First Financial Northwest, Inc.
Form DEF 14A
April 26, 2018
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the registrant [X]
Filed by a party other than the registrant [ ]

Check the appropriate box:
[ ] Preliminary proxy statement
[ ] Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))
[X] Definitive proxy statement
[ ] Definitive additional materials
[ ] Soliciting material under § 240.14a-12

FIRST FINANCIAL NORTHWEST, INC.
(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of filing fee (Check the appropriate box):
[X] No fee required.
[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:
N/A

(2) Aggregate number of securities to which transactions applies:
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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:
N/A

(4) Proposed maximum aggregate value of transaction:
N/A

(5) Total fee paid:
N/A

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N/A

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(1) Amount previously paid:

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(2) Form, schedule or registration statement no.:
N/A
(3) Filing party:
N/A
(4) Date filed:
N/A

April 26, 2018

Dear Shareholder:

You are cordially invited to attend the annual meeting of shareholders of First Financial Northwest, Inc. ("First Financial") to be held at the Renton Community Center, located at 1715 SE Maple Valley Highway, Renton, Washington, on Wednesday, June 13, 2018, at 9:00 a.m., local time.

The Notice of Annual Meeting of Shareholders and Proxy Statement appearing on the following pages describe the formal business to be transacted at the meeting. During the meeting, we will also report on our operations. Directors and officers of First Financial, as well as a representative of Moss Adams LLP, our independent auditor, will be present to respond to shareholder questions.

It is important that your shares are represented at the meeting, whether or not you attend in person and regardless of the number of shares you own. To make sure your shares are represented, we urge you to complete and mail the enclosed proxy card as promptly as possible or to vote by telephone or the Internet, following the instructions on the proxy card. If you attend the meeting, you may vote in person even if you have previously voted.

We look forward to seeing you at the meeting.

Sincerely,

/s/ Roger H. Molvar

Roger H. Molvar
Chairman

FIRST FINANCIAL NORTHWEST, INC.
201 WELLS AVENUE SOUTH
RENTON, WASHINGTON 98057
(425) 255-4400

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON JUNE 13, 2018

Notice is hereby given that the annual meeting of shareholders of First Financial Northwest, Inc. will be held at the Renton Community Center, located at 1715 SE Maple Valley Highway, Renton, Washington, on Wednesday, June 13, 2018, at 9:00 a.m., local time, for the following purposes:

Proposal 1.	Election of two directors to each serve for a three-year term;
Proposal 2.	Advisory (non-binding) approval of the compensation paid to our named executive officers as disclosed in this Proxy Statement;
Proposal 3.	Ratification of the appointment of Moss Adams LLP as our independent auditor for 2018.

We will also consider and act upon such other business as may properly come before the meeting, or any adjournments or postponements thereof. As of the date of this notice, we are not aware of any other business to come before the annual meeting.

The Board of Directors has fixed the close of business on April 17, 2018, as the record date for the annual meeting. This means that shareholders of record at the close of business on that date are entitled to receive notice of, and to vote at the meeting and any adjournment thereof. To ensure that your shares are represented at the meeting, please take the time to vote by signing, dating and mailing the enclosed proxy card, which is solicited on behalf of the Board of Directors, and mail it promptly in the enclosed envelope. Alternatively, you may vote by telephone or the Internet by following the instructions on the proxy card. The proxy will not be used if you attend and vote at the annual meeting in person. Regardless of the number of shares you own, your vote is very important. Please act today.

BY ORDER OF THE BOARD OF DIRECTORS

/s/ JOANN E. LEE

JOANN E. LEE
SECRETARY

Renton, Washington
April 26, 2018

IMPORTANT: The prompt return of proxies will save us the expense of further requests for proxies in order to ensure a quorum. A proxy card and pre-addressed envelope are enclosed for your convenience. No postage is required if mailed in the United States. You may also vote by telephone or the Internet by following the instructions on the proxy card.

PROXY STATEMENT
OF
FIRST FINANCIAL NORTHWEST, INC.
201 WELLS AVENUE SOUTH
RENTON, WASHINGTON 98057
(425) 255-4400

ANNUAL MEETING OF SHAREHOLDERS
JUNE 13, 2018

The Board of Directors of First Financial Northwest, Inc. is using this Proxy Statement to solicit proxies from our shareholders for use at the 2018 annual meeting of shareholders. We are first mailing this Proxy Statement and proxy card to our shareholders on or about April 26, 2018.

The information provided in this Proxy Statement relates to First Financial Northwest, Inc. and its wholly-owned subsidiary, First Financial Northwest Bank. First Financial Northwest, Inc. may also be referred to as "First Financial" and First Financial Northwest Bank may also be referred to as the "Bank." References to "we," "us" and "our" refer to First Financial and, as the context requires, First Financial Northwest Bank.

INFORMATION ABOUT THE ANNUAL MEETING

Time and Place of the Annual Meeting

Our annual meeting will be held as follows:

Date:	Wednesday, June 13, 2018
Time:	9:00 a.m., local time
Place:	Renton Community Center, 1715 SE Maple Valley Highway, Renton, Washington

Matters to Be Considered at the Annual Meeting

At the meeting, you will be asked to consider and vote upon the following proposals:

Proposal 1.	Election of two directors to each serve for a three-year term;
Proposal 2.	Advisory (non-binding) approval of the compensation paid to our named executive officers as disclosed in this Proxy Statement;
Proposal 3.	Ratification of the appointment of Moss Adams LLP as our independent auditor for 2018.

We also will transact any other business that may properly come before the annual meeting. As of the date of this Proxy Statement, we are not aware of any other business to be presented for consideration at the annual meeting other than the matters described in this Proxy Statement.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to Be Held on June 13, 2018

Our Proxy Statement and 2017 Annual Report to Shareholders are available at www.ffnwb.com/investor/proxy. The following materials are available for review:

- Proxy Statement;
- Proxy card;
- 2017 Annual Report to Shareholders; and
- Directions to attend the annual meeting, where you may vote in person.

Who is Entitled to Vote?

We have fixed the close of business on April 17, 2018, as the record date for shareholders entitled to receive notice of and to vote at our annual meeting. Only holders of record of First Financial's common stock on that date are entitled to receive notice of and to vote at the annual meeting. You are entitled to one vote for each share of First Financial common stock you own, unless you own more than 10 percent of First Financial's outstanding shares. As provided in our Articles of Incorporation, record holders of common stock who beneficially own in excess of 10 percent of First Financial's outstanding shares are not entitled to any vote in respect of the shares held in excess of the 10 percent limit unless our Board of Directors has granted permission in advance. On April 17, 2018, there were 10,779,424 shares of First Financial common stock outstanding and entitled to vote at the annual meeting.

How Do I Vote at the Annual Meeting?

Proxies are solicited to provide all shareholders on the voting record date an opportunity to vote on matters scheduled for the annual meeting and described in these materials. This question provides voting instructions for shareholders of record. You are a shareholder of record if your shares of First Financial common stock are held in your name. If you are a beneficial owner of First Financial common stock held by a broker, bank or other nominee (i.e., in "street name"), please see the instructions in the following question.

Shares of First Financial common stock can only be voted if the shareholder is present in person or by proxy at the annual meeting. To ensure your representation at the annual meeting, we recommend you vote by sending in the proxy card even if you plan to attend the annual meeting. You can also vote by telephone or the Internet by following the instructions on the proxy card. You can always change your vote at the meeting if you are a shareholder of record.

Voting instructions are included on your proxy card. Shares of First Financial common stock represented by properly executed proxies will be voted by the Proxy Committee of the Board of Directors in accordance with the shareholder's instructions. Where properly executed proxies are returned to us with no specific instruction as how to vote at the annual meeting, the persons named in the proxy will vote the shares FOR the election of each of our director nominees, FOR advisory approval of the compensation paid to our executive compensation as disclosed in this Proxy Statement and FOR the ratification of the appointment of Moss Adams LLP as our independent auditor for 2018. If any other matters are properly presented at the annual meeting for action, the Proxy Committee will have the discretion to vote on these matters in accordance with their best judgment. We do not currently expect that any other matters will be properly presented for action at the annual meeting.

You may receive more than one proxy card depending on how your shares are held. For example, you may hold some of your shares individually, some jointly with your spouse and some in trust for your children. In this case, you will receive three separate proxy cards to vote.

What if My Shares Are Held in Street Name?

If you are the beneficial owner of shares held in "street name" by a broker, your broker, as the record holder of the shares, is required to vote the shares in accordance with your instructions. If you do not give instructions to your broker, your broker may nevertheless vote the shares with respect to discretionary items, but will not be permitted to vote your shares with respect to non-discretionary items, pursuant to current industry practice. In the case of non-discretionary items, the shares not voted will be treated as "broker non-votes." The proposal to elect directors and the advisory vote on executive compensation are considered non-discretionary items; therefore, you must provide instructions to your broker in order to have your shares voted on these proposals.

If your shares are held in street name, you will need proof of ownership to be admitted to the annual meeting. A recent brokerage statement or letter from the record holder of your shares are examples of proof of ownership. If you want to vote your shares of common stock held in street name in person at the annual meeting, you will have to get a written proxy in your name from the broker, bank or other nominee who holds your shares.

How Will My Shares of Common Stock Held in the Employee Stock Ownership Plan Be Voted?

We maintain the First Financial Northwest, Inc. Employee Stock Ownership Plan ("ESOP") for the benefit of our employees. Each participant may instruct the trustee how to vote the shares of First Financial common stock allocated to his or her account under the ESOP by completing the voting instruction sheet distributed by the administrator. If a participant properly executes the voting instruction sheet, the administrator will instruct the trustee to vote the participant's shares in accordance with the participant's instructions. Unallocated shares of First Financial common stock held in the ESOP will be voted by the trustee in the same proportion as shares for which the trustee has received voting instructions. Allocated shares for which proper voting instructions are not received shall be voted by the trustee in the manner directed by the administrator. The administrator of the ESOP is Crowe Horwath.

How Many Shares Must Be Present to Hold the Meeting?

A quorum must be present at the meeting for any business to be conducted. The presence at the meeting, in person or by proxy, of at least a majority of the shares of First Financial common stock entitled to vote at the annual meeting as of the record date will constitute a quorum. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting.

What if a Quorum Is Not Present at the Meeting?

If a quorum is not present at the scheduled time of the meeting, a majority of the shareholders present or represented by proxy may adjourn the meeting until a quorum is present. The time and place of the adjourned meeting will be announced at the time the adjournment is taken, and no other notice will be given unless the adjourned meeting is set to be held 120 days or more after the original meeting. An adjournment will have no effect on the business that may be conducted at the meeting.

Vote Required to Approve Proposal 1: Election of Directors

Directors are elected by a plurality of the votes cast, in person or by proxy, at the annual meeting by holders of First Financial common stock. Our Nominating and Corporate Governance Committee has nominated, and our Board of Directors has ratified, the nomination of two candidates for election as directors. Pursuant to our Articles of Incorporation, shareholders are not permitted to cumulate their votes for the election of directors. Votes may be cast for or withheld from each nominee. Votes that are withheld and broker non-votes will have no effect on the outcome of the election because the two nominees receiving the greatest number of votes will be elected. Our Board of Directors unanimously recommends that you vote FOR the election of each of its director nominees.

Vote Required to Approve Proposal 2: Advisory Approval of Executive Compensation

Approval of the advisory (non-binding) vote on executive compensation requires the affirmative vote of a majority of the votes cast, in person or by proxy, at the annual meeting. Abstentions and broker non-votes will have no effect on the outcome of the proposal. Our Board of Directors unanimously recommends that you vote FOR approval of the compensation of our named executive officers.

Vote Required to Approve Proposal 3: Ratification of the Appointment of the Independent Auditor

Ratification of the appointment of Moss Adams LLP as our independent auditor for the fiscal year ending December 31, 2018, requires the affirmative vote of a majority of the votes cast, in person or by proxy, at the annual meeting. Abstentions will have no effect on the outcome of the proposal. Our Board of Directors unanimously recommends that you vote FOR the ratification of the appointment of the independent auditor.

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May I Revoke My Proxy?

You may revoke your proxy before it is voted by:

- submitting a new proxy with a later date;
- notifying the Secretary of First Financial in writing (or if you hold your shares in street name, your broker, bank or other nominee) before the annual meeting that you have revoked your proxy; or
- voting in person at the annual meeting.

If you plan to attend the annual meeting and wish to vote in person, we will give you a ballot at the annual meeting. However, if your shares are held in street name, you must bring a validly executed proxy from the nominee indicating that you have the right to vote your shares.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of April 17, 2018, the voting record date, information regarding share ownership of:

- those persons or entities (or groups of affiliated persons or entities) known by management to beneficially own more than five percent of First Financial's common stock other than directors and executive officers;
- each director and director nominee of First Financial;
- each executive officer of First Financial or any of its subsidiaries named in the Summary Compensation Table appearing under "Executive Compensation" below (known as "named executive officers"); and
- all current directors and executive officers of First Financial and its subsidiaries as a group.

Persons and groups who beneficially own in excess of five percent of First Financial's common stock are required to file with the Securities and Exchange Commission ("SEC"), and provide us a copy of the report disclosing their ownership pursuant to the Securities Exchange Act of 1934, as amended ("Securities Exchange Act"). To our knowledge, no other person or entity, other than the ones set forth below, beneficially owned more than five percent of the outstanding shares of First Financial's common stock as of the close of business on the voting record date.

Beneficial ownership is determined in accordance with the rules and regulations of the SEC. In accordance with Rule 13d-3 of the Securities Exchange Act, a person is deemed to be the beneficial owner of any shares of common stock if he or she has voting and/or investment power with respect to those shares. Therefore, the table below includes shares owned by spouses, other immediate family members in trust, shares held in retirement accounts or funds for the benefit of the named individuals, shares held in the ESOP, and other forms of ownership, over which shares the persons named in the table may possess voting and/or investment power. In addition, in computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to outstanding options that are currently exercisable or exercisable within 60 days after April 17, 2018, are included in the number of shares beneficially owned by the person and are deemed outstanding for the purpose of calculating the person's percentage ownership. These shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

As of April 17, 2018, the voting record date, there were 10,779,424 shares of First Financial common stock outstanding.

Name	Number of Shares Beneficially Owned (1)		Percent of Shares Outstanding (%)
Beneficial Owners of More Than 5%			
First Financial Northwest, Inc. Employee Stock Ownership Plan 201 Wells Avenue South Renton, Washington 98057	1,160,591	(2)	10.77
First Financial Northwest Foundation P.O. Box 419 Renton, Washington 98057	1,050,000	(3)	9.74
Dimensional Fund Advisors LP Building One, 6300 Bee Cave Road Austin, Texas 78746	927,552	(4)	8.60
Renaissance Technologies LLC 800 Third Avenue New York, New York 10022	675,700	(5)	6.27
Directors			
Gary F. Faull	84,877		*
Richard P. Jacobson**	97,574		*
Joseph W. Kiley III**	156,610		1.44
Joann E. Lee	153,544	(6)	1.42
Roger H. Molvar	4,081		*
Kevin D. Padrick	4,081		*
Richard M. Riccobono	1,739		*
Daniel L. Stevens	6,581		*
Named Executive Officers			
Ronnie J. Clariza	92,933		*
Dalen D. Harrison	23,370		*
Simon Soh	128,337	(7)	1.18
All Executive Officers and Directors as a Group (11 persons)	753,727		6.78

* Less than one percent of shares outstanding.

** Also a named executive officer.

(1) For directors and executive officers, includes shares of restricted stock, as to which the holders have voting but not dispositive power. For executive officers, also includes unvested shares of stock held in the ESOP, as to which the holders have voting but not dispositive power. Also includes the following number of First Financial shares that the indicated individuals have the right to acquire within 60 days of the voting record date through the exercise of stock options: Mr. Jacobson, 64,000 shares; Mr. Kiley, 105,000 shares; Ms. Lee, 57,940 shares; Mr. Clariza,

40,000 shares; Ms. Harrison, 12,000 shares; Mr. Soh, 65,000 shares; and all executive officers and directors as a group, 343,940 shares.

(2) The ESOP has sole voting power with respect to 536,053 shares, shared voting power with respect 624,538 shares and sole dispositive power with respect to 1,160,591 shares.

(3) We established the First Financial Northwest Foundation in connection with the mutual to stock conversion of First Financial Northwest Bank to further our commitment to the local community. Shares of common stock held by the Foundation will be voted in the same proportion as all other shares of common stock on all proposals considered by First Financial's shareholders.

(4) Based solely on a Schedule 13G/A dated February 9, 2018, regarding shares owned as of December 31, 2017, reporting sole voting power over 897,157 shares and sole dispositive power over 927,552 shares.

(5) Based solely on a Schedule 13G dated February 14, 2018, regarding shares owned as of December 29, 2017, reporting that Renaissance Technologies LLC and Renaissance Technologies Holdings Corporation have sole voting power and sole dispositive power over 635,696 shares and shared dispositive power over 40,000 shares.

(6) Includes 15,000 shares owned solely by her spouse.

(7) Includes 11,000 shares held in an individual retirement account.

PROPOSAL 1 – ELECTION OF DIRECTORS

Our Board of Directors consists of eight members and is divided into three classes. Approximately one-third of the directors are elected annually to serve for a three-year period or until their respective successors are elected and qualified. The table below sets forth information regarding each director of First Financial and each Board nominee for director.

The Nominating and Corporate Governance Committee of the Board of Directors selects nominees for election as directors. All of our nominees currently serve as First Financial directors. Each nominee has consented to being named in this Proxy Statement and has agreed to serve if elected. It is intended that the proxies solicited on behalf of the Board of Directors (other than proxies in which the vote is withheld as to the nominee) will be voted at the annual meeting for the election of the nominees identified in the table below. If a nominee is unable to stand for election, the Board of Directors may either reduce the number of directors to be elected or select a substitute nominee. If a substitute nominee is selected, the proxy holders will vote your shares for the substitute nominee, unless you have withheld authority. At this time, we are not aware of any reason why a nominee might be unable to serve if elected.

The Board of Directors recommends a vote FOR the election of Richard P. Jacobson and Daniel L. Stevens.

Name	Age as of December 31, 2017	Year first elected or appointed director (1)	Term to expire
BOARD NOMINEES			
Richard P. Jacobson	54	2013	2021 (2)
Daniel L. Stevens	74	2012	2021 (2)
DIRECTORS CONTINUING IN OFFICE			
Gary F. Faull	73	1999	2019
Joann E. Lee	62	2005	2019
Kevin D. Padrick	62	2013	2019
Joseph W. Kiley III	62	2012	2020
Roger H. Molvar	62	2015	2020
Richard M.	60	2016	2020

Riccobono

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(1) For Mr. Faull and Ms. Lee, includes service on the Board of Directors of First Financial Northwest Bank (previously known as First Savings Bank of Renton and First Savings Bank Northwest)

(2) Assuming reelection.

Information Regarding Nominees for Election. Set forth below is the principal occupation and other business experience during at least the last five years of each nominee for director.

Richard P. Jacobson has served as Chief Operating Officer of First Financial Northwest Bank since July 2013, and as Chief Financial Officer of First Financial Northwest, First Financial Diversified, and the Bank since August 2013. He was appointed as a director of First Financial, First Financial Diversified and the Bank effective September 2013. Mr. Jacobson served as a consultant to First Financial from April 2010 to April 2012. Subsequently, he worked as a mortgage loan originator in Palm Desert, California from July 2012 to July 2013. Previously, he had been employed by Horizon Financial Corp. and Horizon Bank, Bellingham, Washington, for 23 years, and had served as President, Chief Executive Officer and a director of Horizon Financial Corp. and Horizon Bank from January 2008 to January 2010. Mr. Jacobson also served as Chief Financial Officer of Horizon Financial Corp. and Horizon Bank from March 2000 until October 2008. Between 1985 and 2008, Mr. Jacobson served in several other positions at Horizon Financial Corp. and Horizon Bank, and spent two years as a Washington state licensed real estate appraiser from 1992 to 1994. Mr. Jacobson received his Bachelor's degree in Business Administration (Finance) from the University of Washington. In addition, Mr. Jacobson graduated with honors from the American Banker Association's National School of Banking. Mr. Jacobson is a past president of the Whatcom

County North Rotary Club and has served on the boards of his church, the United Way, Boys and Girls Club, and Junior Achievement.

Daniel L. Stevens was appointed as a director of First Financial, First Financial Diversified, and First Financial Northwest Bank effective January 2012. Mr. Stevens is the past Chairman of the Board of Home Federal Bancorp, Inc. and Home Federal Bank, Boise, Idaho, positions he held from 2004 and 1999, respectively, until the sale of Home Federal Bank in May 2014. He served as President and Chief Executive Officer of Home Federal Bancorp, Inc. from 2004 to January 2008. He also served as Chief Executive Officer of Home Federal Bank from 1995 to January 2008, and as President of Home Federal Bank from 1995 to September 2006. Mr. Stevens worked in the financial services industry for over 35 years and served as an executive officer or chief executive officer for four other mutual and stock thrifts during his career. He is past Vice Chairman of the Board of Directors of the Federal Home Loan Bank of Seattle. He served as the Chairman of the Audit Committee and was a member of the Financial Operations Committee of the Federal Home Loan Bank of Seattle. Mr. Stevens was a director of the Federal Home Loan Bank of Seattle from 1996 until 2004. He served as a director of America's Community Bankers, served on America's Community Bankers' Federal Home Loan Bank System Committee, chaired the America's Community Bankers' Credit Union Committee, and was First Vice Chair of America's Community Bankers' COMPAC Board of Governors until the merger of America's Community Bankers and the American Bankers Association in 2007. He is a Past Chairman of the Board of the Idaho Bankers Association, a past Chairman of the Board of Directors and Executive Committee of the Boise Metro Chamber of Commerce, and a former director of the Midwest Conference of Community Bankers. He is the former director of the Boise State University Foundation, and past Chairman of the United Way of Treasure Valley and the Nampa Neighborhood Housing Services Board of Directors.

Information Regarding Incumbent Directors. The present principal occupation and other business experience during at least the last five years of each director continuing in office is set forth below.

Gary F. Faull serves as a director of First Financial, First Financial Diversified, and First Financial Northwest Bank, positions held since the companies were established in 2007 as part of the mutual to stock conversion process. Prior to the conversion, he served as a director of First Financial Holdings, MHC, First Financial of Renton, and First Savings Bank of Renton. Mr. Faull has served as a director of the Bank since 1999. He is an attorney and has been self-employed since 1974 in the law firm of Gary F. Faull Law Offices. Mr. Faull is a member of the Renton Rotary Club and Veterans of Foreign Wars, having served in Vietnam and earning a Bronze Star and a Combat Infantryman's Badge, as well as the Vietnamese Cross of Gallantry. In addition, he is a past director of the Renton Community Foundation and a past president of the South King County Bar Association. Mr. Faull is also a Trustee of the First Financial Northwest Foundation and serves as its Secretary.

Joann E. Lee serves as a director of First Financial, First Financial Diversified, and First Financial Northwest Bank, positions held since the companies were established in 2007 as part of the mutual to stock conversion process. She was appointed Secretary of First Financial in May 2011, of First Financial Northwest Bank in September 2013, and of First Financial Diversified in June 2014. Prior to the conversion, she served as a director of First Financial Holdings, MHC, First Financial of Renton, and First Savings Bank of Renton since 2005. Ms. Lee is a Certified Public Accountant, a Chartered Global Management Accountant, holds a Master's Degree in Taxation, and has been the owner of Joann Lee & Associates, CPAs since 2002. Prior to that, Ms. Lee spent 11 years as a Certified Public Accountant, including an eight-year career with the national independent public accounting firm of RSM McGladrey. She also served as the RSM Director of the Small Business Division, Puget Sound Region. Prior to becoming a CPA, Ms. Lee was employed in the banking industry and ultimately held the position of Corporate Operations Officer for a Washington community bank. Ms. Lee is a past president, current treasurer and Board member of the Rotary Club of Renton, Renton Rotary CAPER, Renton Rotary Foundation, and past president of the Renton Technical College Foundation and past member of Renton YMCA Board of Directors. She is also a member of the Renton Communities in Schools, member and past treasurer of the Renton Chamber of Commerce. In addition, Ms. Lee serves as a Trustee of the First Financial Northwest Foundation and serves as its Treasurer.

Kevin D. Padrick was appointed as a director of First Financial, First Financial Diversified, and First Financial Northwest Bank effective March 2013. Mr. Padrick is a lawyer and Senior Principal and co-founder of Obsidian Finance Group, LLC, a hybrid financial advisory and investment firm based in Lake Oswego, Oregon. Mr. Padrick also indirectly owns Sunstone Business Finance, LLC, an asset-based lender, and Symmetrical

Networks, LLC, an entity providing broadband construction and financing. Prior to founding Obsidian Finance Group, LLC, Mr. Padrick was a partner with the law firm, Miller Nash, LLP, where he chaired the insolvency department and represented debtors, secured and unsecured creditors, and creditors' committees. He received Bachelor of Science degrees in mathematics and psychology, and Master of Business Administration and Juris Doctor Degrees from the University of Santa Clara.

Joseph W. Kiley III has served as President and Chief Executive Officer of First Financial and First Financial Diversified since September 2013; a director of First Financial and First Financial Diversified since December 2012; and President, Chief Executive Officer and director of First Financial Northwest Bank since September 2012. He previously served as President, Chief Executive Officer, and director of Frontier Bank, F.S.B., Palm Desert, California, and its holding company, Western Community Bancshares, Inc. Mr. Kiley has over 25 years of executive experience at banks, thrifts and their holding companies that includes serving as president, chief executive officer, chief financial officer, and director. Mr. Kiley holds a Bachelor of Science degree in Business Administration (Accounting) from the California State University, Chico, and is a former California certified public accountant. Mr. Kiley is a member of the Renton Rotary Club, City of Renton Mayor's Business Executive Forum, Mayor's Blue Ribbon Panel, and past Chair of the Board of Directors of the Renton Chamber of Commerce. He currently serves on the Board of the Washington Bankers Association (WBA), WBA Government Relations Liaison, American Bankers Association Government Relations Council – Administrative Committee, and the Federal Home Loan Bank of Des Moines Member Advisory Panel.

Roger H. Molvar was appointed as a director of First Financial, First Financial Diversified, and First Financial Northwest Bank effective August 2015. Mr. Molvar has over 35 years of experience in the financial institutions industry, currently serving as a director of PacWest Bancorp in Los Angeles, California, a position he has held since 2014. Prior to that, Mr. Molvar served as a director of Farmers and Merchants Bank in Long Beach, California from 2005 to 2008 and served as a director of CapitalSource Bank from 2008 until 2014. From 2000 to 2004, Mr. Molvar was an Executive Vice President of IndyMac Bancorp and Chief Executive Officer of IndyMac Consumer Bank, responsible for the bank's consumer/branch banking business. Prior to joining IndyMac, Mr. Molvar was a Senior Vice President and management committee member of The Times Mirror Company, and previously served as Senior Vice President and Comptroller of First Interstate Bank of California. Mr. Molvar chairs the Executive Committee of the SEC and Financial Reporting Institute at the University of Southern California.

Richard M. Riccobono was appointed as a director of First Financial, First Financial Diversified, and First Financial Northwest Bank in November 2016. Mr. Riccobono has over 32 years of experience in the financial services industry and brings a solid understanding of banking, regulatory, legislative, accounting, and legal expertise to the Board. Mr. Riccobono served as the Director of Banks for the Washington State Department of Financial Institutions from July 2011 to November 4, 2016. Prior to that, Mr. Riccobono served as the President and Chief Executive Officer of the Federal Home Loan Bank of Seattle from 2007 to 2010, and its Chief Operating Officer from 2005 to 2007. Mr. Riccobono also served as the Deputy Director of the Office of Thrift Supervision, U.S. Department of the Treasury from 1998 to 2005. Mr. Riccobono began his career in public accounting with Touche, Ross and Company (now Deloitte Touche Tohmatsu Limited). Mr. Riccobono holds a Juris Doctor degree from the Western New England School of Law in Springfield, Massachusetts, and a Bachelor of Science degree from the State University of New York at Albany. He is a member of the Georgia Bar Association and the Texas Bar Association, and is a Certified Public Accountant. He currently serves as a director of the Pacific Coast Banking School and previously served on the boards of the Pentegra Defined Benefit Plan for Financial Institutions and the Albers School of Business and Economics at Seattle University.

Director Qualifications and Experience

The following table identifies the experience, qualifications, attributes and skills that the Nominating Committee considered in making its decision to nominate directors to our Board. The fact that a particular attribute was not considered does not mean that the director lacks such an attribute.

Experience, Qualification, Skill or Attribute	Faull	Jacobson	Kiley	Lee	Molvar	Padrick	Riccobono	Stevens
Professional standing in chosen field								
Expertise in financial services or related industry								
Certified public accountant or financial expert								
Attorney								
Civic and community involvement								
Leadership and team building skills								
Diversity by race, gender or culture								
Specific skills/knowledge:								
Finance								
Technology								
Marketing								
Public affairs								
Human resources								
Governance								
Compensation								

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS
AND CORPORATE GOVERNANCE MATTERS

Board of Directors

The Boards of Directors of First Financial and First Financial Northwest Bank conduct their business through board and committee meetings. During the fiscal year ended December 31, 2017, the Board of Directors of First Financial held nine meetings and the Board of Directors of the Bank held eight meetings. No director of First Financial or the Bank attended fewer than 75 percent of the total meetings of the boards and committees on which that person served during this period.

Committees and Committee Charters

The Board of Directors of First Financial has standing Audit/Compliance/Risk, Compensation and Awards, Nominating and Corporate Governance, and Executive committees. The Board has adopted written charters for the Audit/Compliance/Risk, Compensation and Awards, and Nominating and Corporate Governance committees, copies of which are available on our website at www.ffnwb.com.

Audit/Compliance/Risk Committee. The Audit/Compliance/Risk Committee currently consists of Directors Molvar (Chair), Lee and Riccobono. The Committee meets at least quarterly to oversee the integrity of the financial reporting process and associated risks, external and internal audits, operational and compliance risk, and the system of internal control. The Committee also appoints the independent auditor and retains service providers for internal audit, and reviews the various reports prepared by management, auditors and other service providers it appoints. The Audit/Compliance/Risk Committee met four times during the year ended December 31, 2017.

Each member of the Audit/Compliance/Risk Committee is "independent" in accordance with the requirements for companies listed on NASDAQ. In addition, the Board of Directors has determined that Ms. Lee and Messrs. Molvar and Riccobono meet the definition of "audit committee financial expert," as defined by the SEC.

Compensation and Awards Committee. The Compensation and Awards Committee consists of Directors Stevens (Chair), Molvar and Riccobono. The Committee meets at least twice a year to provide oversight regarding personnel, compensation and benefits related matters. The Committee is also responsible for evaluating First Financial's Chief Executive Officer and making recommendations to the full Board regarding director compensation. Each member of the Committee is "independent," in accordance with the requirements for companies listed on NASDAQ. The Committee met six times during the year ended December 31, 2017.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee, which currently consists of Directors Lee (Chair), Faull and Padrick, assures that we maintain the highest standards and best practices in all critical areas relating to the management of the business of First Financial. The Committee also selects nominees for the election of directors and assesses Board and committee membership needs. The Committee meets at least twice a year. Each member of the Committee is "independent," in accordance with the requirements for companies listed on NASDAQ. This Committee met three times during the year ended December 31, 2017.

Only those nominations made by the Nominating and Corporate Governance Committee or properly presented by shareholders will be voted upon at the annual meeting. In its deliberations for selecting candidates for nominees as director, the Committee considers the candidate's knowledge of the banking business, including regulatory and compliance matters, strategic planning, finance, accounting and overall industry best-practices. Any nominee for director made by the Committee must be highly qualified with regard to some or all these attributes. The Committee strives to have a Board with diverse experience in areas relevant to First Financial's business. In searching for qualified director candidates to fill vacancies on the Board, the Committee solicits its current Board of Directors for names of potentially qualified candidates. Additionally, the Committee may use the services of a professional search firm to solicit qualified candidates. The Committee would then consider the potential pool of director candidates, select the candidate it believes best meets the then-current needs of the Board, and conduct a thorough investigation of the proposed candidate's background to ensure there is no past history that would cause the candidate not to be qualified to serve as one of our directors. Although the Nominating and Corporate Governance Committee charter does not specifically provide for the consideration of shareholder nominees for directors, the Committee will consider director candidates recommended by a shareholder that are submitted in accordance with our Articles of Incorporation and Bylaws. Because our Articles of Incorporation provide a process for shareholder nominations, the Committee did not believe it was necessary to provide for shareholder nominations of directors in its charter. If a shareholder submits a proposed nominee, the Committee would consider the proposed nominee, along with any other proposed nominees recommended by members of our Board of Directors, in the same manner in which the Committee would evaluate its nominees for director. For a description of the proper procedure for shareholder nominations, see "Shareholder Proposals" in this Proxy Statement.

As noted above, the Nominating and Corporate Governance Committee considers a number of criteria when selecting new members of the Board. Those criteria as well as having strong personal attributes, including a record of achievement and an understanding of diverse backgrounds and experience, are considered to provide for diversity on our Board of Directors. These diversity factors are considered when the Nominating and Corporate Governance Committee and Board are seeking to fill a vacancy or new seat on the Board.

Executive Committee. The Executive Committee, consisting of Director Kiley (Chair) and any two non-employee directors, acts for the Board of Directors when formal Board action is required between regular meetings. The Committee has the authority to exercise all powers of the full Board of Directors, except that it does not have the power to act in place of the Audit/Compliance/Risk, Compensation, or Nominating and Corporate Governance committees. The Executive Committee did not meet during the year ended December 31, 2017.

Leadership Structure

In an effort to promote more dynamic strategic development, independent oversight and effective governance, in 2013 the Board separated the roles of Chairman and Chief Executive Officer, with the role of Chairman being filled by an independent director. To supplement information flow, the entire Management

Committee, which represents all business lines, attends each Board Meeting. The Board recognizes that independent directors and management have different perspectives and roles in developing and executing our strategy. Our independent directors bring experience, oversight and expertise from outside First Financial and the financial services industry, while the Chief Executive Officer and the management team bring a wealth of banking expertise.

One of the key responsibilities of the Board is to develop strategic direction and hold management accountable for the execution of that strategy once it is developed. To provide oversight and balance to management, the Board has established a practice of holding executive sessions consisting of non-management directors as needed. The non-management directors also meet with independent service providers, such as the independent auditor, credit reviewer and internal auditor, as needed. The Chairman, or in his absence, a lead independent director, facilitates each executive session and is responsible for consulting with the Chief Executive Officer, acting as a liaison between management and the non-management directors.

Board Involvement in Risk Management Process

The Board of Directors and committees take an active role in overseeing management of First Financial's risks. The Board regularly reviews information regarding our asset quality, liquidity, operations, audit/exam findings, compliance performance and regulatory relations, as well as the risks associated with each. The Compensation and Awards Committee is responsible for overseeing the management of risks relating to our executive compensation plans and arrangements, as well as overall employee compensation practices. To mitigate excessive risk-taking by management, all incentive compensation plans remain subject to Board approval after review and recommendation by the Compensation and Awards Committee. The Audit/Compliance/Risk Committee oversees management of operational and financial risks, including reviewing audited financial statements, engaging independent external auditors and internal auditors, reviewing compliance performance reports and risk assessments, and conducting discussions with management regarding quarterly and annual public filings. Our Nominating and Corporate Governance Committee manages risks associated with the independence of the Board of Directors and potential conflicts of interest. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board of Directors is regularly informed through committee reports about these risks.

The Board's committee structure is intended to increase oversight of risks typically associated with the growth of the Bank, including, but not limited to: (1) lending oversight through the Directors' Loan Committee; (2) asset/liability management through the Investments and Asset/Liability Committee; and (3) asset classification, portfolio monitoring, and loan loss estimates through the Internal Asset Review Committee. These Bank Board committees are intended to provide greater subject-matter focus, independent oversight and reduce the scope and frequency of meetings of First Financial's Audit/Compliance/Risk Committee.

Corporate Governance

We are committed to establishing and maintaining high standards of corporate governance. Our executive officers and Board of Directors have worked together to establish a comprehensive set of corporate governance initiatives that they believe will serve the long-term interests of our shareholders and employees. These initiatives are intended to comply with the provisions contained in the Sarbanes-Oxley Act of 2002, the rules and regulations of the SEC adopted thereunder, and the NASDAQ rules governing corporate governance. Our Board of Directors will continue to evaluate and improve our corporate governance principles and policies as necessary and as required.

Director Independence. Our common stock is listed on the Nasdaq Global Select Market. In accordance with NASDAQ requirements, at least a majority of our directors must be independent directors. The Board has determined that six of our eight directors are independent, as defined by NASDAQ. Directors Faull, Lee, Molvar, Padrick, Riccobono and Stevens are all independent. Former director Kohlwes was also independent.

Code of Business Conduct and Ethics. On September 12, 2017, the Board of Directors amended its Code of Business Conduct and Ethics Policy. The Code is applicable to each of our directors, officers, including the principal executive officer and senior financial officers, and employees and requires individuals to maintain the highest standards of professional conduct. A copy of the amended Code of Business Conduct and Ethics Policy is available on our website at www.ffnwb.com.

Shareholder Communication with the Board of Directors. The Board of Directors welcomes communication from shareholders. Shareholders may send communications to the Board of Directors, First Financial Northwest, Inc., 201 Wells Avenue South, P.O. Box 360, Renton, Washington 98057. Shareholders should indicate clearly the director or director(s) to whom the communication is being sent so that each communication may be forwarded appropriately.

Annual Meeting Attendance by Directors. First Financial encourages, but does not require, its directors to attend the annual meeting of shareholders. All directors attended last year's annual meeting of shareholders.

Transactions with Related Persons. First Financial Northwest Bank has followed a policy of granting loans to officers and directors that fully complies with all applicable federal regulations. Loans to directors and executive officers are made in the ordinary course of business and on the same terms and conditions as those of comparable transactions with all customers prevailing at the time, in accordance with our underwriting guidelines, and do not involve more than the normal risk of collectability or present other unfavorable features.

All loans made to our directors and executive officers are subject to federal regulations restricting loans and other transactions with affiliated persons of First Financial Northwest Bank. Loans and available lines of credit to all directors and executive officers and their associates totaled approximately $9,000 at December 31, 2017, which was less than one percent of our equity at that date. All loans to directors and executive officers were performing in accordance with their terms at December 31, 2017. Total deposits of directors and executive officers were approximately $8.6 million at December 31, 2017.

We recognize that transactions between First Financial, First Financial Diversified or First Financial Northwest Bank and any of its directors or executive officers can present potential or actual conflicts of interest and create the appearance that these decisions are based on considerations other than our best interests. Therefore, as a general matter, and in accordance with the First Financial Code of Business Conduct and Ethics Policy, it is our preference to avoid such transactions. Nevertheless, we recognize that there are situations where such transactions may be in, or may not be inconsistent with, our best interests. Accordingly, in those cases where personal interests exist or may appear to exist, our Code of Business Conduct and Ethics Policy requires the Board or a Board designated committee to approve or ratify any such transaction or business arrangement in which First Financial is or will be a participant and where any director, officer or employee had, has or will have a direct or indirect financial interest. In the event that a member of the Board or Board designated committee is a participant in the transaction, then that member is required to abstain from the discussion, approval or ratification process. Approval or ratification will be made only for those transactions that are in, or not inconsistent with, the best interests of First Financial, as the Board or Board designated committee determines in good faith.

Stock Ownership Guidelines

In December 2016, the Board of Directors adopted a non-employee director stock ownership policy because it believes that it is in First Financial's best interest to align the financial interests of non-employee directors with those of First Financial shareholders. The policy requires non-employee directors to own shares of First Financial's common stock equal in value to three times the respective director's annual cash retainer. Directors must meet these ownership guidelines within three years following the initial receipt of a stock grant for director fees and are restricted from divesting shares until the policy requirement is met. Three of six non-employee directors met the policy requirement at December 31, 2017 and the remaining three non-employee directors were on track to meet the requirement.

Hedging Policy; Pledging of Stock

Under First Financial's Trading in Securities and Confidentiality of Inside Information for Officers and Directors Policy, its directors and executive officers are prohibited from engaging in any hedging transaction involving First Financial's securities. In addition, executive officers and directors are advised that holding First Financial securities in a margin account or otherwise pledging First Financial securities as collateral for a loan carries the risk of insider trading liability should they fail to meet a margin call or if they default on the loan. Currently, no director or executive officer has pledged First Financial securities.

DIRECTORS' COMPENSATION

The following table shows the compensation paid to our directors for the year ended December 31, 2017, other than Joseph W. Kiley III, who is our President and Chief Executive Officer, and Richard P. Jacobson, who is our Chief Operating Officer and Chief Financial Officer, as their compensation is included in the section entitled "Executive Compensation." The directors did not receive any non-equity incentive compensation during this period, nor did they participate in a pension plan or receive above-market earnings on deferred compensation; therefore, these columns have been omitted from the table.

Name	Fees earned or paid in cash ($)	Stock Awards ($)(1)	All Other Compensation ($)(2)	Total ($)
Gary F. Faull	30,000	29,998	1,487	61,485
Joann E. Lee	30,000	29,998	712	60,710
Roger H. Molvar	33,000	29,998	645	63,643
Kevin D. Padrick	30,000	29,998	645	60,643
Richard M. Riccobono	30,000	29,998	531	60,529
Daniel L. Stevens	30,000	29,998	1,696	61,694
Gary F. Kohlwes (3)	33,000	--	1,801	34,801

(1) Represents the aggregate grant date fair value, computed in accordance with Financial Accounting Standards Board Accounting Standards Topic 718, "Compensation - Stock Compensation" ("FASB ASC Topic 718"). For a discussion of valuation assumptions, see Note 12 of the Notes to Consolidated Financial Statements in First Financial's Annual Report on Form 10-K for the year ended December 31, 2017. Consists of an award of restricted stock on June 14, 2017, which vested immediately.

(2) Consists of the economic value (the imputed income for tax purposes) of the split dollar life insurance benefits described below to the directors plus a gross-up amount to cover the director's tax liability assuming a 40% tax rate.

(3) Dr. Kohlwes retired from the Board on June 14, 2017.

Each director of First Financial is also a director of First Financial Northwest Bank and First Financial Diversified. The directors are paid for their service by the Bank with an allocation of cost to First Financial. Non-employee directors are compensated as follows: (1) $15,000 in cash during the first quarter, with an additional $3,000 in cash paid to the Chairman; and (2) a stock grant in an amount of shares that represents $30,000 in value at the time of the grant during the second quarter; and (3) $7,500 in cash, with an additional $1,500 in cash paid to the Chairman, during the third and fourth quarters. A non-employee director retiring immediately upon conclusion of the annual meeting of shareholders will receive $15,000 in cash in lieu of a stock grant as compensation for service during the second quarter. In addition, directors will receive expense reimbursements for travel and attendance at conferences, training sessions, and travel expenses to Board meetings.

In 2017, First Financial Northwest Bank modified the bank-owned life insurance contracts on its directors and named executive officers to include endorsement split-dollar life insurance agreements. The named executive officers' policies are described below on page 21. Each non-employee director has insurance coverage with a death benefit payable to the director's assigned beneficiary in an amount equal to ninety percent of the net amount at risk, defined as the total proceeds of the policy less the cash value of the policy. At the time the policies were purchased, the net amount-at-risk for the non-employee directors ranged from $160,000 to $309,000. Total death benefits, including cash surrender values, were approximately $560,000 per non-employee director. The Bank pays all premiums and is entitled to the cash value of the policy and the remainder of the director's death benefit. The insurance policies also permit each director to access portions of the eligible policy death benefits if he or she is diagnosed with a chronic or terminal illness ("accelerated benefits"). Each director is eligible to receive up to $500,000 in accelerated benefits.

COMPENSATION DISCUSSION AND ANALYSIS

General

In this section, we will give an overview of our compensation program, the material compensation decisions we have made under the program and the material factors that we considered in making those decisions. Following this discussion, in the section entitled "Executive Compensation," we provide a series of tables containing specific information about the compensation earned or paid to the following officers, who are known as our named executive officers:

Joseph W. Kiley III, President and Chief Executive Officer
Richard P. Jacobson, Executive Vice President, Chief Financial Officer, and Chief Operating Officer
Ronnie J. Clariza, Senior Vice President and Chief Risk Officer
Dalen D. Harrison, Senior Vice President and Chief Deposit Officer
Simon Soh, Senior Vice President and Chief Credit Officer

Compensation and Awards Committee. All compensation matters concerning our executive officers are made at the sole discretion of the Compensation and Awards Committee, which is comprised of independent directors. Compensation determinations are made based on the Committee's independent review of management recommendations, market salary surveys and peer group studies, for both base salary and total compensation. The Committee has the responsibility for establishing and reviewing our compensation philosophy and objectives, and in this role, they have sought to design a compensation structure that attracts and retains qualified and experienced officers, and at the same time, is reasonable and competitive.

Role of Chief Executive Officer in Determining Compensation. The Chief Executive Officer's role is limited to providing information regarding the executive officers to the Compensation and Awards Committee Chair, including salary and bonus histories, performance highlights, levels of responsibility and compensation recommendations for each officer. The Chief Executive Officer does not provide any recommendation with respect to his individual compensation. Following receipt of this information, the Committee Chair reviews the selected materials along with supplemental information independently acquired. The Chair's analysis is then incorporated into a summary packet that is provided to the Committee for their review prior to a regularly scheduled meeting. The Committee makes the final decision and may adjust the compensation levels. In its deliberations, the Committee focuses on corporate performance, retention issues, individual performance and management development.

The discussion below is intended to help understand the detailed information provided in the executive compensation tables and put that information into context within our overall compensation program.

Compensation Highlights

The Compensation and Awards Committee retained the Blanchard Consulting Group to review First Financial's total executive compensation structure, to analyze cash and equity incentive payouts and opportunity levels for executives, and to provide an updated customized peer group and a benchmarking analysis of executive compensation. As a result of their analysis, Blanchard Consulting recommended the adoption of a long-term incentive opportunity in the form of the 2017 Officers' Equity Incentive Plan, implemented pursuant to the shareholder approved 2016 Equity Incentive Plan and described below.

Compensation Advisors

In December 2016, the Committee retained the Blanchard Consulting Group for assistance with 2017 executive compensation decisions. The Committee also continued working with USI (formerly Kibble & Prentice), an employee benefits consulting firm and one of the leading full-service brokerage firms in the Pacific Northwest. USI assists with ensuring competitive rates and benefit plan options for executives. Prior to retaining each advisor, the Compensation and Awards Committee assessed the advisor's independence relative to NASDAQ factors and determined that each advisor is independent.

Compensation Philosophy and Objectives

Our overall goal in compensating executive officers is to attract, retain and motivate key executives of proven ability who are critical to our future success. We believe that short-term cash incentive compensation paid to executive officers should be directly aligned to First Financial Northwest Bank's performance and that compensation should be structured to ensure achievement of financial and operational goals, along with other factors that impact corporate and shareholder value. Our long-term incentive is in the form of an equity incentive plan.

Although First Financial Northwest Bank became a stock savings bank as a result of the mutual holding company reorganization in 2002, compensation paid to employees, officers and directors has consisted primarily of cash compensation, salary and bonuses, and retirement benefits. In 2008, shareholders approved our 2008 Equity Incentive Plan. In 2016, this plan was replaced by the shareholder-approved 2016 Equity Incentive Plan. In recent years, equity compensation has been awarded primarily to new or newly-promoted executive officers; however, in 2017 we began using equity awards in concert with cash incentives to compensate officers for actions that align our performance with shareholder interests.

Our compensation decisions with respect to executive officer salaries and incentive compensation are influenced by: (1) the executive's level of responsibility and function within the organization; (2) the overall performance and profitability of First Financial Northwest Bank; and (3) our assessment of the competitive marketplace, including peer companies. Our philosophy is to focus on total direct compensation opportunities through a mix of base salary, annual short-term cash incentive compensation and longer-term equity incentives to ensure successful ongoing performance of First Financial Northwest Bank.

Compensation Benchmarking

In general, we seek to provide competitive pay relative to a peer group for total compensation opportunities. It is our intent to achieve an effective efficiency ratio, excellent asset quality, and a satisfactory regulatory standing; therefore, we include performance-based compensation in addition to a fixed-salary pay structure.

In addition to working with compensation advisors, the Compensation and Awards Committee also has used data compiled annually by Milliman, Inc. ("Milliman"). With the assistance of Milliman, we analyzed competitive market data contained in the 2017 Northwest Financial Industry Compensation Survey. The data was independently collected by Milliman and represents 104 Northwest financial institutions located in Washington, Oregon, Idaho, and Alaska ranging in asset size from $47 million to $23 billion. The data is grouped by asset size, with the information adequately reflecting the complexities and compensation levels of peer group institutions. We compared compensation paid to our named executive officers with compensation paid to executive officers in comparable positions at similar size institutions. Our peer group institutions ranged in asset size from $608 million to approximately $1.1 billion, with an average asset size of approximately $889 million. During 2017, our peer group consisted of the following financial institutions:

Baker Boyer Bank	Kitsap Bank
Bank of the Pacific	Olympia Federal Savings
Citizens Bank	Riverview Community Bank
Coastal Community Bank	Skagit Bank
First Federal - Port Angeles	Timberland Bank

Compensation Components and 2017 Pay Decisions

The compensation program for executive officers consists of the following components:

Pay element	What it rewards	Purpose
Base salary	Core competence in the executive's role relative to skills, experience and contributions to First Financial and First Financial Northwest Bank	Provides fixed compensation based on competitive market price
Annual cash incentive compensation	Contributions toward First Financial Northwest Bank's achievement of specified performance measures	Provides annual performance-based cash incentive compensation
Long-term incentive (equity-based) compensation	Management development through retention and attracting new talent	Provides resources for implementation of corporate objectives, goals, and growth strategies, while aligning officer and shareholder interests
Retirement benefits	Executive officers are eligible to participate in employee benefit plans available to our eligible employees, including both tax- qualified and nonqualified retirement plans	Provides a long-term incentive for the retention of key officers and encourages executive officer retention
	The Chief Executive Officer has an Executive Supplemental Retirement Plan Participation Agreement that provides additional retirement benefits subject to meeting certain minimum age and service requirements	Provides a long-term incentive for the retention of the Chief Executive Officer
Split-dollar life insurance benefits	First Financial Northwest Bank pays the premiums on bank-owned life insurance which provides split-dollar life insurance benefits for the named executive officers	Provides security for the executives and their beneficiaries
Additional benefits and perquisites	Executives participate in employee benefit plans, including pay protection via disability pay, generally available to our employees, including medical insurance	These benefits are a part of our broad-based total compensation program
	The Chief Executive Officer and the Chief Financial Officer/Chief Operating Officer receive a car allowance	Assists in executive responsiveness for community and industry-related travel requirements

Base Salary. The Chief Executive Officer makes initial base salary recommendations to the Compensation and Awards Committee Chair that are based on individual salary history, individual and corporate performance, and competitive peer group data. Given the independence of the data on which these recommendations are made, historically there have been only slight modifications by the Committee. Annually, the Committee reviews the recommendations and establishes executive management salaries in accordance with its independent philosophy. The compensation paid to Mr. Kiley and all executive officers is determined by the Committee based upon, among other factors, a review of First Financial Northwest Bank's performance in comparison to its peer group. The final compensation levels are generally based on peer group analysis, market surveys, First Financial Northwest Bank's asset size, balance sheet complexity, corporate direction and management structure, as well as company and individual performance. No particular weight is given to any of these factors by the Committee and the final compensation level is based on a subjective determination by the Committee. Mr. Kiley does not participate in Committee or Board discussions regarding his own compensation.

For 2017, Mr. Jacobson received a base salary increase of 3.5 percent and Mr. Soh received a base salary increase of 4.6 percent effective January 1, 2017, as a result of their annual performance reviews. The base salaries of Mr. Clariza and Ms. Harrison were increased to $190,000. In lieu of an increase in base pay effective January 1, 2017, Mr. Kiley received a cash bonus payment, paid in January, in the amount of 3.5 percent of his 2016 base salary. The Compensation and Awards Committee worked with the Blanchard Consulting Group to develop an updated base salary administration plan, as well as a long-term equity incentive plan, for each of the named executive officers.

As a result of the annual performance review process, the named executive officers received adjustments to their base salaries effective January 1, 2018, as follows: Mr. Kiley, 3.0 percent increase to $450,882; Mr. Jacobson, 3.4 percent increase to $300,000; Mr. Clariza, 2.6 percent increase to $195,000; and Ms. Harrison, 3.5 percent increase to $196,650. Mr. Soh was promoted to Senior Vice President and Chief Credit Officer in August 2017 and received an increase of 8.9 percent to $245,000 annually. He previously served as Senior Vice President and Chief Lending Officer.

Annual Incentive Compensation. The Annual Incentive Plan is intended to provide executive officers and staff with an opportunity to earn annual cash incentives based on corporate and individual performance as measured by predetermined goals. The Compensation and Awards Committee adopted criteria and rules for awarding and paying annual incentive payments to the named executive officers for 2017. The Annual Incentive Plan's plan year corresponds to our fiscal year of January 1 to December 31. Each participant is assigned a target award opportunity, which is expressed as a percentage of base salary. Awards are determined based on a weighted combination of corporate and individual performance goals, which, with the exception of incentives for the Chief Executive Officer, are established and proposed by the Chief Executive Officer, subject to the approval of the Compensation and Awards Committee. The weighted combination of corporate and individual performance goals for the Chief Executive Officer is determined by the Compensation and Awards Committee.

The annual incentive opportunities for the named executive officers, expressed as a percentage of base salary actually earned during 2017, were as follows:

Executive	Below threshold	Threshold	Target	Maximum
Joseph W. Kiley III	0%	10%	20%	30%
Richard P. Jacobson	0%	9%	18%	27%
Ronnie J. Clariza	0%	8%	16%	24%
Dalen D. Harrison	0%	8%	16%	24%
Simon Soh	0%	8%	16%	24%

For 2017, the Compensation and Awards Committee established the following weighting among corporate and individual goals and Community Reinvestment Act ("CRA") hours:

Executive	Corporate	Individual	CRA hours
Joseph W. Kiley III	98%	--	2%
Richard P. Jacobson	80%	18%	2%
Ronnie J. Clariza	80%	18%	2%
Dalen D. Harrison	80%	18%	2%
Simon Soh	80%	18%	2%

Time spent on Community Reinvestment Act activities qualify for services under the Act if the activities have a primary purpose of community development, relate to the provision of financial services and benefit First Financial Northwest Bank's assessment area. Community development is defined as activities that promote affordable housing, services, economic development or revitalization or stabilization to low-to-moderate income individuals or areas.

Examples of financial services would be teaching financial literacy or a homebuyer class, providing credit counseling or an employee providing technical expertise such as human resource, marketing or information technology support to the board of a low-to-moderate income organization. For 2017, the threshold, or minimum acceptable performance level, was participation in two hours of qualified activities; the target, participation in four hours of qualified activities; and the maximum, participation in at least six hours of qualified activities.

For the 2017 fiscal year, the Compensation Committee approved the following corporate performance measures for the named executive officers:

Performance measure	Performance criteria Threshold	Target	Stretch	Weighting (% of corporate goals)	Actual
Pre-tax, pre-provision net income	$16.4 million	$17.3 million	$19.0 million	20	$13.0 million
Pre-tax, pre-provision return on assets	1.49%	1.57%	1.73%	15	1.44%
Net loan growth (1)	$90 million	$100 million	$125 million	10	$112.5 million
Net deposit growth (2)	$49.5 million	$55.0 million	$68.75 million	10	$80.9 million
Efficiency ratio	65%	62%	<60%	10	63.15%
Nonperforming assets/assets	3%	2%	1%	10	0.05%
Past due and nonaccrual loans/loans (3)	<110% of State Median	State Median Q3 2017	<80% of State Median	10	0.02%
Net noncore funding dependence ratio	<35%	<32%	<30%	5	30.61%
Regulatory factors		(4)		10	Achieved

(1) Excludes loan purchases.
(2) Excludes certificates of deposit.
(3) Washington State Median was 0.50% for the third quarter of 2017.
(4) Confidential under federal banking laws.

Individual performance goals are established at the beginning of each plan year. An executive's individual goals may relate to projects and initiatives specific to the executive's business or function that are not covered in, but are aligned with, the corporate performance measurements, and generally contemplate specific results such as a positive impact on customer satisfaction, a substantial improvement to an existing process, a measurable increase in revenue growth, or a measurable reduction in expenses. The Chief Executive Officer reviews and approves individual goals for the other named executive officers.

Long-term Incentive Compensation. A key component of management stability and institutional growth is the ability of a company to provide long-term incentives for its personnel. At the 2016 annual meeting of shareholders, shareholders approved the 2016 Equity Incentive Plan. Under the plan, directors, officers and employees may receive awards of stock options, restricted stock and restricted stock units. We believe that stock ownership by our officers is a significant factor in aligning the interests of the officers with those of shareholders. The ability to offer equity-based compensation provides a means for attracting and retaining directors and employees, and also provides an incentive to directors and officers to improve the long-term performance and profitability of First Financial. The 2016 Equity Incentive Plan is administered by the Compensation and Awards Committee, which makes all awards under the plan.

On June 14, 2017, pursuant to the 2016 Equity Incentive Plan, the Compensation and Awards Committee established the 2017 Officers' Equity Incentive Plan, under which the Committee determined to grant long-term incentive opportunities to each of the named executive officers. The long-term incentive opportunities, expressed as a percentage of base salary actually earned during 2017, were as follows:

Executive	Target	Maximum
Joseph W. Kiley III	20.00%	30.00%
Richard P. Jacobson	17.50%	26.25%
Ronnie J. Clariza	17.50%	26.25%
Dalen D. Harrison	17.50%	26.25%
Simon Soh	17.50%	26.25%

Awards of long-term incentive opportunities under the 2017 Officers' Equity Incentive Plan are payable in restricted stock and are contingent on attaining pre-established performance goals. The Compensation and Awards Committee reviewed and approved goals in consultation with management. The Committee established target and maximum performance levels and associated payouts. For the awards made in 2017, the Committee approved the following corporate performance measures and weightings:

Performance measure	Performance criteria Target	Performance criteria Maximum	Weighting (% of payout)	Actual
Adjusted earnings per share (1)	$0.97	$1.12	50	$1.07
Net average balance loan growth (2)	$50.00 million	$62.50 million	20	$56.23 million
Core average balance deposit growth (3)	$27.50 million	$34.35 million	20	$40.45 million
Asset quality (past due and nonaccrual loans/total loans) (4)	State Median Q3 2017	<80% of State Median	10	0.02%

(1) Equals net income for 2017, excluding Opus branch acquisition expenses and subsequent noninterest expense attributed to the acquired branches, the impact of the revaluation of deferred tax asset due to the Tax Cuts and Jobs Acts of 2017, and the loss associated with restructuring of investments portfolio, divided by budgeted diluted shares outstanding.
(2) Excludes purchased loans.
(3) Excludes acquired deposits.
(4) Washington State Median was 0.50% for the third quarter of 2017.

The actual equity incentive award payouts are calculated using a proportional approach, where award payouts are calculated as a proportion of target and maximum award opportunities. The actual number of shares granted are determined by the award level achieved and First Financial Northwest's stock price on the grant date. Stock awards are granted within 90 days from the end of the plan year after annual performance results are received and reviewed by the Compensation and Awards Committee. Awards are granted to each participant only if the participant received a satisfactory performance review.

Retirement Benefits. First Financial maintains, as part of its retirement benefit programs, the First Financial Northwest Savings Plan (the "401(k) plan") for the benefit of eligible employees, including the named executive officers, of First Financial and its subsidiaries, First Financial Northwest Bank and First Financial Diversified. The 401(k) plan is intended to be a tax-qualified retirement plan under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended. Employees of First Financial and its subsidiaries are eligible to participate in the 401(k) plan on the first of the month, following 60 days from hire. Generally, participants direct the investment of the plan assets.

For 2017, participants could contribute up to $18,000 of their annual compensation through a pre-tax salary reduction election. Participants 50 years of age or more could elect to make an additional $6,000 pre-tax salary reduction election. First Financial matches the first six percent of a participant's pre-tax salary reduction contribution at the rate of 50 percent. To be eligible for a matching contribution, the participant must be actively employed during the pay period for which the match is allocated. Participants are, at all times, 100 percent vested in their salary reduction contributions; however, their related matching contributions are subject to a five-year vesting period with 20 percent vesting each year. For the fiscal year ended December 31, 2017, First Financial incurred a matching contribution-related expense of approximately $261,000 in connection with the 401(k) plan. For the 401(k) plan's fiscal year ended December 31, 2017, employees contributed approximately $797,000 to the 401(k) plan.

First Financial Northwest Bank is a participating employer in a multiple-employer defined benefit plan (the "pension plan"), which provides a benefit upon retirement to eligible employees, including some of the executive officers. The Board voted to freeze all accumulated pension plan benefits as of March 31, 2013, which means that employees with less than one year of service as of that date, or new employees hired subsequently, will not be eligible to participate in the plan and no new benefits will accrue to current participants under the plan after that date. Upon completion of five years of employment with First Financial or its subsidiaries, a participant is 100 percent vested. There is no provision for partial vesting. A participant's full benefit under the pension plan is payable at age 65 with at least five years of benefit service, which is considered normal retirement. Early retirement benefit payments are available under the pension plan to participants upon attainment of age 45 and completion of five years of benefit service. Messrs. Clariza and Soh participate in the pension plan.

First Financial Northwest Bank also maintains an executive supplemental retirement plan for the benefit of certain executives. The plan is intended to provide supplemental benefits upon normal retirement or death prior to retirement. First Financial Northwest Bank entered into a participation agreement under the plan with Mr. Kiley effective July 1, 2013 which provides for an annual pension of $28,000. Mr. Kiley's participation agreement was amended in 2017 to provide that he will vest in his benefit if he is employed by the Bank on September 12, 2017 (instead of having to remain employed by the Bank until age 65, as was required under the agreement prior to the amendment). Mr. Kiley, however, will forfeit his benefit under the participation agreement if he voluntarily terminates employment with the Bank (other than in connection with a good reason event) prior to attaining age 65. Mr. Kiley will receive his benefit under the participation agreement if he either is actively employed by the Bank at age 65, or if he is involuntarily terminated other than for cause (including voluntary termination for good reason) prior to attaining age 65. Prior to the amendment, Mr. Kiley could receive this benefit in connection with an involuntary termination prior to age 65 only following a change in control event.

Split-Dollar Life Insurance Benefits. In 2017, First Financial Northwest Bank modified the bank-owned life insurance contracts on its named executive officers to include endorsement method split-dollar life insurance agreements. The Chief Executive Officer and the Chief Financial Officers each have insurance coverage with a death benefit payable in an amount equal to the lesser of 100 percent of the net amount-at-risk, defined as the total proceeds of the policy less the cash value of the policy, or $1,000,000. In 2017, the net amount-at-risk was $1.5 million and $1.75 million for Messrs. Kiley and Jacobson, respectively. While employed, the other named executive officers have insurance coverage with a death benefit payable in an amount equal to the lesser of 100 percent of the net amount-at-risk or $500,000. The Bank pays all premiums and is entitled to the cash value of the policy and the remainder of the executive's death benefit. The insurance policies also permit the named executive officers to access portions of the eligible policy death benefits if an executive is diagnosed with a chronic or terminal illness ("accelerated benefits"). While employed, each executive is eligible to receive up to $500,000 of accelerated benefits. Each executive has the same access to accelerated benefits post separation of service if he or she has five years of service or if he or she is involuntarily terminated or terminate his or her employment for good reason after a change in control. The economic value (the imputed income amount of this insurance for tax purposes) for the year 2017 to each named executive officer is set forth in the Executive Compensation table under the column "All other compensation."

Additional Benefits and Perquisites. At First Financial, an important part of our total compensation plan is the employee benefits program. We offer a comprehensive and flexible benefits plan on a non-discriminatory basis to support the basic health, welfare and retirement needs of all of our employees, including our named executive officers. The elements of the benefits plan include group policies for medical/dental/vision plans, paid time off ("PTO") for vacation and illness, disability, life insurance, FSA/HSA pre-tax savings accounts, tuition reimbursement, bereavement leave and training. In January 2014, our benefit plans were changed to more cost effective offerings, with two choices: a base qualified, high-deductible health plan and a base buy-up option, the difference of which is charged to the employee. Additionally, employees are responsible for five percent of their employee premium costs and 50 percent of their dependent's premiums. The Chief Executive Officer and Chief Financial Officer/Chief Operating Officer receive an automobile allowance. The Compensation and Awards Committee believes this benefit is appropriate because it assists them in fulfilling their community and industry-related obligations. Executive officers also receive a cell phone allowance.

The named executive officers, along with all eligible employees, participate in our ESOP. Each eligible participant is allocated the same proportion that the participant's compensation for the plan year bears to the total compensation of eligible participants for that year, subject to certain limitations regarding how much compensation is taken into account and how much can be allocated to a participant for a year.

Additional Considerations. Market data, individual performance, retention needs and internal pay equity have been the primary factors considered in decisions to materially adjust compensation. The accounting and tax treatment of compensation generally has not been a factor in determining the amounts of compensation for our executive officers. However, the Compensation and Awards Committee and management have considered the accounting and tax impact of various program designs to balance the potential cost to First Financial with the value to the employee. The Committee reviews the results of the shareholder votes on executive compensation but to date, this review has not affected executive compensation decisions and policies.

Compensation and Awards Committee Report

The Compensation and Awards Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis contained above with management. Based on that review and discussion, we recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

The foregoing report is provided by the following directors, who are the current members of the Compensation and Awards Committee:

Daniel L. Stevens (Chair)
Roger H. Molvar
Richard M. Riccobono

This report shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, and shall not otherwise be deemed filed under such acts.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table shows information regarding compensation paid to our named executive officers.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)(1)	Option awards ($)(2)	Non-equity incentive plan compen-sation ($)(3)	Change in pension value and nonqualified deferred compensation earnings ($)(4)	All other compen-sation ($)(5)	Total ($)
Joseph W. Kiley III	2017	437,750	15,321 (6)	119,640	--	72,364	16,900	66,301	728,276
President and Chief	2016	437,750	--	--	--	103,440	4,100	73,132	618,422
Executive Officer	2015	425,000	83,767	--	--	--	11,000	77,798	597,565
Richard P. Jacobson	2017	290,000	--	69,352	--	47,218	--	69,554	476,124
Executive Vice President,	2016	280,160	--	--	--	60,262	--	77,595	418,017
Chief Operating Officer and Chief Financial Officer	2015	272,000	51,996	--	187,032	--	--	82,648	593,676
Ronnie J. Clariza	2017	190,000	--	45,437	--	26,190	23,000	50,692	335,319
Senior Vice President and	2016	180,075	--	--	--	34,015	8,000	65,534	287,624
Chief Risk Officer	2015	175,000	28,728	--	--	--	-- (7)	56,093	259,821
Dalen D. Harrison	2017	190,000	20,000 (8)	45,437	--	22,906	--	49,831	328,174
Senior Vice President	2016	174,000	--	--	--	31,765	--	50,499	256,264

and Chief Deposit Officer	2015	154,000	25,502	--	--	--	--	28,814	208,316
Simon Soh	2017	225,000	--	53,807	--	33,858	4,000	61,149	377,814
Senior Vice President and	2016	215,065	--	--	--	39,572	2,000		

2012 Acquisition

Hertalan Holding B.V.

On March 9, 2012, the Company acquired 100% of the equity of Hertalan Holding B.V. (Hertalan) for a total cash purchase price of 37.3 million, or $48.9 million, net of 0.1 million, or $0.1 million, cash acquired. The Company funded the acquisition with borrowings under its $600 million senior unsecured revolving credit facility (the Facility) and cash on hand. See Note 15 for further information regarding borrowings. The acquisition of Hertalan strengthens the Company s ability to efficiently serve European customers in the EPDM roofing market in Europe with local manufacturing and established distribution channels. Hertalan will operate within the Construction Materials segment.

The following table summarizes the consideration transferred to acquire Hertalan and the preliminary allocation among the assets acquired and liabilities assumed. The acquisition has been accounted for using the acquisition method of accounting which requires that the consideration be allocated to the acquired assets and assumed liabilities based on their acquisition date fair values with the remainder allocated to goodwill.

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(in millions)	Preliminary Allocation As of 3/31/2012	Measurement Period Adjustments Three Months Ended 6/30/2012	Revised Preliminary Allocation As of 6/30/2012
Total cash consideration transferred	$ 49.3	$ (0.3)	$ 49.0
Recognized amounts of identifiable assets acquired and liabilities assumed:			
Cash & cash equivalents	$ 0.1	$	$ 0.1
Receivables	3.7		3.7
Inventories	10.5	(1.0)	9.5
Prepaid expenses and other current assets	0.2		0.2
Property, plant and equipment	13.0	(0.1)	12.9
Definite-lived intangible assets	9.9	4.8	14.7
Indefinite-lived intangible assets	2.6	5.4	8.0
Other long-term assets	0.3		0.3
Accounts payable	(3.3)		(3.3)
Accrued expenses	(2.5)		(2.5)
Long-term debt	(1.3)		(1.3)
Deferred tax liabilities	(4.4)	(2.3)	(6.7)
Other long-term liabilities	(0.1)		(0.1)
Total identifiable net assets	28.7	6.8	35.5
Goodwill	$ 20.6	$ (7.1)	$ 13.5

The preliminary goodwill recognized in the acquisition of Hertalan is attributable to the workforce of Hertalan, the solid financial performance of this leading manufacturer of EPDM roofing and waterproofing systems and the significant strategic value of the business to Carlisle. Hertalan provides Carlisle with a solid manufacturing and knowledge base for EPDM roofing products in Europe and provides an established distribution network throughout Europe, both of which enhance Carlisle s goal of expanding its global presence. The European market shows favorable trends towards EPDM roofing applications and Carlisle can provide additional product development and other growth resources to Hertalan. Goodwill arising from the acquisition of Hertalan is not deductible for income tax purposes. All of the preliminary goodwill was assigned to the Construction Materials reporting unit. Preliminary indefinite-lived intangible assets of $8.0 million represent acquired trade names. The $14.7 million value preliminarily allocated to definite-lived intangible assets represents customer relationships with preliminary useful lives of 9 years.

The fair values of the inventory, property, plant and equipment, and intangible assets are preliminary and subject to change pending receipt of the final third-party valuations for those assets. The Company has also recorded deferred tax liabilities related to the property, plant and equipment and intangible assets as of the March 9, 2012 closing date which are preliminary and subject to change pending final assessment of the acquisition date fair values and tax basis of the acquired assets and assumed liabilities.

Hertalan contributed revenues of $12.6 million and earnings before interest and taxes (EBIT) of less than $0.1 million from the acquisition date through June 30, 2012 which includes $1.2 million reflected in Cost of goods sold related to recording the acquired inventory at estimated fair value.

2011 Acquisitions

Tri-Star Electronics International, Inc.

On December 2, 2011, the Company acquired 100% of the equity of TSEI Holdings, Inc. (Tri-Star) for a total cash purchase price of $284.8 million, net of $4.5 million cash acquired. The total cash purchase price includes a $0.4 million purchase price adjustment during the three months ended March 31, 2012. The Company funded the acquisition with borrowings under the Facility. See Note 15 for further information regarding borrowings. The acquisition of Tri-Star adds capabilities and technology to strengthen the Company s interconnect products business by expanding its product and service range to its customers. Tri-Star will operate within the Interconnect Technologies segment.

The following table summarizes the consideration transferred to acquire Tri-Star and the preliminary allocation among the assets acquired and liabilities assumed. The acquisition has been accounted for using the acquisition method of accounting which requires that the consideration be allocated to the acquired assets and assumed liabilities based on their acquisition date fair values with the remainder allocated to goodwill.

(in millions)	**Preliminary Allocation As of 12/31/2011**	**Measurement Period Adjustments Six Months Ended 6/30/2012**	**Revised Preliminary Allocation As of 6/30/2012**
Total cash consideration transferred	$ 288.9	$ 0.4	$ 289.3
Recognized amounts of identifiable assets acquired and liabilities assumed:			
Cash & cash equivalents	$ 4.5	$	$ 4.5
Receivables	14.0		14.0
Inventories	22.8		22.8
Prepaid expenses and other current assets	5.6		5.6
Property, plant and equipment	15.4	(2.1)	13.3
Definite-lived intangible assets	112.0	9.5	121.5
Indefinite-lived intangible assets	28.0	(8.6)	19.4
Other long-term assets	0.1		0.1
Accounts payable	(6.5)		(6.5)
Accrued expenses	(4.4)		(4.4)
Deferred tax liabilities	(58.9)	1.5	(57.4)
Other long-term liabilities	(0.4)		(0.4)
Total identifiable net assets	132.2	0.3	132.5
Goodwill	$ 156.7	$ 0.1	$ 156.8

The preliminary goodwill recognized in the acquisition of Tri-Star is attributable to the workforce of Tri-Star, the consistent financial performance of this complementary supplier of high-reliability interconnect products to leading aerospace, avionics and electronics companies and the enhanced scale that Tri-Star brings to the Company. Tri-Star brings additional high-end connector products and qualified positions to serve the Company s existing commercial aerospace and industrial customers. Tri-Star will also supply the Company with efficient machining and plating processes that will lower costs and improve product quality. Favorable trends in the commercial aerospace markets and increasing electronic content in several industrial end markets provide a solid growth platform for the Interconnect Technologies segment. Goodwill arising from the acquisition of Tri-Star is not deductible for income tax purposes. All of the preliminary goodwill was assigned to the Interconnect Technologies segment. Preliminary indefinite-lived intangible assets of $19.4 million represent acquired trade names. The $121.5 million value preliminarily allocated to definite-lived intangible assets consists of $94.8 million of customer relationships with preliminary useful lives ranging from 12 to 21 years, $23.2 million of acquired technology with preliminary useful lives of 16 years, $2.5 million of non-compete agreements with preliminary useful lives ranging from 3 to 5 years, and $1.0 million of customer certifications and approvals with useful lives of 3 years.

The fair values of the inventory, property, plant and equipment, and other intangible assets are preliminary and subject to change pending receipt of the final third-party valuations for those assets. The Company has also recorded deferred tax liabilities related to the property, plant and equipment and intangible assets as of the December 2, 2011 closing date which are preliminary and subject to change pending final assessment of the acquisition date fair values and tax basis of the acquired assets and assumed liabilities.

PDT Phoenix GmbH

On August 1, 2011, the Company acquired 100% of the equity of PDT Phoenix GmbH (PDT) for 77.0 million, or $111.0 million, net of 5.3 million, or $7.6 million, cash acquired. Of the 82.3 million, or $118.6 million gross purchase price, 78.7 million, or $113.4 million, was paid in cash initially funded with borrowings under the Facility, most of which were subsequently repaid, as well as cash on hand. PDT is a leading manufacturer of EPDM-based (rubber) roofing membranes and industrial components serving European markets. The acquisition of PDT provides a platform to serve the European market for single-ply roofing systems, and expands the Company s growth internationally. PDT will operate within the Construction Materials segment.

The agreement to acquire PDT provided for contingent consideration based on future earnings. The fair value of contingent consideration recognized at the acquisition date was 3.6 million, or $5.2 million, and was estimated using the discounted cash flow method based on financial projections of the acquired company.

The purchase price of PDT included certain assets of the PDT Profiles business, which the Company sold on January 2, 2012 for 17.1 million, or $22.1 million. The PDT Profiles business was classified as held for sale at the date of acquisition and on the Company s consolidated balance sheet as of December 31, 2011. The following table summarizes the consideration transferred to acquire PDT and the preliminary allocation among the assets acquired and liabilities assumed. The acquisition has been accounted for using the acquisition method of accounting which requires that the consideration be allocated to the acquired assets and assumed liabilities based on their acquisition date fair values with the remainder allocated to goodwill.

(in millions)	Preliminary Allocation As of 12/31/2011	Measurement Period Adjustments Six Months Ended 6/30/2012	Revised Preliminary Allocation As of 6/30/2012
Consideration transferred:			
Cash consideration	$ 113.4	$	$ 113.4
Contingent consideration	5.2		5.2
Total fair value of consideration transferred	$ 118.6	$	$ 118.6
Recognized amounts of identifiable assets acquired and liabilities assumed:			
Cash & cash equivalents	$ 7.6	$	$ 7.6
Receivables	12.2		12.2
Inventories	10.5		10.5
Prepaid expenses and other current assets	0.8		0.8
Current assets held for sale	3.6		3.6
Property, plant and equipment	3.4		3.4
Definite-lived intangible assets	57.1		57.1
Indefinite-lived intangible assets	6.9		6.9
Other long-term assets	0.1		0.1
Non-current assets held for sale	21.6	(0.6)	21.0
Accounts payable	(9.0)		(9.0)
Accrued expenses	(1.2)		(1.2)
Deferred tax liabilities	(21.5)		(21.5)
Other long-term liabilities	(3.3)		(3.3)
Total identifiable net assets	88.8	(0.6)	88.2
Goodwill	$ 29.8	$ 0.6	$ 30.4

The revised preliminary purchase price allocation reflects updated fair value estimates for assets acquired and liabilities assumed, based on information that is currently available. The amount of goodwill recognized in the acquisition of PDT is attributable to the workforce of PDT, the solid financial performance of this leading manufacturer of single-ply roofing and waterproofing systems and the significant strategic value of the business to Carlisle. PDT provides Carlisle with a solid manufacturing and knowledge base for single-ply roofing products in Europe and provides an established distribution network throughout Europe, both of which enhance Carlisle s goal of expanding its global presence. The European market shows favorable trends towards single-ply roofing applications and Carlisle can provide additional product development and other growth resources to PDT. Goodwill arising from the acquisition of PDT is not deductible for income tax purposes. All of the preliminary goodwill was assigned to the Construction Materials segment. Preliminary indefinite-lived intangible assets of $6.9 million represent acquired trade names. Of the $57.1 million value preliminarily allocated to definite-lived intangible assets, approximately $33.3 million was allocated to patents, with preliminary useful lives ranging from 10 to 20 years and $23.8 million was allocated to customer relationships, with preliminary useful lives of 19 years.

The fair values of the property, plant and equipment and other intangible assets are preliminary and subject to change pending receipt of the final third-party valuations for those assets. The Company has also recorded deferred tax liabilities related to the property, plant and equipment and intangible assets as of the August 1, 2011 closing date which are preliminary and subject to change pending final assessment of the acquisition date fair values and tax basis of the acquired assets and assumed liabilities.

Note 5 - Discontinued Operations and Assets Held for Sale

The Company had income before income taxes of $3.6 million from discontinued operations in the six months ended June 30, 2012 and loss before income taxes from discontinued operations of $1.2 million in the six months ended June 30, 2011.

On April 19, 2012 the Company entered into an agreement with the buyer of its specialty trailer business whereby the contingent consideration related to the October 2010 sale was settled for $3.75 million. This amount was recognized as a gain within discontinued operations during the three months ended June 30, 2012.

On January 2, 2012 the Company completed the sale of the PDT Profiles business for 17.1 million, or $22.1 million. The Company had acquired all of the equity of PDT on August 1, 2011 (see Note 4). Included with the acquisition were certain assets associated with the PDT Profiles business, which the Company classified as held for sale at the date of acquisition. No gain or loss was recognized upon the sale of PDT Profiles.

At December 31, 2011, $22.7 million of assets held for sale included inventory, property, plant and equipment, and related intangible assets of the PDT Profiles.

Note 6 - Exit and Disposal Activities

The following table represents the effect of exit and disposal activities related to continuing operations during the three and six months ended June 30, for 2012 and 2011, respectively:

	Three Months Ended June 30,		Six Month Ended June 30,	
In millions	**2012**	**2011**	**2012**	**2011**
Cost of goods sold	**$ 1.8**	$ 0.6	**$ 1.9**	$ 3.0
Selling and administrative expenses	**(0.2)**		**(0.2)**	
Other expense, net			**0.3**	
Total exit and disposal costs	**$ 1.6**	$ 0.6	**$ 2.0**	$ 3.0

Exit and disposal activities by type of charge were as follows:

	Three Months Ended June 30,		Six Month Ended June 30,	
In millions	**2012**	**2011**	**2012**	**2011**
Termination benefits	**$ 1.7**	$ (0.3)	**$ 1.7**	$ 0.4
Asset writedowns			**0.3**	
Other associated costs	**(0.1)**	0.9		2.6
Total exit and disposal costs	**$ 1.6**	$ 0.6	**$ 2.0**	$ 3.0

Other associated costs are primarily related to severance and relocation costs.

Accrued exit and disposal costs of $2.3 million and $1.2 million were included in Accrued expenses at June 30, 2012 and December 31, 2011, respectively.

Carlisle Construction Materials During the second quarter of 2012, the Company announced plans to consolidate its manufacturing operations in Elberton, GA into its locations in Terrell, TX and Carlisle, PA. The Company incurred $0.3 million of exit and disposal costs, consisting of employee termination costs. Included in Accrued Expenses at June 30, 2012 was $0.3 million related to unpaid costs associated with this project. The expected cost of the project is $1.2 million, including employee termination costs, equipment relocation, and other associated costs.

Carlisle Transportation Products During the three months ended June 30, 2012, the Company incurred $1.5 million in plant restructuring costs related to the transfer of certain CTP international manufacturing operations. The expected cost of the project is $1.9 million, including employee termination costs, equipment relocation, and other associated costs.

In the third quarter of 2009, the Company announced plans to consolidate its tire manufacturing operations in Heflin, AL, Carlisle, PA and portions of Buji, China into a new facility in Jackson, TN. The consolidation was substantially completed in first quarter of 2011; however additional activities related to this consolidation were completed in the second quarter of 2012. During the first six months of 2012, the Company incurred $0.1 million of exit and disposal costs. During the first six months of 2011, the Company incurred $2.6 million of exit and disposal costs associated with the project. The total cost of the project was approximately $20.9 million and the Company expects no additional costs to be incurred. Included in Accrued Expenses at June 30, 2012 was $0.3 million related to unpaid severance.

Carlisle Brake & Friction In the third quarter of 2011, the Company decided to close its braking plant in Canada. The project is expected to cost approximately $1.1 million, including employee termination costs and other associated costs. Costs incurred during the first six months of 2012 were $0.1 million, reflecting $0.3 million expense for the write down of assets sold in connection with the plant closure, net of $0.2 million income to reverse an accrual for pension costs which will not be paid. As of June 30, 2012 a $0.3 million liability, reported in Accrued expenses, exists for lease termination costs. The company expects no additional costs to be incurred related to this project.

In the fourth quarter of 2009, within its off-highway braking business, the Company announced plans to close its friction product manufacturing facility in Logansport, IN and to consolidate operations into its locations in Hangzhou, China and Bloomington, IN. This consolidation was substantially completed in the fourth quarter of 2010; however, additional activities related to the closure of the facility occurred in 2011. The total cost of this consolidation project was $5.3 million. Costs incurred in the first six months of 2011 related to this consolidation were $0.4 million, primarily consisting of employee termination costs and other relocation costs. The company expects no additional costs to be incurred related to this project.

Note 7 - Stock-Based Compensation

Stock-based compensation cost is recognized over the requisite service period, which generally equals the stated vesting period, unless the stated vesting period exceeds the date upon which an employee reaches retirement eligibility. Pre-tax stock-based compensation expense was $4.2 million and $3.5 million for the three months ended June 30, 2012 and 2011, respectively, and $9.9 million and $7.3 million for the six months ended June 30, 2012 and 2011, respectively.

2008 Executive Incentive Program

The Company maintains an Executive Incentive Program (the Program) for executives and certain other employees of the Company and its operating divisions and subsidiaries. The Program was approved by shareholders on April 20, 2004 and was amended and restated effective January 1, 2012. The Program allows for awards to eligible employees of stock options, restricted stock, stock appreciation rights, performance shares and units or other awards based on Company common stock. At June 30, 2012, 3,487,356 shares were available for grant under this plan, of which 872,725 shares were available for the issuance of stock awards.

2005 Nonemployee Director Equity Plan

The Company also maintains the Nonemployee Director Equity Plan (the Plan) for members of its Board of Directors, with the same terms and conditions as the Program. At June 30, 2012, 279,584 shares were available for grant under this plan, of which 49,584 shares were available for the issuance of stock awards. Members of the Board of Directors that receive stock-based compensation are treated as employees for accounting purposes.

Grants

In the first quarter of 2012 the Company awarded 481,215 stock options, 83,745 restricted stock awards, 83,745 performance share awards and 11,298 restricted stock units with an aggregate grant-date fair value of approximately $17.6 million to be expensed over the requisite service period for each award.

Stock Option Awards

Effective 2008, options issued under these plans vest one-third on the first anniversary of grant, one-third on the second anniversary of grant and the remaining one-third on the third anniversary of grant. All options have a maximum term life of 10 years. Shares issued to cover options under the Program and the Plan may be issued from shares held in treasury, from new issuances of shares, or a combination of the two.

Pre-tax share-based compensation expense related to stock options was $1.6 million and $1.9 million for the three months ended June 30, 2012 and 2011, respectively, and $3.5 million and $2.8 million for the six months ended June 30, 2012 and 2011, respectively.

The Company utilizes the Black-Scholes-Merton (BSM) option pricing model to determine the fair value of its stock option awards. The BSM relies on certain assumptions to estimate an option s fair value. The weighted average assumptions used in the determination of fair value for stock option awards in 2012 and 2011 were as follows:

	2012	2011
Expected dividend yield	1.5%	1.7%
Expected life in years	5.78	5.76
Expected volatility	36.0%	32.0%
Risk-free interest rate	0.9%	2.2%
Weighted average fair value	$ 14.57	$ 10.61

The expected life of options is based on the assumption that all outstanding options will be exercised at the midpoint of the valuation date and the option expiration date. The expected volatility is based on historical volatility as well as implied volatility of the Company s options. The risk free interest rate is based on rates of U.S. Treasury issues with a remaining life equal to the expected life of the option. The expected dividend yield is based on the projected annual dividend payment per share, divided by the stock price at the date of grant.

Restricted Stock Awards

Restricted stock awarded under the Program is generally released to the recipient after a period of three years; however, 56,700 shares awarded to executive management in February 2008 vest ratably over five years. The $49.56 grant date fair value of the 2012 restricted stock awards, which are released to the recipient after a period of three years, is based on the closing market price of the stock on the day of grant.

Performance Share Awards

The performance shares vest based on the employee rendering three years of service to the Company, and the attainment of a market condition over the performance period, which is based on the Company s relative total shareholder return versus the S&P Midcap 400 Index® over a pre-determined time period as determined by the Compensation Committee of the Board of Directors. The grant date fair value of the 2012 performance shares of $69.76 was estimated using a Monte-Carlo simulation approach based on a three year measurement period. Such approach entails the use of assumptions regarding the future performance of the Company s stock and those of the S&P Midcap 400 Index®. Those assumptions include expected volatility, risk-free interest rates, correlation coefficients and dividend reinvestment. Dividends accrue on the performance shares during the performance period and are to be paid in cash based upon the number of awards ultimately earned. The Company expenses the compensation cost associated with the performance awards on a straight-line basis over the vesting period of three years.

Restricted Stock Units

The restricted stock units awarded to eligible directors are fully vested and will be paid in shares of Company common stock after the director ceases to serve as a member of the Board, or if earlier, upon a change in control of the Company. The $49.56 grant date fair value of the 2012 restricted stock units is based on the closing market price of the stock on the February 1, 2012, the day of the grant.

Note 8 - Income Taxes

The effective income tax rate on continuing operations for the six months ended June 30, 2012 was 33.2% compared to an effective income tax rate of 32.2% for the six months ended June 30, 2011. The increase in the year to date tax rate is primarily due to expiration of favorable legislation related to certain foreign income and to nonrecurring transactions which created tax benefits in the second quarter of 2011.

The year to date effective tax rate of 33.2% varies from the United States statutory rate of 35.0% primarily due to the deduction for U.S. production activities and earnings in foreign jurisdictions taxed at rates lower than the U.S. federal rate.

Note 9 - Earnings Per Share

The Company s unvested restricted shares and restricted stock units contain nonforfeitable rights to dividends and, therefore, are considered participating securities for purposes of computing earnings per share pursuant to the two-class method. The computation below of earnings per share excludes the income attributable to the unvested restricted shares and restricted stock units from the numerator and excludes the dilutive impact of those underlying shares from the denominator.

Stock options are included in the calculation of diluted earnings per share utilizing the treasury stock method and performance share awards are included in the calculation of diluted earnings per share using the contingently issuable method. Neither is considered to be a participating security as they do not contain non-forfeitable dividend rights.

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

In millions, except share and per share amounts	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Numerator:				
Income from continuing operations	**$ 89.4**	$ 55.3	**$ 149.4**	$ 88.6
Less: dividends declared - common stock outstanding, unvested restricted shares and restricted share units	**(11.3)**	(10.6)	**(22.5)**	(21.1)
Undistributed earnings	**78.1**	44.7	**126.9**	67.5
Percent allocated to common shareholders (1)	**99.4%**	99.0%	**99.4%**	99.0%
	77.6	44.3	**126.2**	66.8
Add: dividends declared - common stock	**11.2**	10.5	**22.4**	20.9
Numerator for basic and diluted EPS	**$ 88.8**	$ 54.8	**$ 148.6**	$ 87.7
Denominator (in thousands):				
Denominator for basic EPS: weighted-average common shares outstanding	62,419	61,449	62,166	61,293
Effect of dilutive securities:				
Performance awards	505	309	505	309
Stock options	873	943	812	823
Denominator for diluted EPS: adjusted weighted average common shares outstanding and assumed conversion	**63,797**	62,701	**63,483**	62,425
Per share income from continuing operations:				
Basic	**$ 1.42**	$ 0.89	$ 2.39	$ 1.43
Diluted	**$ 1.39**	$ 0.87	$ 2.34	$ 1.40

(1) Basic weighted-average common shares outstanding	**62,419**	61,449	**62,166**	61,293
Basic weighted-average common shares outstanding, unvested restricted shares expected to vest and restricted share units	62,783	62,050	62,529	61,892
Percent allocated to common shareholders	**99.4%**	99.0%	**99.4%**	99.0%

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

In millions, except share amounts	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Income from discontinued operations attributable to common shareholders for basic and diluted earnings per share	**$ 3.4**	$ (0.7)	**$ 3.4**	$ (0.6)

Net income attributable to common shareholders for basic and diluted earnings per share	**$ 92.2**	$ 54.1	**$ 151.9**	$ 87.2
Antidilutive stock options excluded from EPS calculation (2)		200		200

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(2) Represents stock options excluded from the calculation of diluted earnings per share as such options had exercise prices in excess of the weighted-average market price of the Company s common stock during these periods. Amounts in thousands.

Note 10 - Fair Value Measurements

Fair value is defined as the price that would be received for 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 may be measured using three levels of inputs:

Level 1 quoted prices in active markets for identical assets and liabilities.

Level 2 observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 unobservable inputs in which there is little or no market data available, which requires the reporting entity to develop its own assumptions.

Recurring Measurements

The fair value of the Company s financial assets and liabilities measured at fair value on a recurring basis were as follows:

In millions		**Balance at June 30, 2012**		**Quoted Prices In Active Markets for Identical Assets Level 1**		**Significant Other Observable Inputs Level 2**		**Significant Unobservable Inputs Level 3**
Cash and cash equivalents	**$**	**76.8**	$	76.8	$		$	
Short-term investments		**1.6**		1.6				
Total assets measured at fair value	**$**	**78.4**	$	78.4	$		$	
Commodity swap agreements	**$**	**0.1**	$		$	0.1	$	
Contingent consideration	**$**	**4.9**	$		$		$	4.9
Total liabilities measured at fair value	**$**	**5.0**	$		$	0.1	$	4.9

Short-term investments of $1.6 million at June 30, 2012 consist of investments held in mutual funds and cash for the Company s deferred compensation program and are classified in the condensed consolidated balance sheet at June 30, 2012 in Prepaid expenses and other current assets.

Commodity swap agreements at June 30, 2012 relate to swap agreements held for purposes of hedging the Company s exposure to fluctuations in the prices of silver and copper, which are included in key raw materials within the Interconnect Technologies segment. Such swaps are valued using third-party valuation models that measure fair value using observable market inputs such as forward prices and spot prices of the underlying commodities. Based on these inputs, the derivative assets and liabilities are classified within Level 2 of the valuation hierarchy. The Company has not designated these swaps as cash flow hedges and, accordingly, recognizes associated changes in fair value of the swaps through Other income (expense). The fair value of these swaps is recorded within Accounts payable in the condensed consolidated balance sheet as of June 30, 2012 as none of the swap terms exceed one year from the balance sheet date.

Contingent consideration represents fair value of the earn-out associated with the purchase of PDT. The fair value was 3.9 million, or $4.9 million, at June 30, 2012. See Note 4 for further information regarding the PDT acquisition.

In millions	Balance at December 31, 2011	Quoted Prices In Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Cash and cash equivalents	**$ 74.7**	$ 74.7	$	$
Short-term investments	**0.6**	0.6		
Total assets measured at fair value	**$ 75.3**	$ 75.3	$	$
Contingent consideration	**$ 5.2**	$	$	$ 5.2
Total liabilities measured at fair value	**$ 5.2**	$	$	$ 5.2

Short-term investments of $0.6 million at December 31, 2011 consist of investments held in mutual funds and cash for the Company s deferred compensation program and are classified in the consolidated balance sheet at December 31, 2011 in Prepaid expenses and other current assets. Contingent consideration represents fair value of the earn-out associated with the purchase of PDT.

Non-Recurring Measurements

For the six months ended June 30, 2012 and 2011, there were no non-recurring fair value measurements subsequent to initial recognition. See Note 4 for information regarding assets acquired and liabilities assumed in the Hertalan, Tri-Star, and PDT acquisitions measured at fair value at initial recognition.

Note 11 - Inventories

The components of inventories at June 30, 2012 and December 31, 2011 were as follows:

In millions	June 30, 2012	December 31, 2011
Finished goods	**$ 320.9**	$ 308.7
Work-in-process	**72.1**	56.7
Raw materials	**188.2**	179.8
Capitalized variances	**6.6**	30.2
Reserves	**(38.2)**	(33.8)
	549.6	541.6
Inventories associated with assets held for sale		(2.6)
Inventories	**$ 549.6**	$ 539.0

Note 12 Property, Plant and Equipment

The components of property, plant and equipment at June 30, 2012 and December 31, 2011 were as follows:

In millions		June 30, 2012		December 31, 2011
Land	**$**	**38.7**	$	36.5
Buildings and leasehold improvements		**286.0**		276.3
Machinery and equipment		**807.0**		790.1
Projects in progress		**73.5**		38.6
		1,205.2		1,141.5
Accumulated depreciation		**(612.8)**		(577.4)
Property, plant and equipment, net, associated with assets held for sale				(3.8)
Property, plant and equipment, net	**$**	**592.4**	$	560.3

Property, plant and equipment at June 30, 2012 include assets acquired from Hertalan and at December 31, 2011 include assets acquired from Tri-Star and PDT, recorded at estimated fair value based on preliminary valuation studies. See Note 4 for further information regarding these acquisitions.

Note 13 - Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the six months ended June 30, 2012 were as follows:

In millions	Construction Materials	Transportation Products	Brake and Friction	Interconnect Technologies	FoodService Products	Disc. Ops	Total
Gross balance at January 1, 2012	112.6	155.5	226.7	345.6	60.3	47.4	948.1
Goodwill acquired during the six month period	20.6						20.6
Measurement period adjustments	(6.5)			0.1			(6.4)
Resegmentation of Styled Wheels business		(8.0)	8.0				
Currency translation	(1.3)		0.1				(1.2)
Gross balance at June 30, 2012	125.4	147.5	234.8	345.7	60.3	47.4	961.1
Accumulated impairment losses		(55.5)				(47.4)	(102.9)
Net balance at June 30, 2012	**$ 125.4**	**$ 92.0**	**$ 234.8**	**$ 345.7**	**$ 60.3**	**$**	**$ 858.2**

On March 9, 2012, the Company acquired Hertalan for a total purchase price of 37.3 million, or $48.9 million, net of 0.1 million, or $0.1 million, cash acquired. The resulting preliminary goodwill recorded of $13.5 million was allocated to the Construction Materials reporting unit. Measurement period adjustments during the six months ended June 30, 2012 resulted in a $7.1 million reduction and a $0.6 million increase, respectively, to the preliminary goodwill of Hertalan and PDT within the Construction Materials reporting unit, and a $0.1 million increase to the preliminary goodwill of Tri-Star within the Interconnect Technologies reporting unit. See Note 4 for further information regarding these acquisitions.

The Company s Other intangible assets, net at June 30, 2012 were as follows:

In millions		Acquired Cost		Accumulated Amortization		Net Book Value
Assets subject to amortization:						
Patents	$	88.7	$	(15.6)	$	73.1

Customer Relationships		373.8		(58.5)		315.3
Other		16.9		(8.1)		8.8
Assets not subject to amortization:						
Trade names		88.4				88.4
Other intangible assets, net	**$**	**567.8**	**$**	**(82.2)**	**$**	**485.6**

The Company s Other intangible assets, net at December 31, 2011 were as follows:

In millions		Acquired Cost		Accumulated Amortization		Net Book Value
Assets subject to amortization:						
Patents	$	139.1	$	(12.2)	$	126.9
Customer Relationships		275.7		(47.8)		227.9
Other		20.4		(7.4)		13.0
Assets not subject to amortization:						
Trade names		111.4				111.4
Other intangible assets, net	**$**	**546.6**	**$**	**(67.4)**	**$**	**479.2**

Estimated amortization expense for the remainder of 2012 and the next four years is as follows: $14.7 million remaining in 2012, $29.0 million in 2013, $28.7 million in 2014, $28.3 million in 2015 and $26.6 million in 2016.

The net carrying values of the Company s Other intangible assets by reportable segment as of June 30, 2012 and December 31, 2011 were as follows:

In millions		June 30, 2012		December 31, 2011
Carlisle Construction Materials	**$**	**89.8**	$	71.8
Carlisle Transportation Products				2.7
Carlisle Brake & Friction		**143.0**		144.0
Carlisle Interconnect Technologies		**216.4**		222.8
Carlisle FoodService Products		**36.4**		37.9
Total	**$**	**485.6**	$	479.2

Note 14 - Commitments and Contingencies

Leases

The Company currently leases a portion of its manufacturing facilities, distribution centers and equipment, some of which include scheduled rent increases stated in the lease agreement generally expressed as a stated percentage increase of the minimum lease payment over the lease term. The Company currently has no leases that require rent to be paid based on contingent events nor has it received any lease incentive payments. Rent expense was $15.4 million and $12.7 million for the six months ended June 30, 2012 and 2011, respectively, inclusive of rent based on scheduled rent increases and rent holidays recognized on a straight-line basis. Future minimum payments under the Company s various non-cancelable operating leases are approximately $12.8 million for the remainder of 2012, $21.9 million in 2013, $18.6 million in 2014, $15.5 million in 2015, $12.7 million in 2016, and $47.6 million thereafter.

Purchase Obligations

Although the Company has entered into purchase agreements for certain key raw materials, there were no such contracts with a term exceeding one year in place at June 30, 2012.

Workers Compensation, General Liability, and Property Claims

The Company is self-insured for workers compensation, medical and dental, general liability, and property claims up to applicable retention limits. Retention limits are $1.0 million per occurrence for general liability, $0.5 million per occurrence for workers compensation, $0.25 million per occurrence for property, and up to $1.0 million for medical claims. The Company is insured for losses in excess of these limits.

The Company has accrued approximately $22.5 million and $22.9 million related to workers compensation claims at June 30, 2012 and December 31, 2011, respectively. The amounts recognized are presented in Accrued expenses in the condensed consolidated balance sheets. The liability related to workers   compensation claims, both those reported to the Company and those incurred but not yet reported, is estimated based on actuarial estimates and loss development factors and the Company s historical loss experience.

Litigation

Over the years, the Company has been named as a defendant, along with numerous other defendants, in lawsuits in various state courts in which plaintiffs have alleged injury due to exposure to asbestos-containing brakes, which Carlisle manufactured in limited amounts between the late-1940 s and the mid-1980 s. In addition to compensatory awards, these lawsuits may also seek punitive damages.

Generally, the Company has obtained dismissals or settlements of its asbestos-related lawsuits with no material effect on its financial condition, results of operations or cash flows. The Company maintains insurance coverage that applies to the Company s defense costs and payments of settlements or judgments in connection with asbestos-related lawsuits.

At this time, the amount of reasonably possible additional asbestos claims, if any, is not material to the Company s financial position, results of operations or operating cash flows although these matters could result in the Company being subject to monetary damages, costs or expenses, and charges against earnings in particular periods.

From time-to-time the Company may be involved in various other legal actions arising in the normal course of business. In the opinion of management, the ultimate outcome of such actions, either individually or in the aggregate, will not have a material adverse effect on the consolidated financial position, results of operations for a particular period or annual operating cash flows of the Company.

Environmental Matters

The Company is subject to increasingly stringent environmental laws and regulations, including those relating to air emissions, wastewater discharges, chemical and hazardous waste management and disposal. Some of these environmental laws hold owners or operators of land or businesses liable for their own and for previous owners   or operators   releases of hazardous or toxic substances or wastes. Other environmental laws and regulations require the obtainment of and compliance with environmental permits. To date, costs of complying with environmental, health, and safety requirements have not been material. The nature of the Company s operations and its long history of industrial activities at certain of its current or former facilities, as well as those acquired, could potentially result in material environmental liabilities.

While the Company must comply with existing and pending climate change legislation, regulation, international treaties or accords, current laws and regulations do not have a material impact on its business, capital expenditures or financial position. Future events, including those relating to climate change or greenhouse gas regulation, could require the Company to incur expenses related to the modification or curtailment of operations, installation of pollution control equipment, or investigation and cleanup of contaminated sites.

Note 15 - Borrowings

As of June 30, 2012 and December 31, 2011 the Company s borrowings were as follows:

In millions		June 30, 2012		December 31, 2011
5.125% notes due 2020, net of unamortized discount of ($1.0) and ($1.0) respectively	$	**249.0**	$	249.0
6.125% notes due 2016, net of unamortized discount of ($0.5) and ($0.5) respectively		**149.5**		149.5
Revolving credit facility		**295.0**		348.0
Industrial development and revenue bonds through 2018		**5.5**		5.5
Other, including capital lease obligations		**0.5**		10.4
Total long-term debt		**699.5**		762.4
Less current portion		**(195.0)**		(158.1)
Total long-term debt, net of current portion	$	**504.5**	$	604.3

Revolving Credit Facilities

As of June 30, 2012 the Company had $305.0 million available under its Third Amended and Restated Credit Agreement (the Amended Credit Agreement) administered by JPMorgan Chase Bank, N.A. The $295.0 million borrowed under the Amended Credit Agreement at June 30, 2012 reflects borrowings used to fund the acquisitions of Tri-Star in December 2011 and Hertalan in March 2012, less cash generated by operations applied to reduction of debt. Under the terms of the Amended Credit Agreement, and at the Company s election, the full amount outstanding of $295.0 million was payable in July 2012 (30 days from the date of funding). However, the Company has the option to rollover amounts payable, at differing tenors and interest rates, until the Facility expires in October of 2016. The Company expects that $100.0 million of the $295.0 million outstanding will be rolled over for a period longer than one year. Accordingly, $195.0 million has been presented in Short-term debt, including current maturities in the condensed consolidated balance sheet.

Uncommitted Line of Credit

The Company also maintains an uncommitted line of credit of which $45.0 million and $35.0 million was available for borrowing as of June 30, 2012 and December 31, 2011, respectively. The average interest rate on the uncommitted line of credit was 1.5% and 1.5% for the six months ended June 30, 2012 and 2011, respectively.

Covenants and Limitations

Under the Company s various debt and credit facilities, the Company is required to meet various restrictive covenants and limitations, including certain net worth, cash flow ratios, and limits on outstanding debt balances held by certain subsidiaries. The Company was in compliance with all covenants and limitations in 2012 and 2011.

Other Matters

Cash payments for interest were $13.5 million and $11.6 million in the six months ended June 30, 2012 and 2011, respectively. Interest expense, net is presented net of interest income of $0.2 million and $0.4 million in the six months ended June 30, 2012 and 2011, respectively.

At June 30, 2012, the fair value of the Company s par value $250 million, 5.125% senior notes due 2020 and par value $150 million, 6.125% senior notes due 2016, using Level 2 inputs, is approximately $282.8 million and $168.4 million, respectively. Fair value is estimated based on current yield rates plus the Company s estimated credit spread available for financings with similar terms and maturities. The Company estimates that the fair value of amounts outstanding under the Facility approximates their carrying value.

Note 16 - Retirement Plans

Defined Benefit Plans

The Company maintains defined benefit retirement plans for certain employees. Benefits are based primarily on years of service and earnings of the employee. The Company recognizes the funded status of its defined benefit pension plans in the condensed consolidated balance sheets. The funded status is the difference between the retirement plans projected benefit obligation and the fair value of the retirement plans assets as of the measurement date.

Post-retirement Welfare Plans

The Company also has a limited number of unfunded post-retirement welfare programs. The Company s liability for post-retirement medical benefits is limited to a maximum obligation; therefore, the Company s liability is not materially affected by an assumed health care cost trend rate.

Components of net periodic benefit cost for the six months ended June 30 were as follows:

	Pension Benefits				Post-Retirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
In millions	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Service cost	**$ 1.2**	$ 1.3	**$ 2.3**	$ 2.6	**$**	$	**$**	$
Interest cost	**2.5**	2.7	**5.0**	5.3	**0.1**	0.1	**0.2**	0.2
Expected return on plan assets	**(3.5)**	(3.7)	**(7.1)**	(7.3)				
Amortization of unrecognized net loss	**1.3**	1.1	**2.6**	2.3				
Net periodic benefit costs	**$ 1.5**	$ 1.4	**$ 2.8**	$ 2.9	**$ 0.1**	$ 0.1	**$ 0.2**	$ 0.2

The Company contributed $1.0 million to the pension plans during both of the six month periods ended June 30, 2012 and June 30, 2011. The Company expects to contribute approximately $4.0 million to the pension plans in 2012.

Defined Contribution Plans

The Company maintains defined contribution plans covering a significant portion of its employees. Expenses for the plans were approximately $6.1 million and $5.7 million in the six months ended June 30, 2012 and 2011, respectively. Full year contributions in 2012 are expected to approximate $11.5 million.

Deferred Compensation Program

The Company maintains a non-qualified deferred compensation program for certain employees. Deferred compensation liabilities of $1.4 million and $0.6 million are classified in Other long-term liabilities at June 30, 2012 and December 31, 2011, respectively.

ESOP Plan

The Company sponsors an employee stock ownership plan (ESOP) as part of one of its existing defined contribution plans. Costs for the ESOP are included in the previously discussed expenses. The ESOP is available to eligible domestic employees and includes a match of contributions made by plan participants to the savings plan up to a maximum of 4.0% of a participant s eligible compensation, divided between cash and an employee-directed election of the Company s common stock, not to exceed 50% of the total match, for non-union employees. Union employees match may vary and is based on negotiated union agreements. Participants are not allowed to direct savings plan contributions to an investment in the Company s common stock. Total shares held by the ESOP were 1.8 million and 1.9 million at June 30, 2012 and December 31, 2011, respectively.

Note 17 - Product Warranties

The Company offers various warranty programs on its products, primarily installed roofing systems, braking products, aerospace cables and assemblies, and foodservice equipment. The change in the Company s aggregate product warranty liabilities, including accrued costs and loss reserves associated with extended product warranties, for the six months ended June 30, 2012 was as follows:

In millions		**2012**
December 31, 2011 reserve	**$**	**19.9**
Current year provision		**7.0**
Current year claims		**(6.2)**
June 30, 2012 reserve	**$**	**20.7**

The Company also offers separately priced extended warranty contracts on sales of certain products, the most significant being those offered on its installed roofing systems within the Construction Materials segment. The amount of revenue recognized due to extended product warranty revenues was $8.3 million and $7.9 million for the six months ended June 30, 2012 and 2011, respectively.

Product warranty deferred revenue as of June 30, 2012 and December 31, 2011 was as follows:

In millions	**June 30, 2012**	**December 31, 2011**
Deferred revenue		
Current	**$ 16.2**	$ 15.9
Long-term	**132.7**	128.6
Deferred revenue	**$ 148.9**	$ 144.5

Note 18 - Other Long-Term Liabilities

The components of other long-term liabilities were as follows:

In millions	**June 30, 2012**	**December 31, 2011**
Deferred taxes and other tax liabilities	**$ 258.9**	$ 253.8
Pension and other post-retirement obligations	**17.8**	19.1
Deferred credits	**8.8**	9.1
Deferred compensation	**6.6**	5.5
Other	**2.4**	2.8
Other long-term liabilities	**$ 294.5**	$ 290.3

Deferred credits consist primarily of contingent consideration for acquisitions and liabilities related to straight-line recognition of leases. The increase in other long-term liabilities from December 31, 2011 to June 30, 2012 was primarily the result of those assumed in the Hertalan acquisition. See Note 4.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Executive Overview

Carlisle Companies Incorporated (Carlisle , the Company , we , us or our) is a diversified manufacturing company focused on achieving profit growth internally through new product development, product line extensions, entering new markets and externally through acquisitions that complement our existing technologies, products and market channels. We manage our businesses under the following segments:

- **Carlisle Construction Materials (CCM or the Construction Materials segment);**
- **Carlisle Transportation Products (CTP or the Transportation Products segment);**
- **Carlisle Brake & Friction (CBF or the Brake & Friction segment);**
- **Carlisle Interconnect Technologies (CIT or the Interconnect Technologies segment); and**
- **Carlisle FoodService Products (CFSP or the FoodService Products segment).**

We are a diverse multi-national company with manufacturing operations located throughout North America, Europe, and the Asia Pacific region. Management focuses on maintaining a strong and flexible balance sheet, year-over-year improvement in sales, earnings before interest and income taxes (EBIT) margins and earnings, globalization, and reducing working capital (defined as Receivables, Inventories, net of Accounts payable) as a percentage of Net Sales. Resources are allocated among the operating companies based on management s assessment of their ability to obtain leadership positions and competitive advantages in the markets they serve.

During 2008, we began the implementation of the Carlisle Operating System, a manufacturing structure and strategy deployment system based on lean enterprise and six sigma principles. The purpose of the Carlisle Operating System is to eliminate waste in all production and business processes, improve manufacturing efficiencies to increase productivity, and to increase EBIT margins and improve cash conversion.

For a more in-depth discussion of the results discussed in this Executive Overview , please refer to the discussion on Financial Reporting Segments presented later in Management s Discussion and Analysis .

Net sales increased 13.1% in the second quarter of 2012 to $984.6 million, compared to $870.8 million for the same period in 2011. For the second quarter of 2012, organic growth of 7.6% was driven by a 4.8% overall increase in selling prices and a 2.5% increase in sales volume. Organic growth due to selling price primarily reflected pricing actions in the Construction Materials and Transportation Products segments. Organic growth due to volume was primarily driven by high demand in the aerospace market within the Interconnect Technologies segment. The Brake & Friction segment also experienced modestly positive sales volume growth. Acquisitions in the Carlisle Interconnect Technologies and Carlisle Construction Materials segments contributed $52.5 million, or 6.0%, to net sales in the second quarter of 2012. During the second quarter of 2012, the decrease in net sales from fluctuations in foreign currency exchange rates was less than 1%.

For the second quarter of 2012, we achieved 64% EBIT growth on 13.1% net sales growth reflecting strong margin performance from our Construction Materials and Brake & Friction segments and substantial margin improvement by our Transportation Products segment. EBIT margin increased 440 basis points from 9.8% during the second quarter of 2011 to 14.2% in the second quarter of 2012 reflecting selling price increases in excess of increased raw material costs, savings from the Carlisle Operating System, and operational improvements in our Transportation Products segment. Income from continuing operations, net of tax, of $89.4 million grew 62% in the second quarter of 2012 from income of $55.3 million in the second quarter of 2011 on the higher EBIT performance by our segments.

For the first six months of 2012, net sales increased 19.8% to $1.87 billion, compared to $1.56 billion in the same prior year period on organic growth of 14.0%, led by sales growth in the Construction Materials, Interconnect Technologies and Transportation Products segments, and acquisition growth of 6.1%. EBIT grew by 68% during the first six months of 2012. EBIT margin increased 360 basis points from 9.0% for the first six months of 2011 to 12.6% for the first six months of 2012 reflecting higher selling prices versus increased raw material costs, savings from the Carlisle Operating System, and operating improvements from Transportation Products. Income from continuing operations, net of tax, for the first six months of 2012 of $149.4 million grew 69% from income of $88.6 million for the first six months of 2011.

For the remainder of 2012, we expect moderated sales demand levels due to slower growth in emerging markets and lowering demand in some of our key domestic markets, although growth in aerospace should continue to remain strong. For the full year of 2012, we expect percentage sales growth from acquisitions and organic growth to total in the mid-teens. We continue to expect margin improvement over prior year comparative periods due to operating efficiencies and selling price realization over raw material costs. However, uncertainty regarding higher raw material costs, global market conditions and economic recovery could place negative pressure on sales and earnings in the remainder of the year.

Sales and Earnings

Net Sales

(in millions)	Three Months Ended June 30, 2012	2011	Change	Acquisition Effect	Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
Net Sales	**$ 984.6**	$ 870.8	13.1%	6.0%	2.5%	4.8%	0.3%	-0.5%

(in millions)	Six Months Ended June 30, 2012	2011	Change	Acquisition Effect	Volume Effect	Price Effect	Product Mix Effect	Exchange Rate Effect
Net Sales	**$ 1,873.9**	$ 1,564.4	19.8%	6.1%	8.2%	5.6%	0.2%	-0.4%

Organic sales growth of 7.6% during the second quarter of 2012 was led by 25% organic growth in the Interconnect Technologies segment followed by 7.6% organic growth in the Construction Materials segment. The Brake & Friction and Transportation Products segments had organic sales growth of 6.3% and 4.4%, respectively. The increase in sales from pricing primarily reflected the impact of selling price actions in the Construction Materials and Transportation Products segments. Acquisitions in the Interconnect Technologies and Construction Materials segments contributed $52.5 million to net sales in the second quarter of 2012.

For the first six months of 2012, the organic sales increase of 14.0% from the prior year reflected organic growth led by the Construction Materials and Interconnect Technologies segments. Acquisitions in the Interconnect Technologies and Construction Materials segments contributed $96.1 million to net sales in the first six months of 2012.

We have a long-term goal of achieving 30% of total net sales from outside the United States. Total sales to customers located outside the United States increased from $156.5 million in the second quarter of 2011, or 18% of net sales, to $216.0 million in the second quarter of 2012, or 22% of net sales, primarily reflecting $37.3 million in additional sales from the acquisitions of Hertalan, Tri-Star, and PDT, increased global demand for our products and increased sales and distribution expansion efforts by all of our segments. On a year to date basis, total sales to customers located outside the United States increased from $281.6 million in the first six months of 2011, or 18% of net sales, to $406.1 million in the first six months of 2012, or 22% of net sales.

Gross Margin

	Three Months Ended June 30,			Six Months Ended June 30,		
	2012	**2011**	**Change**	**2012**	**2011**	**Change**
Gross profit	**$ 255.4**	$ 183.7	39.0%	**$ 466.6**	$ 330.8	41.1%
Gross margin	**25.9%**	21.1%		**24.9%**	21.1%	

For the second quarter 2012, gross margin (gross profit expressed as a percentage of net sales) improved 480 basis points versus the prior year period driven by higher sales volume, increased selling prices offsetting higher raw material costs, production efficiencies from the Carlisle Operating System and non-recurrence of 2011 plant startup inefficiencies in the Transportation Products segment. These factors similarly impacted the increase in gross margin by 380 basis points in the first six months of 2012 versus the prior year period. Partially offsetting these positive factors were additional Costs of

Goods Sold of $2.6 million during the first six months of 2012 related to the fair valuation of inventory for the Hertalan acquisition in the Construction Materials segment and the Tri-Star acquisition in the Interconnect Technologies segment.

Selling and Administrative Expenses

(in millions)	Three Months Ended June 30, 2012	2011	Change	Six Months Ended June 30, 2012	2011	Change
Selling & Administrative	**$ 106.0**	$ 92.2	15.0%	**$ 213.5**	$ 177.9	20.0%
As a percentage of net sales	**10.8%**	10.6%		**11.4%**	11.4%	

Selling and administrative expenses in the second quarter of 2012 included $9.1 million in selling expenses and administrative costs from acquisitions in the Interconnect Technologies and Construction Materials segments. In addition to the impact of acquisitions, selling and administrative expenses were higher in connection with sales growth.

Selling and administrative expenses in the first six months of 2012 included $18.1 million in selling expenses and administrative costs from acquisitions in the Interconnect Technologies and Construction Materials segments and included $0.8 million of transaction expenses to acquire Hertalan. Selling and administrative expenses during the first six months of 2012 were also higher in connection with sales growth and stock-based compensation expense.

Research and Development Expenses

(in millions)	Three Months Ended June 30, 2012	2011	Change	Six Months Ended June 30, 2012	2011	Change
Research and Development	**$ 8.5**	$ 7.3	16.4%	**$ 16.3**	$ 14.3	13.9%
As a percentage of net sales	**0.9%**	0.8%		**0.9%**	0.9%	

The increase in research and development expenses during the three and six months ending June 30, 2012 reflected $0.4 million and $0.8 million, respectively, in expenses related to acquisitions in the Interconnect Technologies and Construction Materials segments and increased activities related to product reengineering and development.

EBIT (Earnings Before Interest and Taxes)

(in millions)	Three Months Ended June 30, 2012	2011	Change	Six Months Ended June 30, 2012	2011	Change
EBIT	**$ 140.3**	$ 85.4	64.3%	**$ 236.5**	$ 140.6	68.2%

EBIT Margin	**14.2%**	9.8%	**12.6%**	9.0%

The increase in EBIT from the second quarter of 2011 to the second quarter of 2012 was primarily attributable to increased selling prices offsetting raw material increases primarily in the Construction Materials and Transportation Products segments, reduction in operating costs attributable to efficiencies gained through the Carlisle Operating System and non-recurrence of 2011 plant startup inefficiencies in the Transportation Products segment. EBIT from the acquisitions of Tri-Star in the Interconnect Technologies segment and PDT and Hertalan in the Construction Materials segment was $8.0 million, which included a reduction of $1.0 million to Cost of goods sold related to a change in the acquisition date valuation of Hertalan inventory. EBIT for the second quarter of 2012 also includes plant restructuring costs of $1.6 million, versus restructuring costs during the prior year period of $0.6 million. EBIT margin in the second quarter of 2012 increased 440 basis points to 14.2% in the second quarter of 2012 from the prior year period.

For the first six months of 2012, EBIT growth was attributable to organic sales growth primarily occurring in the first quarter of 2012, higher selling prices offsetting the impact of higher raw material costs, efficiencies gained through the Carlisle Operating System and operational improvements at Transportation Products. EBIT from the acquisitions of Tri-Star in the Interconnect Technologies segment and PDT and Hertalan in the Construction Materials segment for the first six months of 2012 was $9.3 million, which included $3.6 million related to transaction costs and additional Cost of goods sold related to recording acquired inventory at estimated fair value. Total company EBIT for the first six months of 2012 included

$2.0 million in plant restructuring costs. By comparison, our total EBIT during the first six months of 2011 was reduced by $3.0 million in plant restructuring costs and $1.7 million in expense related to the fair valuation of inventory from the Hawk acquisition. For the first six months of 2012, EBIT margin increased 360 basis points to 12.6% from the prior year period.

Interest Expense

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions)	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Gross interest expense	**$ 6.6**	$ 5.1		**$ 13.2**	$ 10.4	
Interest Income	**(0.1)**	(0.2)		**(0.2)**	(0.4)	
Interest Expense, net	**$ 6.5**	$ 4.9	32.7%	**$ 13.0**	$ 10.0	30.0%

Increase in interest expense for the three and six month periods ending June 30, 2012 versus the same prior year periods reflects higher borrowing levels and higher interest rates under our recently renewed revolving credit facility. Our current facility has a short-term borrowing rate of LIBOR plus 105 basis points versus a rate under our prior facility of LIBOR plus 35 basis points. Borrowings under our current credit facility totaled $295 million as of June 30, 2012 and primarily reflect funding for the acquisitions of Tri-Star and Hertalan, less cash generated from operations during the first six months of 2012 partially used to reduce borrowings.

Income Taxes

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions)	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Income tax expense	**$ 44.4**	$ 25.2	76.2%	**$ 74.1**	$ 42.0	76.4%
Effective tax rate	**33.2%**	31.3%		**33.2%**	32.2%	

Our effective income tax rate varies from the statutory rate within the United States of 35% due primarily to the deduction attributable to U.S. production activities, state tax requirements, earnings in foreign jurisdictions taxed at rates different from the statutory U.S. federal rate, and tax credits. The effective tax rate for the full year 2011 was 28.4% and was reduced by excess tax credits generated as part of a repatriation of foreign earnings which occurred during 2011. The effective tax rate for the full year of 2012 is forecasted to be 33%. The increase in the year to date tax rate is primarily due to expiration of favorable legislation related to certain foreign income and to nonrecurring transactions which created tax benefits in the second quarter of 2011.

Income from Continuing Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions)	**2012**	**2011**	**Change**	**2012**	**2011**	**Change**
Income from continuing operations, net of tax	**$ 89.4**	$ 55.3	61.7%	**$ 149.4**	$ 88.6	68.6%

EPS								
Basic	**$**	**1.42**	$	0.89	**$**	**2.39**	$	1.43
Diluted		**1.39**		0.87		**2.34**		1.40

The increase in income from continuing operations, net of tax, during the three months and six months ended June 30, 2012 versus the prior comparative periods was primarily attributable to the increase in EBIT in both periods from organic sales growth and improved operational performance.

Income (Loss) from Discontinued Operations

(in millions)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Income (loss) from discontinued operations	**$ 3.6**	$ (1.3)	**$ 3.6**	$ (1.2)
Tax expense (benefit)	**0.2**	(0.6)	**0.2**	(0.6)
	$ 3.4	$ (0.7)	**$ 3.4**	$ (0.6)
EPS				
Basic	**$ 0.06**	$ (0.01)	**$ 0.05**	$ (0.01)
Diluted	**0.06**	(0.01)	**0.05**	(0.01)

Income from Discontinued Operations for the three months and six months ended June 30, 2012 primarily reflects the $3.75 million gain recognized in April 2012 upon final settlement of earn-out income from the 2010 sale of our specialty trailer business.

Net Income

(in millions)	Three Months Ended June 30, 2012	2011	Change	Six Months ended June 30, 2012	2011	Change
Net Income	**$ 92.8**	$ 54.6	70.0%	**$ 152.8**	$ 88.0	73.6%
EPS						
Basic	**$ 1.48**	$ 0.88		**$ 2.44**	$ 1.42	
Diluted	**1.45**	0.86		**2.39**	1.39	

The increase in net income for the three months and six months ended June 30, 2012 versus the prior comparative periods was primarily attributable to the over 60% growth in income from continuing operations in both comparative periods from organic sales growth and improved operating performance. In addition, Income from Discontinued Operations of $3.4 million recognized during the three and six month period ended June 30, 2012 also contributed to higher net income during 2012.

Acquisitions and Disposals

On March 9, 2012, we acquired 100% of the equity of Hertalan Holding B.V. (Hertalan) for a total cash purchase price of 37.3 million, or $48.9 million, net of 0.1 million, or $0.1 million, cash acquired. The Company funded the acquisition with borrowings under its $600 million senior unsecured revolving credit facility (the Facility) and cash on hand. The acquisition of Hertalan strengthens the Company s ability to efficiently serve European customers in the EPDM roofing market in Europe with local manufacturing and established distribution channels. Hertalan operates within the Construction Materials segment. As of June 30, 2012, the preliminary amount of goodwill recorded related to the acquisition of Hertalan was approximately $13.5 million.

On December 2, 2011, we acquired 100% of the equity of TSEI Holdings, Inc. (Tri-Star) for a total cash purchase price of $284.8 million, net of $4.5 million cash acquired. The Company funded the acquisition with borrowings under the Facility. The acquisition of Tri-Star adds capabilities and technology to strengthen the Company s interconnect products business by expanding its product and service range to its customers. Tri-Star operates within the Interconnect Technologies segment. As of June 30, 2012, the preliminary amount of goodwill recorded related to the acquisition of Tri-Star was approximately $156.8 million.

On August 1, 2011, we acquired 100% of the equity of PDT Phoenix GmbH (PDT) for 82.3 million, or $118.6 million, of which 78.7 million, or $113.4 million, was paid in cash initially funded with borrowings under the Facility, most of which were subsequently repaid, as well as cash on hand. The purchase price provides for contingent consideration based on future earnings. The fair value of contingent consideration recognized at the acquisition date was $5.2 million. PDT operates within the Construction Materials segment. PDT is a leading manufacturer of EPDM-based (rubber) roofing membranes and industrial components serving European markets. The acquisition of PDT provides a platform to serve the

European market for single-ply roofing systems, and expands our growth internationally. As of June 30, 2012, the preliminary amount of goodwill recorded related to the acquisition of PDT was approximately $30.4 million.

On January 2, 2012 we sold the profiles and frames business portion of PDT (PDT Profiles) for cash proceeds of $22.1 million. No gain or loss was recognized upon the sale of PDT Profiles.

Financial Reporting Segments

Carlisle Construction Materials (CCM)

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)	**2012**	**2011**	**Change $**	**Change %**	**2012**	**2011**	**Change $**	**Change %**
Net Sales	**$ 470.0**	$ 412.0	$ 58.0	14.1%	**$ 823.9**	$ 663.3	$ 160.6	24.2%
EBIT	**$ 85.5**	$ 54.2	$ 31.3	57.7%	**$ 127.5**	$ 72.2	$ 55.3	76.6%
EBIT Margin	**18.2%**	13.2%			**15.5%**	10.9%		

CCM s sales growth of 14.1% during the second quarter of 2012 versus the prior year period reflected organic sales growth of 7.6% and acquisition growth of 6.6%. CCM s organic sales growth reflected higher selling price from actions taken to address raw material costs. CCM s sales volume was modestly higher during the quarter from increased demand for CCM s polyiso insulation products, partially offset by lower demand for roofing membrane. The acquisitions of PDT in August of 2011 and Hertalan in March of 2012 contributed $27.2 million to sales during the second quarter of 2012.

For the first six months of 2012, CCM s sales increase consisted of organic sales growth of 17.5% and acquisition growth of 6.8%. During the first six months of 2012, organic sales growth was primarily driven by increased demand for polyiso insulation products and, to a lesser extent, higher selling price. Demand for roofing membrane products, which was higher in the first quarter partially due to warmer weather conditions and customer purchases ahead of an April 1 price increase, was partially offset by lower demand in the second quarter.

During the second quarter of 2012, CCM s margin increased significantly by 500 basis points, compared to the prior year period, reflecting increased selling prices offsetting higher raw material costs, improved mix and reduced expenses from the Carlisle Operating System and other operational efficiencies. The acquisitions of PDT and Hertalan contributed $3.9 million to EBIT, which included a reduction of $1.0 million to Cost of goods sold related to a change in the acquisition date valuation of Hertalan inventory. Partially offsetting this was inventory write-downs of $0.8 million during the second quarter of 2012 for CCM s solar roofing product due to declining market prices.

Included in CCM s EBIT of $85.5 million for the second quarter of 2012 were exit and disposal costs of $0.3 million related to the consolidation of manufacturing operations from our facility in Elberton, GA to locations in Terrell, TX and Carlisle, PA. CCM expects total costs for this project to total $1.2 million and the consolidation is expected to be completed by the end of 2012.

CCM s margin for the first six months of 2012 increased by 460 basis points due to increased selling price more than offsetting higher raw material cost, higher sales volume, savings from the Carlisle Operating System and other manufacturing efficiencies. Included in EBIT for the six months ended June 30, 2012 was $1.2 million in additional Cost of Goods Sold related to recording the acquired Hertalan inventory at estimated fair value, $0.8 million in other transaction expenses for the acquisitions of PDT and Hertalan, $0.8 million for the solar inventory write-down and $0.3 million of the aforementioned exit and disposal costs.

CCM has significant capital expenditure projects underway to address growing market demand, to provide better service to our customers and to improve margins. In the fourth quarter of 2011, CCM acquired land and commenced construction on a new 407,000 sq. ft. polyiso plant in Spanaway, Washington, in order to service increasing demand for energy efficient insulation solutions in the Pacific-Northwest region. CCM anticipates the plant will be operational by January 1, 2013. In 2012, CCM also commenced a capital project to relocate polyiso operations at its current 168,000 square foot Kingston, New York location to a new, 300,000 square foot facility to serve the growing polyiso market in the northeast United States in a more cost effective, energy efficient and higher quality manner. This project is expected to be completed by the fourth quarter of 2012. In May 2012, we announced a project to establish a new PVC (polyvinyl chloride) roofing membrane manufacturing line at our Greenville, Illinois location. PVC membrane comprises approximately 15% of the commercial roofing market and is a growing market segment. The new manufacturing line is expected to be operational by 2014. CCM s total capital expenditures in 2012 are expected to be approximately $80 million.

CCM s net sales and EBIT are generally higher in the second and third quarters of the year due to increased construction activity during these periods. Over the last several years, CCM s commercial roofing business has shifted significantly towards re-roofing, which currently constitutes approximately 75% of its commercial activity. The reroofing market is less cyclical and relatively more stable than the new construction market due to the large base of installed roofs requiring replacement in a given year and has recently shown significant demand increases due to the timing of the roofing replacement cycle. The percent of business attributable to reroofing has fallen from levels of 85% in the prior year due to modest increases in new construction. The market for new construction continues to show indications of a slow recovery with small to modest growth.

CCM s presence in Europe has grown significantly with the PDT and Hertalan acquisitions although total sales into Europe comprise less than 10% of CCM s overall revenue. Since the acquisitions of PDT and Hertalan, CCM has been integrating all of its European operations. While the European region is in economic recession, the market in Europe for CCM s singly-ply roofing application is growing in replacement of declining demand for modified bitumen roofing systems.

Prices for some of CCM s key raw materials have recently declined from previous levels, though are still higher on a year over year basis. CCM s ability to maintain its current sale price levels or to recover additional raw material costs through price increases or surcharges is subject to significant price competition.

Carlisle Transportation Products (CTP)

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)	**2012**	**2011**	**Change $**	**Change %**	**2012**	**2011**	**Change $**	**Change %**
Sales	**$ 203.3**	$ 195.7	$ 7.6	3.9%	**$ 434.8**	$ 396.5	$ 38.3	9.7%
EBIT	**$ 18.4**	$ 5.3	$ 13.1	247.2%	**$ 38.1**	$ 18.8	$ 19.3	102.7%
EBIT Margin	**9.1%**	2.7%			**8.8%**	4.7%		

CTP s net sales increase of 3.9% during the second quarter of 2012 primarily reflect higher selling prices, that were implemented in connection with increased raw material costs, offset by slightly lower sales volume. Foreign exchange fluctuations had a negative impact of 0.4% of net sales during the second quarter 2012 versus the prior year period. CTP experienced solid growth in its high speed trailer and power sports markets, offset by decline in demand from OEM s in the outdoor power equipment and power transmission market. For the first six months of 2012, CTP s net sales increase primarily reflected higher selling prices and, to a lesser extent, higher demand in CTP s agriculture/construction, high speed trailer and power sports markets. CTP continued to build its sales to the higher margin replacement channel market where sales volume was up by 7% on a year-to-date basis.

CTP achieved solid improvement in its EBIT performance during the second quarter of 2012 versus the second quarter of 2011. In the prior year, EBIT margin during the second quarter of 2011 was hampered by startup inefficiencies at the Jackson TN plant which have since been resolved. EBIT performance was strong in the second quarter of 2012 due to favorable selling price over raw material cost and savings generated from the Carlisle Operating System. Prices for some of CTP s key raw materials declined during the second quarter of 2012 from previous levels reflecting the drop in global demand, particularly from China.

Included in CTP s EBIT for the second quarter of 2012 are $1.5 million in plant restructuring costs related to the transfer of certain international manufacturing operations. Plant restructuring costs during the second quarter of 2011 were $0.6 million by comparison.

For the first six months of 2012, CTP s EBIT margin was favorably impacted by higher selling prices over raw material cost, savings from the Carlisle Operating System and the non-recurrence of plant start-up inefficiencies that were incurred in 2011. Plant restructuring costs for the first six months in 2012 of $1.6 million compared to costs of $2.6 million for the same prior year period.

Net sales and EBIT for CTP are generally higher in the first six months of the year due to peak sales volumes in the outdoor power equipment product line. For the remainder of 2012, we expect overall moderate growth in our primary markets. Recent drought conditions in the U.S. Midwest and expectations of lower farming yields may result in softer growth, or possibly a decline, in the agriculture market for the remainder of 2012. We expect significant margin improvement from the prior year due to operational improvements implemented at the Jackson, TN facility and the non-recurrence of several operating inefficiencies and management change costs that occurred in 2011, as well as higher selling prices in the current year.

As of June 30, 2012, the carrying value of CTP s goodwill was $92.0 million. Goodwill is tested at least annually for impairment or when evidence of a potential impairment exists. We did not recognize any goodwill impairment during the six months ended June 30, 2012 related to CTP or any of our other segments. However, deterioration of the outlook for CTP could potentially result in a future impairment loss within this segment. For additional information, refer to Critical Accounting Policies .

Carlisle Brake & Friction (CBF)

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)	**2012**	**2011**	**Change $**	**Change %**	**2012**	**2011**	**Change $**	**Change %**
Sales	**$ 133.3**	$ 128.0	$ 5.3	4.1%	**$ 267.2**	$ 247.1	$ 20.1	8.1%
EBIT	**$ 24.8**	$ 20.8	$ 4.0	19.2%	**$ 50.0**	$ 40.6	$ 9.4	23.2%
EBIT Margin	**18.6%**	16.3%			**18.7%**	16.4%		

Organic sales growth for CBF increased during the second quarter of 2012 by 6.3%. The impact of foreign exchange rates had a negative impact on CBF s change in net sales in the second quarter of 2012 of 2.2%. Demand in the mining, construction and agriculture markets increased by 4.1%, 3.9%, and 1.8%, respectively, inclusive of the negative impact from foreign exchange. Excluding the negative impact of the decline in the Euro and British Pound relative to the US dollar, sales to CBF s customers in Europe increased organically by over 20% during the second quarter. Sales into Asia increased by 13% during the quarter although we continue to see signs of softening in future periods.

For the first six months of 2012, sales increase of 8.1% primarily reflected increased demand in the agriculture, mining and construction markets, particularly occurring in the first quarter of 2012. Organic sales growth during the first six months of 2012 was 9.6%. The impact of foreign exchange rates had a negative impact on CBF s change in net sales in the first six months of 2012 of 1.4%.

EBIT margin improvement during the second quarter of 2012 of 230 basis points at CBF reflected higher sales volumes and lower raw material costs. For the first six months of 2012, EBIT margin improvement reflects higher sales volume, selling price increases over raw material costs and savings from the Carlisle Operating System.

To meet increasing overseas demand, CBF has plans to expand its manufacturing facility in Orzinuovi, Italy beginning in the second half of 2012.

The long term outlook for CBF is expected to be favorable due to the specialized nature of its friction and off-highway braking applications, anticipated continued growth in infrastructure spending in developing regions such as Asia Pacific and South America and geographic diversity of CBF s customer base. However, in the second half of 2012, we expect declining rates in demand in the emerging markets and decline in demand for metal commodities. In addition, we may experience lower demand in the agriculture market due to current drought conditions in the U.S. Midwest.

Carlisle Interconnect Technologies (CIT)

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)	**2012**	**2011**	**Change $**	**Change %**	**2012**	**2011**	**Change $**	**Change %**
Sales	**$ 114.7**	$ 71.7	$ 43.0	60.0%	**$ 225.4**	$ 137.4	$ 88.0	64.0%
EBIT	**$ 17.4**	$ 11.7	$ 5.7	48.7%	**$ 34.1**	$ 20.6	$ 13.5	65.5%
EBIT Margin	**15.2%**	16.3%			**15.1%**	15.0%		

CIT s sales growth of 60% reflected organic growth of 25% and sales from the Tri-Star acquisition of $25.3 million, or 35%. Organic growth at CIT was driven by 33% growth in the aerospace market, partially offset by an 8.3% decline in the military market due to reductions in government spending. We continue to achieve significantly higher sales for our in-flight entertainment applications, sales related to the new Boeing 787 program and higher demand for Boeing legacy airline (737 and 777) programs. For the first six months of 2012, CIT s sales growth of 64% reflected 27% organic growth primarily due to high aerospace demand, and 37% growth from the Tri-Star acquisition.

CIT s EBIT margin decreased by 110 basis points in the second quarter of 2012 over the prior year period due to higher raw material costs primarily for fluoroplastic tape and thermoplastic resins, negative impact from mix changes and increased staffing costs to build sales and sourcing support to meet growing demand. EBIT contribution from the Tri-Star acquisition was $4.1 million. Year to date EBIT growth of 66% reflects higher sales volume partially offset by higher raw material costs and contributions of $7.4 million from the Tri-Star acquisition. Included in Tri-Star s EBIT contribution of $7.4 million are $1.5 million in acquisition related costs primarily due to additional cost of goods sold resulting from the fair valuation of inventory.

We expect additional sales from the ramp up of the Boeing 787 program, which was launched in the second half of 2011, as well as further integration savings opportunities with the acquisition of Tri-Star. The long-term growth prospects for the aerospace market continue to be favorable. Demand by airlines for more fuel efficient aircraft, for which we provide many applications, is growing at a high rate worldwide. However, the impact of further defense budget cuts could have a negative impact on future results.

Carlisle FoodService Products (CFSP)

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)	**2012**	**2011**	**Change $**	**Change %**	**2012**	**2011**	**Change $**	**Change %**
Sales	**$ 63.3**	$ 63.4	$ (0.1)	-0.2%	**$ 122.6**	$ 120.1	$ 2.5	2.1%
EBIT	**$ 5.7**	$ 5.3	$ 0.4	7.5%	**$ 11.2**	$ 10.8	$ 0.4	3.7%
EBIT Margin	**9.0%**	8.4%			**9.1%**	9.0%		

CFSP s second quarter of 2012 sales remained relatively flat to the prior year period. Selling price increases of 4% were fully offset by reduced volume due to continued weakness in the foodservice market as well as lower demand for janitorial/sanitation products. EBIT margin during the second quarter increased by 60 basis points reflecting improvement from selling price increases. For the first six months of 2012, sales growth and EBIT performance remained relatively level to the prior year reflecting general weakness in consumer confidence and modest improvement in the restaurant industry.

Sales for CFSP tend to be marginally stronger in the second and third quarters. Growth rates in both the foodservice and healthcare product sectors have been low due to high unemployment impacting consumer confidence and competitive pricing pressures in the healthcare market. CFSP continues to experience higher costs versus the prior period for key raw materials such as plastic resin. CFSP implemented additional price increases effective January 1, 2012 to address increased raw material costs and is undertaking a comprehensive review of its rebates and allowances program with its customers. CFSP s ability to recover raw material increases through higher selling prices remains uncertain.

Corporate expense

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)	**2012**	**2011**	**Change $**	**Change %**	**2012**	**2011**	**Change $**	**Change %**
Corporate expenses	**$ (11.5)**	$ (11.9)	$ 0.4	3.4%	**$ (24.4)**	$ (22.4)	$ (2.0)	-8.9%
As a percentage of net sales	**-1.2%**	-1.4%			**-1.3%**	-1.4%		

Corporate expenses are largely comprised of compensation, benefits and travel expense for the corporate office staff. Corporate expenses also include certain external audit fees attributable to corporate activities and internal audit expenses as well as certain costs associated with our strategy to expand in the Asia Pacific region. We also maintain a captive insurance program for workers compensation costs on behalf of all the Carlisle operating companies. The reduction in corporate expense for the second quarter of 2012 versus the prior year period reflects $1.3 million in acquisition costs in the second quarter of 2011 that did not recur, partially offset by higher stock-based compensation expense and costs of our corporate-led procurement initiatives.

Liquidity and Capital Resources

We maintain liquidity sources primarily consisting of cash and cash equivalents and the unused portion of our committed credit facility. As of June 30, 2012, we had $76.8 million of cash and cash equivalents on hand, of which $56.1 million was located in our wholly owned subsidiaries outside the United States. Cash held by subsidiaries outside the United States is held primarily in the currency of the country in which it is located. Such cash is used to fund the operating activities of our foreign subsidiaries and for further investment in foreign operations. Generally, we consider such cash to be permanently reinvested in our foreign operations and our current plans do not demonstrate a need to repatriate such cash to fund U.S. operations and corporate activities. Repatriation of cash held by foreign subsidiaries may require the accrual and payment of taxes in the United States.

In addition, cash held by subsidiaries in China is subject to local laws and regulations that require government approval for conversion of such cash to and from U.S. dollars as well as for transfer of such cash to entities that are outside of China. As of June 30, 2012, we had cash and cash equivalents of $16.6 million located in wholly owned subsidiaries of the Company within China.

The unused portion of our credit facility as of June 30, 2012 was $305 million.

Sources and Uses of Cash and Cash Equivalents

	Six Months Ended June 30,			
In millions		**2012**		**2011**
Net cash provided by operating activities	**$**	**154.3**	$	13.7
Net cash used in investing activities		**(84.1)**		(29.8)
Net cash (used in) provided by financing activities		**(68.3)**		23.0
Effect of exchange rate changes on cash		**0.2**		2.8
Change in cash and cash equivalents	**$**	**2.1**	$	9.7

The increase in net cash provided by operating activities from the first six months of 2011 to the first six months of 2012 was primarily due to higher earnings during the first six months of 2012 versus the same prior year period and lower usage of cash to fund working capital. Cash used for working capital and other assets and liabilities of $48.6 million for the first six months of 2012 was $76.1 million less than the $124.7 million used for the first six months of 2011. Cash provided by operating activities is generally higher in the second half of the year reflecting collections of accounts receivable from higher sales in the second and third quarters.

We view the ratio of our average working capital balances (defined as the average of the quarter end balances of receivables, plus inventory less accounts payable excluding current year acquisitions) as a percentage of annualized sales (defined as year-to-date net sales calculated on an annualized basis) as an important measure of our ability to effectively manage our cash requirements in relation to changes in sales activity. For the first six months of 2012, average working capital as a percentage of annualized sales was 21.8%, as compared to a percentage of 21.7% for the first six months of 2011. We are focused on using the Carlisle Operating System across all the business segments to improve cash flow and key working capital measurements such as Days Sales Outstanding (DSO), Inventory Turns and Days Payable Outstanding (DPO).

Cash used for investing activities was $84.1 million for the first six months of 2012, compared to $29.8 million for the first six months of 2011. Capital expenditures were $60.6 million in the first six months of 2012 compared to capital expenditures of $33.8 million in the first six months of 2011. We have plans to build or expand manufacturing facilities within the Construction Materials, Brake & Friction and Interconnect Technologies segments in 2012 and expect our full year capital expenditures will be approximately $140 million.

During the first quarter of 2012, we utilized cash of $48.9 million to acquire Hertalan. Also during the first quarter of 2012, we received proceeds from the sale of the PDT profiles business of $22.1 million.

Cash used by financing activities of $68.3 million for the first six months of 2012 primarily reflects the reduction in borrowings under our revolving credit facility and $22.5 million for the payment of dividends. Cash provided by financing activities of $23.0 million for the first six months of 2011 primarily reflects $90 million in proceeds from borrowings under our revolving credit facility offset by the redemption of senior unsecured notes assumed in the Hawk acquisition for $59.0 million and $21.1 million for the payment of dividends.

Debt Instruments and Covenants

At June 30, 2012 we had $305 million available under our $600 million revolving credit facility. We were in compliance with all covenants and limitations under this facility in 2012 and 2011. The average interest rate of borrowings under the revolving credit facility during the six month period ended June 30, 2012 was 1.32%. Our outstanding borrowings of $295 million as of June 30, 2012 under our credit facility primarily reflect borrowings used to fund the acquisitions of Tri-Star Electronics in December 2011 and Hertalan in March 2012, less cash generated by operations applied to reduction of debt.

We also maintain a $45 million uncommitted line of credit, of which $45 million was available at June 30, 2012.

We have senior unsecured notes outstanding of $150 million due 2016 (at a stated interest rate of 6.125%) and $250 million due 2020 (at a stated interest rate of 5.125%) that are rated BBB by Standard & Poor s and Baa2 by Moody s. We view our debt to capital ratio (defined as short-term debt plus long-term debt divided by the sum of total Shareholders equity, long-term debt and short-term debt) as an important indicator of our ability to utilize debt in financing acquisitions. As of June 30, 2012, our debt to capital ratio was 30%.

Under the Company s various debt and credit facilities, the Company is required to meet various restrictive covenants and limitations, including limitations on leverage ratios, interest coverage and limits on outstanding debt balances held by certain subsidiaries. The Company was in compliance with all covenants and limitations in 2012 and 2011.

Critical Accounting Policies

Goodwill and Intangible Assets

Goodwill is not amortized but is tested annually for impairment at a reporting unit level. Additionally, goodwill is tested for impairment on an interim basis if at any time facts and circumstances indicate that an impairment may have occurred.

As discussed in Item 2 of the Company s March 31, 2012 Quarterly Report on Form 10-Q under Critical Accounting Policies, the Company performed an interim goodwill impairment test for the Transportation Products reporting unit as of March 31, 2012 and found that the fair value of the reporting unit exceeded its carrying value by approximately 14%. As of June 30, 2012, in accordance with ASU 2011-08, management performed a qualitative assessment of the Transportation Products reporting unit and determined that the fair value of a reporting unit is not more likely than not less than the carrying amount. As such, management concluded that an interim goodwill impairment test is not necessary as of June 30, 2012.

New Accounting Pronouncements

There are currently no new accounting standards that have been issued that are expected to have a significant impact on the Company s financial position, results of operations and cash flows upon adoption.

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are made based on known events and circumstances at the time of publication, and as such, are subject in the future to unforeseen risks and uncertainties. It is possible that the Company s future performance may differ materially from current expectations expressed in these forward-looking statements, due to a variety of factors such as: increasing price and product/service competition by foreign and domestic competitors, including new entrants; technological developments and changes; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; the Company s mix of products/services; increases in raw material costs which cannot be recovered in product pricing; domestic and foreign governmental and public policy changes including environmental regulations; threats associated with and efforts to combat terrorism; protection and validity of patent and other intellectual property rights; the successful identification and integration of the Company s strategic acquisitions; the cyclical nature of the Company s businesses; and the outcome of pending and future litigation and governmental proceedings. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions including interest rate and currency exchange rate fluctuations. Further, any conflict in the international arena may adversely affect the general market conditions and the Company s future performance. The Company undertakes no duty to update forward-looking statements.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no material changes in the Company s market risk for the period ended June 30, 2012. For additional information, refer to Item 7A of the Company s 2011 Annual Report on Form 10-K.

Item 4. Controls and Procedures

(a) Under the supervision and with the participation of the Company s management, including the Company s chief executive officer and chief financial officer, the Company carried out an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation and as of June 30, 2012, the chief executive officer and chief financial officer concluded that the Company s disclosure controls and procedures are effective.

(b) There were no changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Litigation

Over the years, the Company has been named as a defendant, along with numerous other defendants, in lawsuits in various state courts in which plaintiffs have alleged injury due to exposure to asbestos-containing brakes, which Carlisle manufactured in limited amounts between the late-1940 s and the mid-1980 s. In addition to compensatory awards, these lawsuits may also seek punitive damages.

Other than the matter described below, to date, the Company has obtained dismissals or settlements of its asbestos-related lawsuits with no material effect on its financial condition, results of operations or cash flows. The Company maintains insurance coverage that applies to the Company s defense costs and payments of settlements or judgments in connection with asbestos-related lawsuits.

On December 22, 2010, the Company settled a case involving alleged asbestos-related injury. The total amount of the award and related loss, inclusive of insurance recoveries, was approximately $5.8 million, which was recorded in discontinued operations in the fourth quarter of 2010, as the related alleged asbestos-containing product was manufactured by the Company s former on-highway brake business.

Based on an ongoing evaluation, including the above matter, the Company believes that the resolution of its remaining pending asbestos claims will not have a material impact on the Company s financial condition, results of operations, or cash flows, although these matters could result in the Company being subject to monetary damages, costs or expenses, and charges against earnings in particular periods.

From time-to-time the Company may be involved in various other legal actions arising in the normal course of business. In the opinion of management, the ultimate outcome of such actions will not have a material adverse effect on the consolidated financial position of the Company, but may have a material impact on the Company s results of operations for a particular period. There were no material legal expenses recognized during the first three months of 2012 and 2011.

Environmental Matters

The Company is subject to increasingly stringent environmental laws and regulations, including those relating to air emissions, wastewater discharges, chemical and hazardous waste management and disposal. Some of these environmental laws hold owners or operators of land or businesses liable for their own and for previous owners or operators releases of hazardous or toxic substances or wastes. Other environmental laws and regulations require the obtainment and compliance with environmental permits. To date, costs of complying with environmental, health and safety requirements have not been material. The nature of the Company s operations and its long history of industrial activities at certain of its current or former facilities, as well as those acquired could potentially result in material environmental liabilities.

While the Company must comply with existing and pending climate change legislation, regulation, international treaties or accords, current laws and regulations do not have a material impact on its business, capital expenditures or financial position. Future events, including those relating to climate change or greenhouse gas regulation could require the Company to incur expenses related to the modification or curtailment of operations, installation of pollution control equipment, or investigation and cleanup of contaminated sites.

Item 5. Other Information

None.

Item 6. Exhibits

(12) Ratio of Earnings to Fixed Charges

(31.1) Rule 13a-14(a)/15d-14(a) Certifications

(31.2) Rule 13a-14(a)/15d-14(a) Certifications

(32) Section 1350 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(101) Interactive Data File*

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* In accordance with Rule 406T of Regulation S-T promulgated by the Securities and Exchange Commission, Exhibit 101 is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURE

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.

Carlisle Companies Incorporated

July 24, 2012

By: /s/ Steven J. Ford
Name: Steven J. Ford
Title: Vice President and Chief Financial Officer