germany, shall have the exclusive jurisdiction thereupon.

17.8 Form of Amendments

Any amendment or supplement to, or the termination of, this Agreement, including this provision, shall be valid only if made in writing (*Schriftform*), except where a stricter form (e.g. notarisation) is required under applicable law or this Agreement.

17.9 Assignments

The Purchaser shall not, in whole or in part, dispose (*verfügen*) of any claims (including future or contingent claims) arising from or in connection with this Agreement by way of assignment, encumbrance or otherwise without the prior written Notice from the Sellers consenting to such disposal, such Notice not to be unreasonably withheld. This shall in particular, without limitation, apply to any disposal by way of a split-off in the meaning of § 123 Reorganisation Act (*UmwG*) unless the Purchaser's claims arising from and in connection with this Agreement are by way of such split-off transferred together with all or substantially all other assets of the Purchaser to one and the same receiving entity. The transfer restrictions pursuant to this Clause 17.8 shall not apply in the event of (i) an assignment to a Purchaser Affiliate, provided that it is ensured with in rem effect (*mit dinglicher Wirkung*) by written agreement between the Purchaser and the relevant Purchaser Affiliate that in case of a termination of the affiliation (which shall be notified to the Sellers without undue delay) the claims will automatically re-transfer to the Purchaser without any encumbrance, or (ii) an assignment to a financing bank for the purpose of securing the financing of the transactions contemplated by this Agreement, or (iii) an assignment to the insurer of the W&I insurance policy taken out in connection with the transactions contemplated by this Agreement. For the avoidance of doubt, any disposal of claims with or without the Sellers consent shall not affect any of the limitations of the liability under this Agreement in particular under Clause 12.

17.10 Invalid Provisions

Should any provision of this Agreement be or held to be wholly or partly invalid, ineffective or unenforceable, this shall not affect the validity, effectiveness or enforceability of the remaining provisions. Any such invalid, ineffective or unenforceable provision shall, to the extent permitted by law, be deemed replaced by such valid, effective and enforceable provision as comes closest to the economic intent and purpose of such invalid, ineffective or unenforceable provision. The aforesaid shall apply *mutatis mutandis* to any unintended omission in this Agreement.

17.11 Entire Agreement

This Agreement constitutes the entire agreement among and between the Parties with respect to the subject matter hereof and shall replace any negotiations and understandings, oral or written, heretofore made between the Parties or any of them with respect to the subject matter hereof. Side agreements to this Agreement do not exist.

17.12 Governing Law

17.13 This Agreement and any contractual rights and obligations arising out of or in connection therewith and its consummation, including disputes about its validity, shall be governed by and construed in accordance with German law excluding conflict of laws rules and the UN Convention on Contracts for the International Sale of Goods (CISG).

17.14 Any non-contractual rights and obligations in connection with this Agreement shall also be governed by and construed in accordance with German law.

Schedule (A):

Details of Shareholdings

(REDACTED)

Schedule (B):

Details of the Subsidiaries

(REDACTED)

Schedule 1.1:

Definitions

“ **Accounts Date** ” means 31 December 2014.

“ **Affiliates** ” means affiliated companies (*verbundene Unternehmen*) in the meaning of § 15 et seq. German Stock Corporation Act (*Aktiengesetz*), provided that, unless otherwise expressly provided, for the purpose of this Agreement, the Group Companies shall neither be deemed to be Seller’s Affiliates nor Purchaser’s Affiliates.

“ **Agreement** ” means this Share Purchase Agreement.

“ **Amendment Finance Agreement** ” has the meaning set out in Clause 8.1.2(x).

“ **Ancillary Facility** ” has the meaning set out in Clause 4.1.2.

“ **Annual Accounts** ” has the meaning set out in Clause 11.6.1(ii).

“ **Annual Budget** ” means the budget of the Group with respect to the financial year 2015 (1 January 2015 through 31 December 2015) as disclosed under # 12.4.2 of the Data Room.

“ **ArbEG** ” has the meaning set out in Clause 11.11.5(iv).

“ **Bank Repayment Amount** ” has the meaning set out in Clause 4.2.

“ **Beneficiaries** ” has the meaning set out in Clause 14.2

“ **Breach** ” has the meaning set out in Clause 12.1(ii).

“ **Business** ” has the meaning set out in Recital (C) of this Agreement.

“ **Business Day** ” means a day on which banks are generally open for business in Munich, Germany and in Carmel, Indiana, USA.

“ **Cash Compensation Amount** ” has the meaning set out in Clause 5.3.

“ **CET** ” means Central European Time.

“ **Closing** ” means the consummation of the transactions agreed in this Agreement, in particular the consummation of the transfer of the Shares and the Closing Intra-Group Payables.

“ **Closing Actions** ” has the meaning set out in Clause 10.2.

“ **Closing Conditions** ” has the meaning set out in Clause 7.1.

“ **Closing Date** ” means the day on which Closing occurs.

“ **Closing Intra-Group Payables** ” has the meaning set out in Clause 3.1.

“ **Closing Intra-Group Payables Purchase Prices** ” has the meaning set out in Clause 5.2.

“ **Closing SEC Filing** ” has the meaning set out in Clause 15.1.

“ **Data Room** ” has the meaning set out in Clause 12.4.4(ii).

“ **Environmental Permit** ” means any licence, approval, authorisation, permission, agreement or exemption granted under any legal provision or other governmental regulation for the protection of the environment applicable at the date of this Agreement in the form as applied by the respective competent authority.

“ **Escrow Agreement** ” has the meaning set out in Clause 5.5.

“ **Escrow Amount** ” has the meaning set out in Clause 10.2.2.

“ **Euro** ”, “ **euro** ”, “ **EUR** ” and “ **€** ” each means the lawful currency of such sovereigns which as members of the European Union belong to the monetary union pursuant to the “Treaty of Lisbon amending the Treaty on European Union and the Treaty establishing the European Community” dated 13 December 2007 (OJ 2007/C 306/01) at such point in time as relevant pursuant to this Agreement.

“ **Facilities Agreement** ” has the meaning set out in Clause 4.1.1.

“ **Fairly Disclosed** ” has the meaning set out in Clause 12.4.4.

“ **Finance Agreements** ” has the meaning set out in Clause 4.1.4.

“ **Finance Parties** ” has the meaning set out in Clause 4.1.1.

“ **Financial Fact Book** ” means the Project Smart - Volume I: Financial Fact Book (Final Draft), dated 1 May 2015, prepared by Deloitte & Touche GmbH.

“ **Group** ” has the meaning set out in Recital (B) of this Agreement.

“ **Group Companies’ Security** ” has the meaning set out in Clause 8.2.4.

“ **Group Company** ” or “ **Group Companies** ” have the meaning set out in Recital (B) of this Agreement.

“ **Hedging Agreements** ” has the meaning set out in Clause 4.1.3.

“ **Intellectual Property Rights** ” has the meaning set out in Clause 11.11.1.

“ **Investigation** ” has the meaning set out in Clause 17.1.

“ **Leakage** ” has the meaning set out in Clause 6.2.1.

“ **Leased Real Property** ” has the meaning set out in Clause 11.10.1.

“ **Licensed Intellectual Property Right** ” has the meaning set out in Clause 11.11.3.

“ **Loan Agreement** ” has the meaning set out in Clause 8.1.2(x);

“ **Longstop Date** ” has the meaning set out in Clause 9.1.1.

“ **Management Presentation** ” means the Management Presentation dated 4 May 2015, uploaded to the Data Room under VDR # 20.4, prepared by the management of the Target Company.

“ **Material Agreements** ” has the meaning set out in Clause 11.12.1.

“ **Mr Rövekamp** ” has the meaning set out in the parties section on page 1 of this Agreement.

“ **Notice** ” has the meaning set out in Clause 17.6.1.

“ **Notified Claims** ” has the meaning set out in Clause 12.7.1.

“ **Owned Intellectual Property Rights** ” has the meaning set out in Clause 11.11.1.

“ **Owned Real Property** ” has the meaning set out in Clause 11.9.1.

“ **Party** ” or “ **Parties** ” have the meaning set out in the parties section on page 1 of this Agreement.

“ **Permitted Leakage** ” has the meaning set out in Clause 6.2.2.

“ **Purchase Prices** ” has the meaning set out in Clause 5.4.1.

“ **Purchaser** ” has the meaning set out in the parties section on page 1 of this Agreement.

“ **Release Letter** ” has the meaning set out in Clause 8.2.1.

“ **Relevant Tax Return** ” and “ **Relevant Tax Returns** ” have the meaning set out in Clause 13.4.1.

“ **Rövekamp Agreement** ” has the meaning set out in Clause 6.2.1(v).

“ **Rövekamp Warranties** ” has the meaning set out in Clause 11.

“ **SEC** ” has the meaning set out in Clause 15.1.

“ **Security Agreements** ” has the meaning set out in Clause 4.1.4.

“ **Seller 1** ”, “ **Seller 2** ”, “ **Seller** ” and “ **Sellers** ” have the meaning set out in the parties section on page 1 of this Agreement.

“ **Sellers’ Knowledge** ” has the meaning set out in Clause 12.2.

“ **Sellers’ Warranties** ” has the meaning set out in Clause 11.

“ **Seller-Related Person** ” has the meaning set out in Clause 6.2.3.

“ **Sellers’ Representatives** ” has the meaning set out in Clause 16.

“ **Sellers’ Security** ” has the meaning set out in Clause 8.2.2.

“ **Sellers’ Tax Warranties** ” has the meaning set out in Clause 13.1.

“ **Senior Employees** ” have the meaning set out in Clause 11.13.1.

“ **Share Purchase Prices** ” has the meaning set out in Clause 5.1.

“ **Shares** ” has the meaning set out in Recital (A) of this Agreement.

“ **Specific Tax Indemnification Claim** ” has the meaning set out in Clause 13.2.2.

“ **Subsidiaries** ” has the meaning set out in the Recital (B) of this Agreement.

“ **Target Company** ” has the meaning set out in Recital (A) of this Agreement.

“ **Tax** ” or “ **Taxes** ” means all taxes and tax-related ancillary obligations (*steuerliche Nebenleistungen*) within the meaning of § 3 para. 1 and 4 of the German Tax Code (*Abgabenordnung*) or any corresponding foreign taxes or any tax related ancillary obligations (for the avoidance of doubt, including withholding taxes), in each case including secondary liabilities for such amounts and together with any penalties, fines, interest, surcharges or additions hereto but excluding for the avoidance of doubt deferred taxes.

“ **Tax Audits** ” has the meaning set out in Clause 13.4.2.

“ **Tax Authority** ” means any taxing or other authority competent to impose any liability in respect of Tax or responsible for the administration or collection of Tax or enforcement of any law in relation to Tax.

“ **Tax Benefit** ” means any reduction or credit in respect of any Tax.

“ **Tax Fact Book** ” means the Project Smart - Volume II: Final Draft Tax Fact Book, dated 10 June 2015, prepared by Deloitte & Touche GmbH.

“ **Tax Indemnification Claim** ” has the meaning set out in Clause 13.2.1.

“ **Tax Measures** ” has the meaning set out in Clause 13.4.2.

“ **Tax Refund** ” shall mean any received or realised refund of Taxes by the Group Companies concerning periods until and including the Accounts Date plus interest from the Tax Authorities received. A Tax Refund shall also be deemed to have occurred, if and to the extent that the aggregate amount of all Tax liabilities (*Steuerverbindlichkeit*), Tax accruals (*Steuerrückstellung*) or other accruals (*sonstige Rückstellung*) for potential Tax liabilities shown in the Annual Accounts are overstated in relation to Taxes actually incurred until and including the Accounts Date.

“ **Tax Authority** ” means any taxing or other authority competent to impose any liability in respect of Tax or responsible for the administration or collection of Tax or enforcement of any law in relation to Tax.

“ **Third Party Claim** ” has the meaning set out in Clause 12.7.5.

“ **Trustee** ” has the meaning set out in Clause 5.5.

“ **writing** ” or “ **Writing** ” includes communication made by mail, facsimile or email, except where a stricter form (e.g. notarisation) is required under applicable law or where otherwise provided in this Agreement.

Allegion plc
RATIO OF EARNINGS TO FIXED CHARGES

	Six months ended June 30,		Year Ended December 31,				
	2015	2014	2014	2013	2012	2011	2010
Earnings from continuing operations							
before income taxes	\$ 140.5	\$ 132.7	\$ 267.4	223.4	\$ 366.7	\$ 362.2	\$ 328.7
Fixed charges	28.1	31.1	60.1	22.0	13.3	9.0	6.9
Total earnings	\$ 168.6	\$ 163.8	\$ 327.5	\$ 245.4	\$ 380.0	\$ 371.2	\$ 335.6
Fixed charges:							
Interest expense*	\$ 22.9	\$ 25.6	\$ 49.3	\$ 10.2	\$ 1.5	\$ 1.4	\$ 1.8
Rentals (one-third of rentals)	5.2	5.5	10.8	11.8	11.8	7.6	5.1
Total fixed charges	\$ 28.1	\$ 31.1	\$ 60.1	\$ 22.0	\$ 13.3	\$ 9.0	\$ 6.9
Ratio of earnings to fixed charges	6.0	5.3	5.4	11.2	28.6	41.2	48.6

* Includes interest expense on all third-party indebtedness, and excludes interest related to unrecognized tax benefits, which is reported as income tax expense.

The ratio of earnings to fixed charges was computed by dividing earnings by fixed charges for the periods indicated where earnings consists of (1) earnings from continuing operations before income taxes plus (2) fixed charges. Fixed charges consist of (a) interest on all indebtedness, (b) amortization of premiums, discounts and capitalized expenses related to indebtedness and (c) an interest component representing the estimated portion of rental expense that management believes is attributable to interest.

CERTIFICATION

I, David D. Petratis, certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of Allegion plc for the three and six months ended June 30, 2015 ;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2015

/s/ David D. Petratis

David D. Petratis

Principal Executive Officer

CERTIFICATION

I, Patrick S. Shannon, certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of Allegion plc for the three and six months ended June 30, 2015 ;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 30, 2015

/s/ Patrick S. Shannon

Patrick S. Shannon

Principal Financial Officer

Section 1350 Certifications
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Allegion plc (the Company), does hereby certify that:

The Quarterly Report on Form 10-Q for the three and six months ended June 30, 2015 (the Form 10-Q) of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David D. Petratis

David D. Petratis

Principal Executive Officer

July 30, 2015

/s/ Patrick S. Shannon

Patrick S. Shannon

Principal Financial Officer

July 30, 2015