STANLEY WORKS
Form 10-Q
July 24, 2008

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

FORM 10-Q

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

For the quarterly period ended June 28, 2008.

OR

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

For the transition period from [ ] to [ ]

Commission File Number 1-5224

THE STANLEY WORKS

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CONNECTICUT	**06-0548860**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)
1000 STANLEY DRIVE **NEW BRITAIN, CONNECTICUT**	**06053**
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(ZIP CODE)

(860) 225-5111

(REGISTRANT S TELEPHONE NUMBER, INCLUDING AREA CODE)

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

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

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

78,579,319 shares of the registrant s common stock were outstanding as of July 20, 2008

TABLE OF CONTENTS

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

THE STANLEY WORKS AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE AND SIX MONTHS ENDED JUNE 28, 2008 AND JUNE 30, 2007
(Unaudited, Millions of Dollars, Except Per Share Amounts)

	Second Quarter		Year to Date	
	2008	**2007**	**2008**	**2007**
NET SALES	$ 1,154.2	$ 1,095.7	$ 2,227.9	$ 2,133.8
COSTS AND EXPENSES				
Cost of sales	712.3	673.3	1,380.0	1,325.2
Selling, general and administrative	280.4	259.4	553.3	511.4
Provision for doubtful accounts	2.8	4.0	5.0	6.3
Interest expense	21.5	21.2	40.9	42.5
Interest income	(3.7)	(0.9)	(4.7)	(2.1)
Other, net	21.1	23.5	41.4	42.5
Restructuring charges and asset impairments	17.0	3.6	20.2	7.6
	1,051.4	984.1	2,036.1	1,933.4
Earnings from continuing operations before income taxes	102.8	111.6	191.8	200.4
Income taxes	27.1	29.0	50.7	52.3
Net earnings from continuing operations	75.7	82.6	141.1	148.1
Earnings from discontinued operations before income taxes (including $1.6 million gain on second quarter 2008 divestiture)	4.7	4.4	8.8	7.8
Income taxes on discontinued operations	0.8	1.7	2.3	3.0
Net earnings from discontinued operations	3.9	2.7	6.5	4.8
NET EARNINGS	$ 79.6	$ 85.3	$ 147.6	$ 152.9
NET EARNINGS PER SHARE OF COMMON STOCK				
Basic:				
Continuing operations	$ 0.96	$ 1.00	$ 1.79	$ 1.79
Discontinued operations	0.05	0.03	0.08	0.06
Total basic earnings per common share	$ 1.01	$ 1.03	$ 1.87	$ 1.85

Diluted:								
Continuing operations	$	0.95	$	0.98	$	1.76	$	1.75
Discontinued operations		0.05		0.03		0.08		0.06
Total diluted earnings per common share	$	1.00	$	1.01	$	1.84	$	1.81
DIVIDENDS PER SHARE OF COMMON STOCK	$	0.31	$	0.30	$	0.62	$	0.60
AVERAGE SHARES OUTSTANDING (in thousands):								
Basic		78,650		82,810		78,878		82,752
Diluted		79,827		84,542		80,096		84,605

See notes to condensed consolidated financial statements.

Table of Contents

THE STANLEY WORKS AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
JUNE 28, 2008 AND DECEMBER 29, 2007
(Unaudited, Millions of Dollars)

	2008	2007
ASSETS		
Current assets		
Cash and cash equivalents	$ 384.2	$ 240.4
Accounts and notes receivable	928.1	831.1
Inventories	563.3	556.4
Other current assets	92.7	86.0
Assets held for sale	84.5	106.0
Total current assets	2,052.8	1,819.9
Property, plant and equipment	1,489.5	1,449.0
Less: accumulated depreciation	917.0	884.1
	572.5	564.9
Goodwill	1,547.8	1,512.5
Trademarks	345.6	332.2
Customer relationships	303.2	321.4
Other intangible assets	37.3	40.6
Other assets	207.3	188.4
Total assets	$ 5,066.5	$ 4,779.9
LIABILITIES AND SHAREOWNERS EQUITY		
Current liabilities		
Short-term borrowings	$ 455.0	$ 282.5
Current maturities of long-term debt	9.7	10.3
Accounts payable	529.6	499.6
Accrued expenses	472.6	462.7
Liabilities held for sale	18.8	23.3
Total current liabilities	1,485.7	1,278.4
Long-term debt	1,197.8	1,212.1
Other liabilities	591.7	560.9
Commitments and contingencies (Note L)		
Shareowners equity		
Common stock, par value $2.50 per share	233.9	233.9
Retained earnings	2,147.9	2,045.5
Accumulated other comprehensive income	91.0	47.7
ESOP	(90.5)	(93.8)

	2,382.3	2,233.3
Less: cost of common stock in treasury	591.0	504.8
Total shareowners equity	1,791.3	1,728.5
Total liabilities and shareowners equity	$ 5,066.5	$ 4,779.9

See notes to condensed consolidated financial statements.

Table of Contents

THE STANLEY WORKS AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
THREE AND SIX MONTHS ENDED JUNE 28, 2008 AND JUNE 30, 2007
(Unaudited, Millions of Dollars)

	Second Quarter		Year to Date	
	2008	**2007**	**2008**	**2007**
OPERATING ACTIVITIES				
Net earnings	$ 79.6	$ 85.3	$ 147.6	$ 152.9
Depreciation and amortization	40.5	40.7	81.3	77.9
Changes in working capital	(24.6)	(13.4)	(32.7)	(32.1)
Changes in other assets and liabilities	(12.0)	(10.5)	(5.0)	(2.8)
Cash provided by operating activities	83.5	102.1	191.2	195.9
INVESTING ACTIVITIES				
Capital expenditures	(28.5)	(17.3)	(53.6)	(43.5)
Proceeds from sale of business	3.3		3.3	
Business acquisitions	(27.4)	(22.6)	(28.2)	(568.9)
Other investing activities	4.4	(3.5)	8.7	3.1
Cash used in investing activities	(48.2)	(43.4)	(69.8)	(609.3)
FINANCING ACTIVITIES				
Payments on long-term debt	(6.6)	(0.4)	(7.7)	(76.4)
Proceeds from long-term borrowings		0.1		529.8
Deferred financing costs and other	(3.8)	(1.0)	(7.8)	(12.1)
Bond hedge premium				(49.3)
Net short-term borrowings	52.8	48.4	172.5	132.3
Cash dividends on common stock	(24.3)	(24.6)	(48.6)	(49.5)
Proceeds from issuance of common stock and warrants	7.2	26.3	10.0	85.8
Purchase of common stock for treasury		(100.1)	(102.3)	(106.9)
Cash provided by (used in) financing activities	25.3	(51.3)	16.1	453.7
Effect of exchange rate changes on cash	(1.2)	7.5	6.3	8.8
Change in cash and cash equivalents	59.4	14.9	143.8	49.1
Cash and cash equivalents, beginning of period	324.8	210.8	240.4	176.6
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 384.2	$ 225.7	$ 384.2	$ 225.7

See notes to condensed consolidated financial statements.

Table of Contents

THE STANLEY WORKS AND SUBSIDIARIES

BUSINESS SEGMENT INFORMATION
THREE AND SIX MONTHS ENDED JUNE 28, 2008 AND JUNE 30, 2007
(Unaudited, Millions of Dollars)

	Second Quarter		Year to Date	
	2008	**2007**	**2008**	**2007**
NET SALES				
Construction & DIY	$ 451.8	$ 432.6	$ 857.6	$ 836.9
Industrial	338.2	302.2	670.9	610.3
Security	364.2	360.9	699.4	686.6
Total	$ 1,154.2	$ 1,095.7	$ 2,227.9	$ 2,133.8
SEGMENT PROFIT				
Construction & DIY	$ 65.8	$ 63.3	$ 112.8	$ 121.8
Industrial	44.1	45.9	92.8	91.1
Security	66.0	67.4	118.9	113.0
Segment Profit	$ 175.9	$ 176.6	$ 324.5	$ 325.9
Corporate Overhead	(17.2)	(17.6)	(34.9)	(35.0)
Total	$ 158.7	$ 159.0	$ 289.6	$ 290.9
Interest expense	21.5	21.2	40.9	42.5
Interest income	(3.7)	(0.9)	(4.7)	(2.1)
Other, net	21.1	23.5	41.4	42.5
Restructuring charges and asset impairments	17.0	3.6	20.2	7.6
Earnings from continuing operations before income taxes	$ 102.8	$ 111.6	$ 191.8	$ 200.4

See notes to condensed consolidated financial statements.

THE STANLEY WORKS AND SUBSIDIARIES
NOTES TO (UNAUDITED) CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 28, 2008

A. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (hereafter referred to as generally accepted accounting principles or GAAP) for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the results of operations for the interim periods have been included and are of a normal, recurring nature. For further information, refer to the consolidated financial statements and footnotes included in The Stanley Works and Subsidiaries (collectively, the Company) Form 10-K for the year ended December 29, 2007.

Certain prior year amounts have been reclassified to conform to the current year presentation. The assets and liabilities of discontinued operations have been reclassified as held for sale in the 2007 consolidated balance sheet, and the earnings from discontinued operations have been reclassified within the consolidated statements of operations.

B. New Accounting Standards

Implemented: The Company adopted Statement of Financial Accounting Standard No. 157, Fair Value Measurements (SFAS 157), with respect to items that are regularly adjusted to fair value, as of the beginning of its fiscal year. SFAS 157 provides a common fair value hierarchy to follow in determining fair value measurements in the preparation of financial statements and expands disclosure requirements relating to how such measurements were developed. SFAS 157 indicates that an exit value (selling price) should be utilized in fair value measurements rather than an entrance value, or cost basis, and that performance risks, such as credit risk, should be included in the measurements of fair value even when the risk of non-performance is remote. SFAS 157 clarifies the principle that fair value measurements should be based on assumptions the marketplace would use when pricing an asset whenever practicable, rather than company-specific assumptions. On February 12, 2008 the FASB issued Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2) which amends SFAS 157 to delay the effective date for all non-financial assets and non-financial liabilities, except for those that are recognized at fair value in the financial statements on a recurring basis. Accordingly, in fiscal 2008 the Company has followed the SFAS 157 guidance to value its financial assets and liabilities that are routinely adjusted to fair value, predominantly derivatives. The remaining assets and liabilities, to which the FSP 157-2 deferral relates, will be measured at fair value as applicable beginning in fiscal 2009. The partial adoption of SFAS 157 as described above had an immaterial impact on the Company in the current fiscal year. The Company is in the process of determining the impact, if any, that the second phase of the adoption of SFAS 157 in fiscal 2009 will have relating to its fair value measurements of non-financial assets and liabilities (such as intangible assets). Refer to Note O for further information regarding fair value measurements.

In February 2007, the FASB issued SFAS No 159 The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). This statement became effective for the Company at the beginning of the current fiscal year. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company did not elect to utilize voluntary fair value measurements as permitted by the standard.

Not Yet Implemented: In May 2008, the FASB issued Staff Position Accounting Principles Board (APB) 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (FSP APB 14-1). FSP APB 14-1 applies to convertible debt instruments that have a net settlement feature permitting settlement partially or fully in cash upon conversion. The guidance requires issuers of such convertible debt securities to separately account for the liability and equity components in a manner that reflects the issuer s nonconvertible, unsecured debt borrowing rate. The FSP requires bifurcation of a component of the debt into equity, representative of the approximate fair value of the conversion feature at inception, and the amortization of the resulting debt discount to interest expense in the Consolidated Statement of Operations. The Company is in the process of assessing the impact of FSP APB 14-1, but estimates that approximately $55 million of Long-term debt will be reclassified to equity as of the inception of the $330 million of convertible notes issued in March 2007. The estimated $55 million debt discount will be amortized to interest expense resulting in the recognition of approximately $7-$12 million of additional non-cash interest expense annually. The non-cash interest recognized will gradually increase over time using the effective interest method. FSP APB 14-1 will become effective for the Company beginning in the first quarter of 2009 and is required to be applied retrospectively with early adoption prohibited.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141(R)). SFAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition), establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose the information needed to evaluate and understand the nature and effect of the business combination. This statement applies to all transactions or other events in which the acquirer obtains control of one or more businesses, including those sometimes referred to as true mergers or mergers of equals and combinations achieved without the transfer of consideration, for example, by contract alone or through the lapse of minority veto rights. For new acquisitions made following the adoption of SFAS 141(R), significant costs directly related to the acquisition including legal, audit and other fees, as well as most acquisition-related restructuring, will have to be expensed as incurred rather than recorded to goodwill as is generally permitted under Statement of Financial Accounting Standards No. 141, Business Combinations (SFAS 141). Additionally, contingent purchase price arrangements (also known as earn-outs) will be re-measured to estimated fair value with the impact reported in earnings, whereas under present rules the contingent purchase consideration is recorded to goodwill when determined. The Company is continuing to assess the impact the adoption of SFAS 141(R) will entail. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 4, 2009.

In December 2007, the FASB issued SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS 160). SFAS 160 requires reporting entities to present non-controlling (minority) interests as equity (as opposed to a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and non-controlling interests. SFAS 160 will apply prospectively and is effective as of the beginning of fiscal 2009, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented upon adoption. The Company is in the process of determining the impact, if any, that the adoption of SFAS 160 will have on its results of operations and financial position.

In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Emerging Issues Task Force (EITF) No. 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. Under the FSP, unvested share-based payment awards that contain rights to receive nonforfeitable dividends (whether paid or unpaid) are participating securities, and should be included in the two-class method of computing EPS. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those years, and is not expected to have a significant impact on the Company s results of operations, financial condition or liquidity.

In April 2008, the FASB issued FSP No. FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension

assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). The objective of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), and other GAAP. This FSP applies prospectively to all intangible assets acquired after the effective date in fiscal 2009, whether acquired in a business combination or otherwise. Early adoption is prohibited. The Company is evaluating this guidance but does not expect it to have a significant impact on its financial position or results of operations.

C. Earnings Per Share

The following table reconciles the weighted average shares outstanding used to calculate basic and diluted earnings per share for the three and six month periods ended June 28, 2008 and June 30, 2007:

	Second Quarter		Year to Date	
	2008	2007	2008	2007
Numerator (in millions):				
Net earnings basic and diluted	$ 79.6	$ 85.3	$ 147.6	$ 152.9
Denominator (in thousands):				
Basic earnings per share weighted average shares	78,650	82,810	78,878	82,752
Dilutive effect of stock options and awards	1,177	1,732	1,218	1,853
Diluted earnings per share weighted average shares	79,827	84,542	80,096	84,605
Earnings per share of common stock:				
Basic	$ 1.01	$ 1.03	$ 1.87	$ 1.85
Diluted	$ 1.00	$ 1.01	$ 1.84	$ 1.81

The following weighted-average stock options and warrants to purchase the Company s common stock were outstanding during the three and six month periods ended June 28, 2008 and June 30, 2007, but were not included in the computation of diluted shares outstanding because the effect would be anti-dilutive.

	Second Quarter		Year to Date	
	2008	2007	2008	2007
Number of stock options (in thousands)	1,468	711	1,531	771
Number of stock warrants (in thousands)	5,093	5,093	5,093	2,910

D. Comprehensive Income

Comprehensive income for the three and six month periods ended June 28, 2008 and June 30, 2007 is as follows (in millions):

Second Quarter		Year to Date	
2008	2007	2008	2007

Net earnings	$ 79.6	$ 85.3	$ 147.6	$ 152.9
Other comprehensive gain, net of tax	7.0	24.7	43.3	36.9
Comprehensive income	$ 86.6	$ 110.0	$ 190.9	$ 189.8

Other comprehensive gain is primarily the impact of foreign currency translation.

E. Accounts Receivable

In June 2008, the Company acquired a third party s interest in a Special Purpose Entity (SPE). As a result, the entity became non-qualifying and the net assets, which consisted of accounts receivable of

$17.3 million, were consolidated in the Company s balance sheet. Cash flows between the Company and the SPE for 2008 totaled $43.2 million, primarily related to receivable sales, collections on receivables and servicing fees. There were no gains or losses on the sale of receivables to the SPE or on the acquisition of the third party interest.

F. Inventories

The components of inventories at June 28, 2008 and December 29, 2007 are as follows (in millions):

	2008	2007
Finished products	$ 396.3	$ 397.2
Work in process	63.2	57.5
Raw materials	103.8	101.7
Total inventories	$ 563.3	$ 556.4

G. Assets Held for Sale

The assets of CST/berger and one other small business is classified as held for sale at June 28, 2008 as detailed in Note P Discontinued Operations . Additionally, the Company held $24.3 million of financing lease receivables generated by the Blick business as of December 29, 2007. These receivables were sold during the first quarter of 2008.

H. Acquisitions and Goodwill

During the second quarter of 2008, the Company completed three small acquisitions relating to its access technologies and convergent security solutions businesses. The three acquisitions were acquired for a combined purchase price of $26.0 million. These acquisitions were accounted for as purchases in accordance with SFAS 141. The total purchase price for the acquisitions reflects transaction costs and is net of cash acquired, and was allocated to the assets acquired and liabilities assumed based on their estimated fair values. The purchase price allocations of these acquisitions are preliminary, mainly with respect to the finalization of intangible asset valuations, related deferred taxes, and certain other items.

During 2007, the Company completed nine acquisitions for a total purchase price of $646.7 million. The purchase price allocations for several small acquisitions with a total purchase price of $71.2 million are preliminary, mainly with respect to execution of acquisition date integration plans and other minor items. There were no significant changes to the purchase price allocation made during the first half of 2008.

Goodwill

Changes in the carrying amount of goodwill by segment are as follows (in millions):

	Construction & DIY	Industrial	Security	Total
Balance as of December 29, 2007	$ 214.1	$ 387.3	$ 911.1	$ 1,512.5
Acquisitions during the year			12.3	12.3

Foreign currency translation/other	6.9	16.7	(0.6)	23.0
Balance as of June 28, 2008	$ 221.0	$ 404.0	$ 922.8	$ 1,547.8

9

Table of Contents

I. Restructuring Charges and Asset Impairments

At June 28, 2008, the Company s restructuring reserve balance was $26.5 million. This will be substantially expended during 2008, aside from approximately $7 million pertaining to the Facom acquisition for which the timing of payments depends upon the actions of certain European governmental agencies. A summary of the Company s restructuring reserve activity from December 29, 2007 to June 28, 2008 is as follows (in millions):

	12/29/07	Net Additions	Usage	Currency	6/28/08
Acquisitions					
Severance	$ 18.8	$ 0.1	$ (4.6)	$ 0.8	$ 15.1
Facility Closure	1.6		(0.5)		1.1
Other	1.0		(0.3)	0.3	1.0
2008 Actions		20.2	(11.1)		9.1
Pre-2008 Actions	2.3		(2.2)	0.1	0.2
	$ 23.7	$ 20.3	$ (18.7)	$ 1.2	$ 26.5

2008 Actions: During the first half of 2008, the Company initiated cost reduction initiatives in order to maintain its cost competitiveness. Severance and related charges of $14.0 million were recorded during the first half relating to the reduction of approximately 500 employees. In addition to severance, $6.2 million was recorded for asset impairments primarily relating to the exit of a business. Of the $20.2 million in aggregate restructuring charges, a total of $9.1 million pertains to the planned closure of the consumer metal storage business. Approximately $11.6 million of the total charges pertained to the Construction and DIY segment; $3.3 million to the Industrial segment; and $5.3 million to the Security segment. Of these amounts, $11.1 million has been utilized to date, with $9.1 million of reserves remaining as of June 28, 2008.

Pre-2008 Actions: During 2007, the Company initiated $11.8 million of cost reduction actions in various businesses. These actions were comprised of the severance of 525 employees and the exit of a leased facility. Of this amount, $11.8 million has been utilized to date with no accrual remaining as of June 28, 2008. In addition, $0.2 million of reserves remain relating to pre-2007 actions.

Acquisition Related: During 2007, $3.0 million of reserves were established for HSM in purchase accounting. Of this amount, $1.1 million was for severance of approximately 80 employees and $1.9 million related to the closure of 13 branch facilities. As of June 28, 2008, $1.4 million has been utilized, leaving $1.6 million remaining. The Company also utilized $4.8 million of restructuring reserves during the first half of 2008 established for various other current year and prior year acquisitions. As of June 28, 2008, $17.2 million in accruals for restructuring remain, primarily relating to the Facom acquisition.

J. Credit Facility

On February 27, 2008, the Company amended its credit facility to provide for an increase and extension of its committed credit facility to $800 million from $550 million. In May 2008, the Company s commercial paper program was also increased to $800 million. The credit facility continues to be designated as a liquidity back-stop for the Company s commercial paper program. The amended and restated facility expires in February 2013.

K. Financial Instruments

In an effort to optimize the mix of fixed versus floating interest rates applicable to its debt instruments, in May 2008 the Company entered into a $200 million interest rate swap that will mature in November 2012. The Company will pay a fixed rate of interest and will receive a floating rate of interest on the swap. The swap hedges the fluctuations in the fair value resulting from changes in interest rates on the

Table of Contents

Company s $200 million notes payable maturing in November 2012. At June 28, 2008, the fair value of this interest rate swap was a loss of $5.0 million. This amount is recorded in Long-term debt in the Consolidated Balance Sheet to recognize the change in the fair value of the long-term debt and in Other liabilities to record the fair value of the swap. The swap is highly effective and, accordingly, no amount is recorded for ineffectiveness in the Consolidated Statement of Operations.

L. Commitments and Contingencies

The Company is involved in various legal proceedings relating to environmental issues, employment, product liability and workers compensation claims and other matters. The Company periodically reviews the status of these proceedings with both inside and outside counsel, as well as an actuary for risk insurance. Management believes that the ultimate disposition of these matters will not have a material adverse effect on the Company s operations or financial condition taken as a whole.

The Company s policy is to accrue environmental investigatory and remediation costs for identified sites when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. As of June 28, 2008 and December 29, 2007, the Company had reserves of $30.4 million and $30.1 million, respectively, primarily for remediation activities associated with company-owned properties as well as for Superfund sites. The range of environmental remediation costs that is reasonably possible is $21.7 million to $55.5 million which is subject to change in the near term.

M. Guarantees

The Company s financial guarantees at June 28, 2008 are as follows (in millions):

	Term	Maximum Potential Payment	Liability Carrying Amount
Guarantees on the residual values of leased properties	Up to 6 years	$ 81.4	$
Standby letters of credit	Generally 1 year	33.6	
Commercial customer financing arrangements	Up to 5 years	20.3	17.3
Guarantee on the external Employee Stock Ownership Plan (ESOP) borrowings	Through 2009	2.7	2.7
Government guarantees on employees	Up to 3 years from date of hire	0.1	
		$ 138.1	$ 20.0

The Company has guaranteed a portion of the residual value arising from its synthetic lease and U.S. master personal property lease programs. The lease guarantees aggregate $81.4 million while the fair value of the underlying assets is estimated at $97.9 million. The related assets would be available to satisfy the guarantee obligations and therefore it is unlikely the Company will incur any future loss associated with these lease guarantees. The Company has issued $33.6 million in standby letters of credit that guarantee future payments which may be required under certain insurance programs. The Company provides various limited and full recourse guarantees to financial institutions that provide financing to U.S. and Canadian Mac Tool distributors for their initial purchase of the inventory and truck necessary to function as a distributor. In addition, the Company provides a full recourse guarantee to a financial institution that extends credit to certain end retail customers of its U.S. Mac Tool distributors. The gross amount guaranteed in these arrangements is $20.3 million and the $17.3 million carrying value of the guarantees issued is recorded in debt and other liabilities as appropriate in the consolidated balance sheet.

The Company provides product and service warranties which vary across its businesses. The types of warranties offered generally range from one year to limited lifetime, while certain products carry no warranty. Further, the Company at times incurs discretionary costs to service its products in connection with product performance issues. Historical warranty and service claim experience forms the basis for warranty obligations recognized. Adjustments are recorded to the warranty liability as new information becomes available.

The changes in the carrying amount of product and service warranties for the six months ended June 28, 2008 are as follows (in millions):

Balance December 29, 2007	$ 63.7
Warranties and guarantees issued	11.5
Warranty payments	(12.1)
Currency and other	4.2
Balance June 28, 2008	$ 67.3

N. Net Periodic Benefit Cost Defined Benefit Plans

Following are the components of net periodic benefit cost for the three and six month periods ended June 28, 2008 and June 30, 2007 (in millions):

	Second Quarter					
	Pension Benefits				Other Benefits	
	U.S. Plans		Non-U.S. Plans		U.S. Plans	
	2008	2007	2008	2007	2008	2007
Service cost	$ 0.7	$ 0.7	$ 1.4	$ 1.2	$ 0.3	$ 0.3
Interest cost	2.5	2.3	4.0	3.9	0.4	0.4
Expected return on plan assets	(2.6)	(2.4)	(5.0)	(4.6)		
Amortization of transition liability			0.1			
Amortization of prior service cost/(credit)	0.4	0.5		0.1	(0.1)	(0.1)
Amortization of (gain) net loss	(0.1)	0.1	1.1	1.7		
Curtailment loss			1.1			
Net periodic benefit cost	$ 0.9	$ 1.2	$ 2.7	$ 2.3	$ 0.6	$ 0.6